

SUMITOMO MITSUI BANKING CORPORATION MALAYSIA BERHAD
(Company No. 926374-U)

CORPORATE GOVERNANCE DISCLOSURES
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017

BOARD OF DIRECTORS

I. Board Composition

The Board of Directors (“Board”) of Sumitomo Mitsui Banking Corporation Malaysia Berhad (“the Bank”) presently consists of five (5) members, of which two (2) are Executive Directors and three (3) are Independent Non-Executive Directors including the Chairman of the Board.

The Independent Non-Executive Directors are as follows:

Dato’ Md Agil Bin Mohd Natt – Chairman of the Board of Directors
Mr. Chin Kok Sang – Independent Director
Mr. Tan Kim Seng – Independent Director

The Executive Directors are as follows:

Mr. Yoshimi Gunji – President/Chief Executive Officer
Mr. Yuichi Nishimura – Executive Director

Profile of Directors

▪ **Dato’ Agil Natt**

Independent Non-Executive Chairman

- Appointed on 9 March 2015
- Chairman of Board
- Member of Audit Committee
- Member of Nominations and Remuneration Committee
- Member of Risk Management Committee

Dato’ Md Agil Bin Mohd Natt - age 65 was appointed as Director and Chairman of the Bank on 9 March 2015. He holds a Bachelor of Science in Economics degree from Brunel University, London as well as Master of Science in Finance degree from Cass Business School, City, University of London. He has also completed the Advanced Management Programme from Harvard Business School, USA.

Upon his return to Malaysia in 1977, Dato’ Agil served as a Corporate Finance Manager with Bumiputra Merchant Bankers Bhd. before moving on to Island & Peninsular Bhd. in 1982 where his last appointment was as its Senior General Manager (Finance). He then joined Kleinwort Benson Ltd., serving as its Regional Chief



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Representative. Thereafter, he joined the Maybank Group and served in various senior management positions, including Senior General Manager, Corporate Banking, Chief Executive Officer of Aseambankers Malaysia Bhd. (now known as Maybank Investment Bank Bhd.) and Executive Director/Deputy President of Maybank.

From 2006 until his retirement in 2011, Dato' Agil served as President and Chief Executive Officer of the International Centre for Education in Islamic Finance (INCEIF) at The Global University of Islamic Finance, which was set up by Bank Negara Malaysia.

Presently, he is also the Independent and Non-Executive Chairman of Credit Guarantee Corporation Malaysia Bhd., Manulife Insurance Bhd and Manulife Asset Management Services Bhd. He also sits on the Boards of Export-Import Bank of Malaysia Berhad, Cagamas Bhd., Sogo (KL) Department Store Sdn. Bhd. and Sogo (KL) Sdn. Bhd. He is also a Member of the Investment Panel of Kumpulan Wang Simpanan Pekerja (Employees Provident Fund).

▪ **Yoshimi Gunji**
Executive Director

- Appointed on 25 June 2015
- President/ Chief Executive Officer

Mr. Yoshimi Gunji - age 52 was appointed as Director and President/ Chief Executive Officer ("CEO") of the Bank on 25 June 2015. He graduated from the Faculty of Sociology - University of Rikkyo, Japan. Upon his graduation in 1988, he joined Sumitomo Mitsui Banking Corporation (then known as Sumitomo Bank Limited) at the Kandaekimae Branch in Tokyo. He has over twenty nine (29) years of experience in Business banking, Trade Finance and Corporate banking and has spent over fifteen (15) years in senior management positions in overseas branches in Thailand, Australia and currently in Malaysia.

▪ **Yuichi Nishimura**
Executive Director

- Appointed on 28 August 2014

Mr. Yuichi Nishimura - age 52 was appointed as Director of the Bank on 28 August 2014. He graduated with a Bachelor in Political Studies degree from Gakushuin University, Tokyo and holds a Masters of Business Administration degree from the University of Illinois, USA. He joined Sumitomo Mitsui Banking Corporation (then known as Taiyo-Kobe Bank Limited) in 1989 in the Marunouchi-Minami Branch, Tokyo. He has over twenty eight (28) years of experience in Business banking,



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Credit Administration, Planning and Strategy in International Banking and has spent over 16 years in senior management positions in overseas branches in the USA, the United Kingdom and currently in Singapore.

