

Corporate Governance

The Company's Board of Directors provides strategic guidance and oversight of the AmBank Group's operations for our shareholders. The Board acknowledges its overriding responsibility to act diligently and responsibly, in accordance with the law, in serving the interests of shareholders, as well as its employees, customers and the community at large.

BOARD OF DIRECTORS

Principle 1: Conduct of Affairs

The Board is fully committed to ensuring that it continues to comply with the Best Practices in Corporate Governance as set out in Part 2 of the Malaysian Code on Corporate Governance.

The Board's roles and responsibilities include:

- Reviewing and approving the strategic business plans of the Group as a whole and that of the individual operating units. This encompasses the annual budget, medium term aspiration, new investments/divestments as well as mergers and acquisitions.
- Overseeing the conduct of the business to ascertain its proper management including setting clear objectives and policies within which senior executives are to operate.
- Identifying and approving policies pertaining to the management of all risk categories including, but not limited to, credit, financial, market, liquidity, operational, legal and reputational risks.
- Reviewing the adequacy and the integrity of internal controls and management information systems, including systems for compliance with applicable laws, rules, regulations, directives and guidelines.
- Serving as the ultimate approving authority for all significant financial expenditure.

Principle 2: Chairman and Group Managing Director

The roles of the Chairman and Group Managing Director remain separate and are clearly distinct. The Chairman of the Board is non-independent and non-executive.

The Chairman plays an important leadership role within the Group and is involved in:

- Chairing the meetings of Shareholders and the Board;
- Monitoring the performance of the Board and the mix of skills and effectiveness of individual Board members' contribution; and
- Maintaining on-going dialogue with the Chief Executive Officers of the various major subsidiaries and providing appropriate mentoring and guidance.

The Board delegates the authority and responsibility for managing the everyday affairs of the Group to the Group Managing Director, and through him and subject to his oversight, to other Senior Management. The Board monitors the management and performance of the Group Managing Director on behalf of the shareholders.

Principle 3: Board Composition, Selection and Appointment

The Board currently comprises twelve (12) Directors of whom four (4) are Independent Non-Executive Directors. The Board continues to achieve a balance of skills, knowledge, experience and perspective among its Directors.

Appointment

The Group welcomes the addition of a new Board Member, Y Bhg Datuk Rohana Tan Sri Mahmood who has been appointed as an Independent Non-Executive Director of the Company effective 8 July 2011.

SELECTION OF DIRECTORS

Principle 4: Board Performance

Board Independence

The Independent Non-Executive Directors are from varied business backgrounds. Their experience enables them to exercise independent judgment and objective participation in the proceedings and decision-making processes of the Board.

Decision-making on key issues regarding the Company and its subsidiaries are fully deliberated by the Directors. Board decisions are made taking into account the views of the Independent Non-Executive Directors, which carry substantial weight. They fulfil their roles in ensuring that strategies proposed by the Management are fully discussed and examined as well as ensuring that the interest of shareholders and stakeholders of the Company are safeguarded.

Independence

In accordance with the criteria as specified under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia"), the Group Nomination Committee and the Board establish whether or not a Non-Executive Director may have a relationship with AmBank Group which could (or could be perceived to) affect their decision-making.

Senior Independent Non-Executive Director

In line with the recommendations stipulated in Part 2 of the Malaysian Code on Corporate Governance, the Board has appointed Y Bhg Tan Sri Datuk Clifford Francis Herbert as the Senior Independent Non-Executive Director to whom any concern on issues affecting the AmBank Group of companies may be conveyed.

Election at the Next Annual General Meeting

The Company's Articles of Association permits the Board to appoint a person to be a Director of the Company at any time, but the person must seek election by shareholders at the next Annual General Meeting ("AGM").

Tenure

The Articles of Association provides that all Directors must retire at least once in three years and may be re-elected at the AGM.

Formalisation of Rights, Duties and Obligations

There are several key elements relating to the formalisation of Rights, Duties and Obligations once a Director is appointed, including:

- **Director's Code of Conduct**

This code sets out that Directors will pursue the highest standards of ethical conduct.