▪ **Chin Kok Sang**
Independent Non- Executive Director

- Appointed on 18 September 2015
- Chairman of Audit Committee
- Chairman of Nominations and Remuneration Committee
- Member of Risk Management Committee

Mr. Chin Kok Sang - age 59 was appointed as Director of the Bank and Chairman of the Audit Committee on 18 September 2015. He was subsequently appointed as Chairman of the Nominations and Remuneration Committee on 27 October 2016. He holds a Bachelor of Commerce degree with major in Accounting, Economics and Commercial Law from University of Melbourne, Australia. Mr. Chin is a Chartered Accountant and is a member of the industry professional body - Chartered Accountants Australia and New Zealand. He has over fourteen (14) years international banking experience with Societe Generale S.A at their offices in Melbourne, Singapore and Labuan, Malaysia.

▪ **Tan Kim Seng**
Independent Non- Executive Director

- Appointed on 1 February 2017
- Chairman of Risk Management Committee
- Member of Audit Committee
- Member of Nominations and Remuneration Committee

Mr. Tan Kim Seng - age 64 was appointed as Director of the Bank and Chairman of the Board Risk Management Committee on 1 February 2017. He holds professional accountancy and chartered secretary qualifications from the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA) and the Institute of Chartered Secretaries & Administrators (ICSA). Having spent his entire career as a banker, Mr. Tan has served in key senior management positions in several local banking institutions.

Directors' Shareholdings for the financial year ended 31 March 2017

Save for Mr. Yuichi Nishimura who holds 585 shares in Sumitomo Mitsui Financial Group, the ultimate holding company, none of the other Directors had any interest in the shares of the Bank and of its related corporations during the financial year.

II. Roles And Responsibilities Of Board/ Board Committees

The Board reviews and approves strategies, business plans and significant policies and monitors the Management's execution in implementing the approved strategies, plans and policies. The Board ensures that there are adequate controls and systems in place to facilitate the implementation of the Bank's policies. Consequentially, the Bank establishes comprehensive risk management policies, processes and infrastructure, to manage the various types of risks. The Board accordingly monitors and assesses current developments in the country and globally which may affect the Bank's existing strategic plans.

The Board reviews the adequacy and the integrity of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Performance criteria used to assess the Board as a whole

The effectiveness of the Board is measured against the Bank's performance in terms of profitability, internal controls, risk management and cost effectiveness.

Frequency and conduct of Board meetings

Meetings are conducted regularly to discuss key issues of the Bank including review of the financial performance, operations and risk management of the Bank and to deliberate on matters which require the Board's decision and approval.

A total of 7 Board meetings were held during the financial year in review. The details of the meeting attendance are as follows:-

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Name of Directors	Attendance at Meetings
Dato' Md Agil Bin Mohd Natt - Chairman	7/7
Hiroshi Irie (resigned on 1 February 2017)	1/6
Yuichi Nishimura	7/7
Yoshimi Gunji	7/7
Chin Kok Sang	7/7
Tan Kim Seng (appointed on 1 February 2017)	1/1

The Board is supported by specific Board Committees to oversee critical and major functional areas of the Bank.

The functions and terms of reference of Board Committees have been approved by the Board and are revised from time to time to ensure that they are relevant, effective and up-to-date.

▪ **Nominations and Remuneration Committee (“NRC”)**

The previous Nominating Committee and Remuneration Committee were merged on 27 October 2016 to form the NRC. It consists of three (3) members and all are Independent Non-Executive Directors.

The Chairman of the NRC is Mr. Chin Kok Sang and the members are Dato' Md Agil Bin Mohd Natt and Mr. Tan Kim Seng. Details of attendance of each members at the previous Nominating Committee (“NC”) and Remuneration Committee (“RC”) and subsequently, the NRC meetings held during the financial year in review are as follows:-

Name of Directors	Pre-Combination		Post Combination
	NC	RC	NRC
Chin Kok Sang - Chairman	4/4	2/2	3/3
Dato' Md Agil Bin Mohd Natt	4/4	2/2	3/3
Hiroshi Irie (resigned on 27 October 2016)	0/4	1/2	N/A
Yoshimi Gunji (resigned on 27 October 2016)	4/4	N/A	N/A
Yuichi Nishimura (resigned on 1 February 2017)	4/4	2/2	2/2
Tan Kim Seng (appointed on 1 February 2017)	N/A	N/A	1/1

The objective of the NRC is to provide formal and transparent procedures for the appointment of Directors, President/CEO, members of the Shariah Committee and the Company Secretary. The NRC



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assesses the effectiveness of individual Directors, the Board as a whole and the performance of the President/CEO, key senior management, members of the Shariah Committee and Company Secretary as well as make recommendations on remuneration for Directors, President/CEO, key senior management officers and other material risk-takers in the Bank in ensuring that the compensation offered is competitive and commensurate with the Bank's culture, risk appetite, objectives and strategy.

The NRC with regard to its **nomination roles** are responsible for:-

1. Establishing minimum requirements for the Board i.e. the necessary mix of skills, experience, qualification, inclusiveness and other core competencies required of a Director. The Committee is also responsible for establishing minimum requirements for the President/CEO and members of the Shariah Committee;
2. Assessing and recommending to the Board the nominees for Directorship, Board Committee members as well as nominees for the President/CEO and members of the Shariah Committee;
3. Overseeing the overall composition of the Board, in terms of the appropriate size and skills, balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
4. Recommending to the Board the removal of a Director or President/CEO or members of the Shariah Committee from the Board or management if he/she is ineffective, errant and negligent in discharging his/her responsibilities;
5. Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the President/CEO, members of the Shariah Committee, and Company Secretary. Ensuring that all Directors and members of the Shariah Committee continue to receive appropriate training program in order to keep abreast with the latest developments in the industry;
6. Overseeing the management succession planning and performance evaluation of senior management;
7. Assessing on an annual basis, to ensure that the Directors, President/CEO, senior management are not disqualified under Section 59 of the Financial Services Act 2013 and Company Secretary is not disqualified under Section 238 of the Companies Act 2016 and they have complied with the Fit and Proper requirements;
8. Assessing the independence of Independent Directors annually and that the Directors meet the pre-requisite independence criteria and are not disqualified under any relevant qualification;



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9. Overseeing the performance evaluation of Company Secretary; and
10. Recommending to the Board for the appointment of Company Secretary to take immediate steps to remove the person from such position as soon as practicable if he/she no longer meets the fit and proper criteria set by the Bank.

The NRC with regard to its **remuneration roles** are responsible for:

1. Recommending to the Board the remuneration framework for Directors, President/CEO, members of senior management, other material risk-takers and members of the Shariah Committee;
2. Reviewing and recommending to the Board the remuneration for each Director, President/CEO, members of senior management and other material risk-takers annually;
3. Supporting the Board in actively overseeing the design and operation of the Bank's remuneration system; and
4. Reviewing and recommending to the Board the annual salary increment and performance bonus for employees of the Bank.

▪ **Audit Committee ("AC")**

The AC consists of three (3) members and all are Independent Non-Executive Directors.

The Chairman of the AC is Mr. Chin Kok Sang and the members of the AC are Dato' Md Agil Bin Mohd Natt and Mr. Tan Kim Seng. The details of attendance of each members at AC meetings held during the financial year in review are as follows:-

Name of Directors	Attendance at Meetings
Chin Kok Sang – Chairman	5/5
Dato' Md Agil Bin Mohd Natt	5/5
Yuichi Nishimura (resigned on 1 February 2017)	4/4
Tan Kim Seng (appointed on 1 February 2017)	1/1

The objective of the AC is to provide independent oversight of the Bank's financial reporting and internal control system and ensuring adequate checks and balances are put in place within the Bank.



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The AC is responsible for:

- 1. Reliable and Transparent Reporting**
 - i. Support the Board in ensuring a reliable and transparent financial reporting process within the Bank.
- 2. Effectiveness of Internal Audit**
 - i. Oversee the functions of the Internal Audit Department and ensuring compliance with BNM Guidelines on Internal Audit Functions of Licensed institutions;
 - ii. Review and approve the audit scope, procedures and frequency;
 - iii. Review key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner;
 - iv. Noting significant disagreements between the Head of Internal Audit Department/Chief Internal Auditor (“CIA”) and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings;
 - v. Establish a mechanism to assess the performance and effectiveness of the internal audit function; and
 - vi. Appoint, set compensation, evaluate performance, decide on the transfer and dismissal and also review the reasons and circumstances leading to the resignation of the Head of Internal Audit Department / CIA.
- 3. Internal Controls**
 - i. Review the effectiveness of internal controls and risk management processes.
- 4. External Auditors**
 - i. Make recommendations to the Board on the appointment, removal and remuneration of the External Auditor;
 - ii. Monitor and assess the independence of the External Auditor, including approval of the provision of non-audit services by the External Auditor;
 - iii. Monitor and assess the effectiveness of the external audit meeting with the External Auditor without the presence of Senior Management at least annually;
 - iv. Maintain regular, timely, open and honest communication with the External Auditor and requiring the External Auditor to report to the Board AC on significant matters, and
 - v. Ensure that senior management is taking necessary corrective actions in a timely and effective manner to address external audit findings and recommendations.
- 5. Related Party Transactions**
 - i. Review all related party transactions and keep the Board informed of such transactions.