- **Covenants to Directors**

The covenants cover a number of issues including indemnity, Directors' and officers' liability insurance, the right to obtain independent advice and the requirements concerning confidential information.

- **Directors' Training**

New Directors participate in a formal induction program which ensures that the Directors meet with the AmBank Group executives and other key staff members and be accustomed with the Group's governance framework, financial management and business operations.

Each new Director receives a set of notes outlining the Director's principal obligations, roles and responsibilities, terms of reference of the various Board Committees and regulatory guidelines. It also sets out details of scheduled Board and Board Committees meetings.

Board members are also encouraged to participate in seminars and conferences, and continuous education programmes to keep abreast with the current developments in the financial services industry. Arrangements are also made for them to attend the programmes organised by the Group's Organisational Development Department. During the year, the Directors attended various training courses related to their responsibilities and developments in the industry.

The Directors attended courses/seminars in areas relating to corporate governance, corporate responsibility, management and organisational excellence, remuneration, succession planning, strategic leadership, operational risk management and compliance, financial reporting/Financial Reporting Standards, audit committee responsibilities, enterprise risk management, banking and Islamic finance, amongst others.

Selection of Directors



Performance Evaluation

Performance evaluations are conducted annually and cover the Board, each Director and the Board Committees. The framework used to assess the Directors is based on the expectation that they are performing their duties in a manner which should create and continue to build sustainable value for shareholders and in accordance with duties and obligations imposed upon them under the law and guidelines issued by the regulatory authorities.

Principle 5: Access to Directors

The Management is able to consult the Directors as required on a regular basis. Employees and shareholders have access to Directors through the Chairman, the Senior Independent Non-Executive Director and the Group Company Secretary.

Principle 6: Access to Information

In the discharge of their duties, all Directors have complete and unrestricted access to information pertaining to the Group. The advice and services of the Group Company Secretary are readily available to the Board in matters of governance and in complying with statutory duties, including compliance with the Main Market Listing Requirements of Bursa Malaysia.

The Group Company Secretary attends Board and Board Committees meetings, and is responsible for the accuracy and adequacy of records of the proceedings of Board and Board Committees meetings and resolutions.

In order to assist Directors in fulfilling their responsibilities, each Director has the right to seek independent professional advice regarding his responsibilities at the expense of the Group. In addition, the Board and each Board Committee, at the expense of the Group, may obtain professional advice that they require to assist in their work.

The Board meets ten (10) times per year, wherein Board reports are circulated prior to the meetings, allowing the Directors to review further information that may be required. Additional Board meetings are convened whenever necessary. The Senior Management team of the subsidiaries are invited to attend Board meetings to provide presentations and detailed explanations on matters that have been tabled.

Ten (10) Board meetings were held during the financial year ended 31 March 2011 ("FY2011"). The attendance of every Board member at the meetings of the Board and the various Board Committees is as set out below:

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Number of Meetings Attended in Financial Year Ended 31 March 2011

	Board of Directors	Group Nomination Committee	Group Remuneration Committee	Audit and Examination Committee	Group Risk Management Committee	Group Information Technology Committee
Y Bhg Tan Sri Azman Hashim	10 (Chairman)	3	4	N/A	N/A	N/A
Y Bhg Dato' Azlan Hashim	9	N/A	N/A	6	N/A	4 (Chairman)
Y A Bhg Tun Mohammed Hanif Omar	10	3 (Chairman)	N/A	N/A	N/A	N/A
Y Bhg Tan Sri Datuk Dr Aris Othman	10	3	4	7 (Chairman)	5	N/A
Y Bhg Tan Sri Datuk Clifford Francis Herbert	10	3	N/A	6	5 (Chairman)	N/A
Y Bhg Tan Sri Dato' Mohd Ibrahim Mohd Zain*	7	N/A	N/A	N/A	N/A	3
Y Bhg Dato' Izham Mahmud	9	N/A	4 (Chairman)	7	N/A	N/A
Mr Alexander Vincent Thursby	10	N/A	N/A	N/A	N/A	N/A
Dr Robert John Edgar	10	3	4	7	N/A	N/A
Mr Mark David Whelan	9	N/A	N/A	N/A	4	N/A
Mr Cheah Tek Kuang	9	N/A	N/A	N/A	N/A	3
Mr Soo Kim Wai	8	N/A	4	N/A	N/A	N/A
Number of meetings held in FY2011	10	3	4	7	5	4