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6. External Experts

- i. Ability to engage external experts in circumstances where the internal audit function lacks the expertise needed to perform the audit of specialized areas, and
 - ii. To ensure that the independence of the external auditor in its role as statutory auditor of the Bank is not compromised if the external auditor is engaged.
7. Review the accuracy and adequacy of the Chairman's statement in the Directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements.
 8. Monitor compliance with the Board's conflicts of interest policy pursuant to the Bank Negara Malaysia Corporate Governance Guidelines.
 9. Review third-party opinions on the design and effectiveness of the Bank's internal control framework.

Internal Audit and Control Activities

Internal Audit is independent and staffed with qualified internal audit personnel to perform the internal audit functions, covering the financial and management audit. The AC oversees the functions of the Internal Audit department and ensures compliance with BNM Guidelines on Internal Audit Functions of Licensed Institutions (BNM/RH/GL 013-4).

The Head of Internal Audit/ CIA and audit personnel are responsible for:

1. Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by Management and submit that plan to the AC for review and approval;
2. Implement the approved annual audit plan, including any special appropriate tasks or projects requested by the Management and directed by the AC;
3. Maintain clearly documented audit programs to provide guidance to auditors in gathering information, documenting procedures performed and making assessment;
4. Maintain a team of professional audit staff with sufficient knowledge, skills and experience to meet the requirements of this charter;
5. Checking and testing the compliance with, and effectiveness of policies, procedures and controls and assessing whether current measures are in line with the latest developments and changes to the relevant Anti-Money Laundering/Counter Financing of Terrorism ("AML/CFT") requirements;
6. Issue written audit reports to the AC and Management, detailing the audit findings and recommendations as well as the client's



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responses and action plans in a timely manner after the completion of the audit;

7. Monitor progress of rectification actions on findings raised, taking into consideration the timeline committed by Management. This includes rectification actions taken in regard to findings raised by regulatory authorities or external auditors, and
8. Conduct investigation on suspected fraudulent activities when required and notify Management and the AC of the results.

▪ **Risk Management Committee (“RMC”)**

The RMC consists of three (3) members and all are Independent and Non-Executive Directors.

The Chairman of the RMC is Mr. Tan Kim Seng. The members of the RMC are Dato’ Md Agil Bin Mohd Natt and Mr. Chin Kok Sang. Details of attendance of each member at the RMC meetings held during the financial year in review are as follows:-

Name of Directors	Attendance at Meetings
Tan Kim Seng – Chairman (appointed on 1 February 2017)	1/1
Dato’ Md Agil bin Mohd Natt	6/6
Yuichi Nishimura (resigned on 1 February 2017)	5/5
Chin Kok Sang	6/6

The objective of the RMC is to oversee the Bank’s activities in managing credit, market, liquidity, operational, legal, compliance and other risks and to ensure that the risk management process is in place and functioning effectively.

The RMC are responsible for:

1. Reviewing and recommending to the Board risk management strategies, policies and risk tolerance;
2. Reviewing and assessing the adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
3. Ensuring adequate infrastructure, resources and systems are in place to support effective risk management and to ensure that the staff responsible for implementing these risk management systems perform those duties independently of the Banks’ risk taking activities;
4. Reviewing management’s periodic reports on risk exposure, risk portfolio composition and risk management activities;
5. Appoint, set remuneration, evaluate performance and decide on the



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dismissal of the Head of Risk Management/Chief Risk Officer (“CRO”) and Head of Compliance Department/Chief Compliance Officer (“CCO”);

6. Reviewing the reasons and circumstances leading to the resignation of the CRO and Head of Compliance Department / CCO;
7. Overseeing the management of the Bank’s compliance risk:-
 - i. To approve the Bank’s compliance policy and oversee its implementation;
 - ii. To approve the establishment of the compliance function and the position of the Head of Compliance Department/CCO and ensure that the compliance function and the Head of Compliance Department/CCO are provided with appropriate standing, authority and independence;
 - iii. To discuss compliance issues regularly, ensuring that adequate time and priority is provided in the Board agenda to deliberate compliance issues and that such issues are resolved effectively and expeditiously; and
 - iv. To evaluate the effectiveness of the Bank’s overall management of compliance risk annually having regard to the assessments of senior management and internal audit as well as interactions with the Head of Compliance Department/CCO.
8. Supporting the Board in meeting the expectation on risk management in accordance with the risk management policies, framework and BNM Guidelines on Risk Governance; and
9. Assisting the implementation of a sound remuneration system, to examine whether incentives provided by the remuneration system take into consideration risks and returns, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Nominations and Remuneration Committee.

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III. Directors' Training

Trainings programmes, conferences and forums attended by the Directors for financial year ended 31 March 2017 were as follows:-

Name of Director	Training Programme
Dato' Agil Natt	<ol style="list-style-type: none">1. FIDE FORUM 3rd Distinguished Board Leadership Series - "Effective Board Evaluation" by Ms Beverly Behan2. FinTech: Business Opportunity or Disruptor by Markus Gnirck and Veiverne Yuen3. Global Conference on Sustainable Finance, Germany4. AMLATFPUAA Seminar5. Talk on Integrity by Malaysian Anti Corruption Commission6. International Foundation of Directorship7. "Technology-based Innovation that Counts" by Steven Lewis, Patrick Menard and Shankar Kanabiran, Ernst & Young8. Leadership and Organisational Paradoxes - Masterclass by Professor Marianne Lewis,9. 4th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of Bank Negara Malaysia10. Industry Discourse - IFSA its relevance from Regulator's and Practitioner's perspective
Yoshimi Gunji	<ol style="list-style-type: none">1. FIDE Core Programme Module B (Bank)2. AMLATFPUAA 2001: The Law and Compliance3. 4th BNM-FIDE FORUM Annual Dialogue with the Deputy Governor of Bank Negara Malaysia



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Name of Director	Training Programme
Yuichi Nishimura	<ol style="list-style-type: none">1. Finance Forum August 20162. AMLATFPUAA 2001: The Law and Compliance3. Cyber Security Training4. Fintech Workshop for Business Innovation by IBM (Japan and China)5. Crisis Management Training6. Training for Management: Compliance round-up on regulatory expectations and trends
Chin Kok Sang	<ol style="list-style-type: none">1. FIDE Core Programme Module B (Bank)2. 2nd Distinguished Board Leadership Series: "Avoiding Financial Myopia" by Professor Jeffrey L. Sampler3. Islamic Finance Architecture4. FinTech: Business Opportunity or Disruptor by Markus Gnirck and Veiverne Yuen5. AMLATFPUAA 2001: The Law and Compliance6. A Question of Ethics. Navigating Ethical Failure in the Banking and Financial Services Industry7. CAANZ-MICPA Forum: Transforming Audit through Big Data and Analysis8. Preparing for a Black Swan9. Budget 2017 Seminar10. "Technology-based Innovation that Counts" by Steven Lewis, Patrick Menard and Shankar Kanabiran, Ernst & Young11. Strategy to Leverage Technology for Business Solutions12. Navigating GST Audits & Appeals13. Technology Conference 201714. Building a Strategy for Gender Diversity



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INTERNAL CONTROL FRAMEWORK

Board Responsibility

The Board is responsible for the Bank's system of internal control which includes the implementation of an appropriate internal control framework and periodically reviews whether the framework remained appropriate. The internal control framework addresses the need to have in place a set of rules and controls governing the Bank's organisational and operating structure, including reporting process and control functions.

The Board is committed to maintaining a sound internal control framework in the Bank to safeguard its assets and stakeholders' interests.

The internal control framework lies in the foundation of the Bank's Three Lines of Defense and in its key internal control processes.

Three Lines of Defense

I. First Line of Defense

The first level of the control environment is the business operations which perform day to day risk and control management activity. It covers both the operations by the business and the support functions.

The staff of the business and support functions must understand their roles and responsibilities with regard to processing transactions and who must follow a systematic procedure of process and ensure internal controls are in place.

The Heads of Department are responsible to identify and assess risks and to ensure that the control activities and other responses that treat risk are enforced and monitored for compliance.

II. Second Line of Defense

The second line of defense is the Risk and Compliance functions that provide independent oversight of the risk management activities of the first line of defense.

i. Risk Management Functions

These functions, comprising the managements of credit, market and operational risks, are headed by the CRO, who reports directly to the RMC. These functions provide independent challenge to the business



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and support functions and ensure that Management is duly informed and engaged.

The major responsibilities of these functions, among others, are participating in the business unit's risk committees, reviewing risk reports and validating compliance to the risk management framework requirements, with the objective of ensuring that risks are actively and appropriately managed. The risk management functions shall be guided by the risk management process.

ii. Shariah Risk Function

This function, under the Islamic Banking Department ("IBD"), ensures that all Islamic banking facilities and transactions of the Bank are in accordance with Shariah requirements. IBD reports directly to Shariah Committee, while reporting to RMC is through the CRO.

iii. Compliance Risk Function

This function ensures compliance, in particular to applicable laws, regulatory requirements and guidelines, and provides assurance oversight to Management and Board. This function reports to RMC.

III. Third Line of Defense

The third line of defense is provided by Internal Audit who reports directly to the Board AC, as well indirectly to Shariah Committee with regards to Shariah matters. It entails independent challenge, audit of key controls, formal reporting on assurance, and audit of assurance providers.

The function provides independent, objective assurance and consulting activities to add value and improve operations to the business and support functions, including risk management and compliance functions.

The internal audits conducted are in accordance with the annual audit plan as approved by the AC.

The Internal Audit function adopts a risk-based approach in its audit planning. Audit reports are tabled to the AC reporting on the state of the Bank's internal control and the extent of compliance with the established policies and procedures as well as regulatory requirements. In addition, the function duly monitors on the implementation of the Management action plans which seek to address the weaknesses identified on an on-going basis.

In addition, independent challenge and audit of key controls may also be performed by the Head Office Internal Auditor and the External Auditor.

Key Internal Control Processes

The key processes that the Board has established in reviewing the adequacy and integrity of the system of internal control, including compliance with applicable laws, regulations, rules and guidelines, are as follows:

Risk Management Committees

The RMC is a Board committee chaired by an Independent and Non-Executive Board member. The Committee is delegated with oversight authority by the Board of Directors, in discharging its overall duties and responsibilities. The Committee monitors and evaluates the effectiveness of the risk management system and operations on an ongoing basis. This Committee also decides and approves matters related to establishment, amendment and abolition of important rules and policies.

At the Management level, the Asset and Liability Management/Risk Management Committee (“ALM/RMC”) comprising of key Management personnel is chaired by the President/CEO. The Committee meets every month and special meetings are convened to discuss on urgent issues. The Committee reviews risk management reports regularly so as to ensure the Bank’s activities are within the risk appetites approved by the Board. It is also responsible to decide on important risk management matters, including matters related to various principal policies on risk management, that are within the scope determined by the Board. Existence or occurrence of matters or issues deemed material for Management to decide will be escalated to the Board or its Committee for further deliberation and decision.

Audit Committee

The AC is a Board Committee supported by Internal Audit Department to provide an independent assessment of the adequacy and reliability of the Bank’s internal controls, risk management processes, compliances with control and risk policies and regulatory requirements.

The AC deliberates on findings and recommendations proposed by the Internal and External Auditors. The AC also evaluates the adequacy and effectiveness of the Bank’s risk management and system of internal control. Apart from reviewing the annual audit plan, the AC assesses the scope and quality of audits performed.

Shariah Committee

The Shariah Committee is responsible to advise the Board and to provide input to the Bank on Shariah matters in order for the Bank to comply with Shariah principles in its Islamic banking activities at all times. It is also responsible to assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah matters.

Senior Management and other Management Committees

The President/CEO, assisted by the Deputy President and Deputy Chief Executive Officer, manage the strategic direction and provides strategic guidance to the business of the Bank.

The President/CEO provides direction and awareness of internal control and compliance via the In-Office Compliance Committee and the System and Operation Planning Committee.

The In-Office Compliance Committee provides the platform to discuss the state of regulatory compliance and AML/CFT in the Bank and updates on the progress of the activities undertaken as well as updates on matters and laws/regulatory requirements which may have an impact on the Bank's operations and control.

The System and Operation Planning Committee formulates and reviews the IT Strategic Plan of the Bank which supports the overall organisational strategic business plan. In carrying out its function, the Committee reviews, monitors and provide recommendations on the IT expenditure of the Bank to maximize the IT investments and to achieve overall efficiency and performance of the IT services and utilization. The Committee also reviews the IT policies and procedures and administers as well as monitors the operation control to minimize operational and processing risks. The Committee is also responsible in reviewing and advising Senior Management on controls and matters pertaining to data management, Management Information System framework and IT security/system.

Internal Policies and Procedures

Clearly documented internal policies and procedures of all departments have been approved by the Board and Senior Management respectively for application. These policies and procedures which are easily accessible through the Bank's Intranet serve as a day-to-day operational guide to ensure compliance with internal controls and the applicable laws and regulations. Annual reviews are performed on the policies and procedures. Annual reviews are conducted to ensure that the policies and procedures are up-to-date with the practices as embraced; in ensuring operational efficiency and effectiveness; and to take into account the changing regulatory requirements, risks and external environment to continuously strengthen internal control.

New Product Policy and Procedures

All new products undergo the requirements as per the Bank's New Product Policy and Procedures. All risks associated with the new products are identified and managed using the appropriate assessment and mitigation practices with assessments from the Risk Departments, Planning Department and the Islamic Banking Department in regards to Islamic products. Legal Department and Compliance Department provides legal advisory and regulatory compliance review respectively.

In the process, all new products are subjected to adequate assessment with respect to its suitability from the business perspective, compliance with laws and regulatory guidelines and that the operations and processes contain sufficient controls to ensure that there were no unlawful activity involving money laundering or financing of terrorism.

The new products are tabled at the ALM/RMC for deliberation prior to the approval of the President/CEO followed by notification to the Board for conventional banking products and to the Shariah Committee and Board for approval in regards to Islamic products.

Annual review of all products is performed to review and assess the products' business performance and management of risks.

Compliance

The Bank takes a firm stand in advocating a compliance culture as compliance is the responsibility of all staff within the Bank. All business lines and functions within the Bank are to carry out their responsibilities to ensure effective management of compliance risk.

The Compliance function is to promote the culture of compliance with legal and regulatory requirements, compliance related policies and procedures and ethical standards in the conduct of business.

The Compliance Department of the Bank is responsible for ensuring that controls to manage compliance risk are adequate and operating as intended. A Compliance Risk Assessment is undertaken by the department to assess the areas of higher compliance risk/weaker controls on annual basis and an Action Plan is then prepared to outline control activities on areas of risks/weaknesses. The department performs Compliance Self-Reviews to ensure that the regulatory requirements and policies of the Bank are complied with. The department also conducts appropriate validation to test and evaluate the adequacy of internal control put in place to manage compliance risks and promptly follow-up on any identified deficiencies and plans to address such deficiencies. Compliance risks findings and recommendations are reported to the Senior Management, In-Office Compliance Committee and the Board on a regular basis.

The department carries out compliance awareness and training via face-to-face training and e-learning on a continuous basis.

The Bank has in place a Compliance Manual which serves as a reference to all employees of the legal and regulatory requirements of which the Bank has to comply when conducting business, and the internal rules and procedures for conduct of its employees. The Compliance Manual is subjected to annual review.

Whistle Blowing Policy

The Bank has put in place a Whistle Blowing Policy and Procedure Manual. The Board Risk Management Committee Chairman, who is the Independent Non-Executive Director has been appointed to be responsible for the effective implementation of the policy. The Policy and Procedure defines the means and methods for reporting of the allegations, the protection accorded to whistle-blowers and the duties and responsibilities of Directors, officers and employees. The outcomes of all investigations are to be reported to the Board or its appointed Committee.

Anti-Money Laundering/Counter Financing of Terrorism

Policies and Procedures on the Prevention of Money Laundering & Terrorist Financing is established to prevent money laundering and terrorist financing, and operate and manage businesses in accordance with the law and regulations.

It is the general principle of the Bank that no banking business will be carried out for a customer unless the Bank knows the customer. The “Know Your Customer” Policy helps build the Bank’s relationship with customers and in ensuring that the Bank is in compliance with all applicable laws and regulations and adhere to sound banking practices. A system is in place to profile, monitor and review of information in support of the Bank’s AML/CFT activities.

The Compliance Department of the Bank provides training to facilitate all staff’s understanding of the laws and regulations in relation to money laundering, terrorist financing and sanction laws.

All new staff is required to read and understand the Policies and Procedures on the Prevention of Money Laundering & Terrorist Financing and complete the requisite AML/CFT training upon joining the Bank. All staff undergoes AML/CFT training annually.

Human Resources Policies and Procedures

The Human Resources (“HR”) Policies and Procedures are established in covering the full process of human resource management such as the recruitment of new hires to the termination of employment which includes resignation and dismissal of staff. The policies and procedures which are subjected to annual review are

readily available through the Bank's Intranet where staff can easily access the policies and procedures at their convenience.

i. Code of Ethics and Conduct, Employee Handbook and Office Rules

The HR Policies and Procedures also includes the Bank's Code of Ethics and Conduct which set forth the standard of behaviors, ethics and conduct expected of its employees. All new staff are required to acknowledge their understanding and acceptance to abide by the Bank's Code of Ethics and Conduct on hardcopy upon joining the Bank. Subsequently, all existing staff are to declare the observance to the Code of Ethics and Conduct annually. In addition, all new staff are to abide by the Employee Handbook and Office Rules of the Bank.

ii. Employee Assessment Framework

The evaluation of the prospective employee's personal information, including criminal records, employment and financial background is part of the HR recruitment process as documented in the Bank's HR Policies and Procedures. Employment reference checks and screening procedures are carried out prior to hiring the employee. The screening procedures also apply throughout the course of employment where existing employees are screened annually

Business Continuity Management

The Operation Planning Department of SMBC SSC Sdn. Bhd., the Bank's outsourced service provider, ensures that there is a Business Continuity Plan ("BCP") in place to ensure critical business operations and systems can continue in the event of prolonged disruption to the business. The department spear-heads the Business Impact Assessment of the Bank's operations to identify the activities and operations that are critical to the continuity of the Bank's operations. The department manages the Business Continuity Management activities for the Bank's operations and ensures that all mandatory BCP and Disaster Recovery Plan drills are successfully carried out. The Bank have subscribed to a Disaster Recovery site which serves as the back-up site, with an independent service provider.

Risk Control Self-Assessment

A Risk Control Self-Assessment ("RCSA") tool is used to assist the Bank's departments to identify and assess its operational risk which are inherent in their work processes, activities, services, products and systems in a documented and systematic manner. The implementation of RCSA is facilitated by the Operational Risk Management Department where it provides operational support on risk and control assessments, which will lead to formulation of action plans by the relevant departments to mitigate and manage the identified operational risks.



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Loss Database and Key Risk Indicator

The Bank has in place a Loss Database i.e. a loss incident reporting database, which captures and tracks the actual and potential operational risk-related losses, including near miss incidents. Major or high frequency loss events are investigated and analyzed against past records and trends to identify high risk areas and to take action to mitigate the risk. Preventive measures and additional controls, if any, are tracked for completion and effectiveness.

In addition, the Bank also monitors operational risk trends via its Key Risk Indicators reporting, which involves collecting transactional data at prescribed frequencies over a period of time to observe the trending of business or transaction activities. Management limits and thresholds are determined to pre-empt and/or alert the departments on additional controls to be implemented to mitigate operational risks.

Loss incidents and Key Risk Indicators are duly reported to the Senior Management and the Board.

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REMUNERATION

The Remuneration Policy of the Bank is designed to align with the Bank's overall objectives and directions; enabled the Bank to attract, motivate, reward and retain talents with competitive remuneration package.

Components of Remuneration

The Bank's remuneration consist of two main components - fixed and variable:

Fixed	Consist of monthly base salary and fixed allowances	<p>Determined by individual's level of skills, competencies, responsibilities, type of job function, market demands and performance.</p> <p>Annual increments are determined by individual's performance, level of responsibility and Bank's performance.</p>
Variable	Annual performance bonus in cash	<p>Bonus is not guaranteed and is determined by the Bank's performance, individual performance and market practice.</p> <p>Purpose of the performance bonus is to reward good performance; drive the right values and behaviours.</p>

Performance Indicators

With oversight and review by the Board, the Bank's overall performance is determined in accordance with balanced scorecard which includes key indicators on Sustainable Growth Initiatives, Financial Performance, Bank Management and Compliance, including Risk Management Control.

The Bank's key indicators are cascaded down to the business and support departments and eventually to each individual employee in the Bank via the Individual Performance Appraisal process. The individual performance goals or key performance indicators include Business Function Initiatives, Risk and Compliance and Behavioral Competencies that reflects Sumitomo Mitsui Banking Corporation ("SMBC")'s five core values of Customer First, Proactive & Innovative, Quality, Speed and Team SMBC.

The risk and control functions of Audit, Compliance and Risk operate independently from the business department. The performance of the employees of these departments are reviewed independently by the AC and the RMC.

Linkage between Performance and Remuneration

To inculcate a performance driven culture, the performance bonus payment is closely linked to overall performance of the Bank and performance of the individual based on achievement of KPIs set for the financial year. An individual's performance bonus may be further adjusted based on audit and non-compliance findings or due to disciplinary action.

Remuneration of all local employees are reviewed by the NRC and approved by the Board while remuneration of the Heads and employees of the risk and control functions are reviewed by their respective Board committees i.e. AC and RMC.

Summary of Remuneration Outcomes for the Financial Year Ended 31 March 2017

For the purpose of disclosure on remuneration as per BNM Policy on Corporate Governance Policy, the following are the payment for the financial year ended 31 March 2017:-

Table 1: Remuneration for Senior Officers and Material Risk Takers

Category	Senior Officers* (5 Headcount)	Material Risk Takers** (2 Headcount)
Fixed remuneration – Cash based	RM2,697,159	RM1,043,606
Variable remuneration – Cash based	RM1,131,708	RM438,961

* Senior Officers of the Bank are defined as Deputy Chief Executive Officer, Deputy President, CRO, CCO and CIA.

** Material Risk Takers are defined as employees whose responsibilities have materials impact on the bank and risk profile, and employees whose responsibilities require them to take on material risk exposure on behalf of the bank.

Table 2: Breakdown of President/CEO's remuneration

Category	Cash
Fixed remuneration	RM569,702
Variable remuneration	RM246,535
Total remuneration	RM816,237



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Focus For the Financial Year Ending 31 March 2017

In compliance with BNM Policy on Corporate Governance, the Bank is working towards enhancing the risk based remuneration system which includes implementing Deferral Policy for Senior Management and Material Risk Takers of the Bank.

This Corporate Governance Disclosures has been approved by the Board on 26 July 2017.