Notes:

N/A - Not a Committee Member
* - Resigned w.e.f. 16 April 2011

Principle 7: Board Committees

The Board delegates certain responsibilities to the Board Committees. The Committees that assist the Board are as follows :

1. Group Nomination Committee
2. Group Remuneration Committee
3. Audit and Examination Committee
4. Group Risk Management Committee
5. Group Information Technology Committee

The criteria for the membership are based on a Director's skills and experience, as well as his ability to add value to the Board Committee.

The Group Managing Director, the Chief Executive Officers and other Senior Management staff are invited to attend the relevant Board Committee meetings.

Group Nomination Committee

Group Nomination Committee comprises five (5) members, two (2) of whom are Independent Non-Executive Directors of the Board.

The Committee is responsible for regularly reviewing the Board's structure, size and composition, as well as making recommendation to the Board on any changes that are deemed necessary.

It reviews the performance of the Board, Board Committees and Directors. It also recommends the appointment of Directors to Committees of the Board, as well as annually reviews the mix of skills, experience and competencies that Non-Executive and Executive Directors should bring to the Board.

The Committee also, on annual basis, assesses the effectiveness of the Board as a whole and Board Committees as well as the contribution of the Chairman and each Director to the effectiveness of the Board.

The Committee met three (3) times during the FY2011.

Group Information Technology Committee

Group Information Technology Committee ("GITC") comprises three (3) members, two (2) of whom are Non-Executive Directors. The Committee is responsible to provide governance for

Information Technology and to ensure that the overall strategic IT direction is aligned with the Group's business objectives and strategy. GITC's key responsibilities include the following:

- To provide strategic direction for IT development within the Group and ensuring that IT strategic plans are aligned with the Group's business objectives and strategy.
- To ensure the establishment of Groupwide IT policies, procedures and frameworks including IT security and IT risk management.
- To provide oversight of the Group's long term IT strategic plans and budgets.
- To establish and monitor the overall performance, efficiency and effectiveness of IT services including performance metrics.
- To review the adequacy and utilisation of the Group's IT resources including computer hardware, software, personnel and other IT related investments.

There were four (4) meetings held during the FY2011.

Principle 8: Procedures for Developing Remuneration Policies

Group Remuneration Committee

The Group Remuneration Committee comprises five (5) members, all of them are Non-Executive Directors. In carrying out its duties, the Committee met four (4) times during FY2011.

The Committee is responsible for determining and recommending to the Board the framework/methodology for the remuneration of Directors, the Chief Executive Officers and other Senior Management staff, benchmarked against the industry.

Principle 9: Level and Make-Up of Remuneration

Remuneration Framework

The remuneration framework is designed to ensure that the Group continues to attract and retain Directors and other Senior Management staff with appropriate skills and experience to manage the Group successfully. The Board determines the remuneration of Non-Executive Directors, Executive Directors, and other Senior Management staff of the Group, with the interested Directors abstaining from discussions with respect to their remuneration.

Principle 10: Risk Management

Group Risk Management Committee

The Group Risk Management Committee oversees the adequacy of risk management within the Group.

The membership of the Committee comprises three (3) members, all of them are Non-Executive Directors and is chaired by an Independent Non-Executive Director. The responsibilities of the Committee include the review and evaluation of:

- Senior Management's activities in managing risk;
- High-level risk exposures and portfolio composition;
- The Company/Group's major risk strategies, policies and risk tolerance standards; and

- The overall effectiveness of the risk management and control infrastructure.

There were five (5) meetings held during the FY2011.

Principle 11: Accountability

Audit and Examination Committee

The Audit and Examination Committee ("AEC") is responsible for the oversight and monitoring of:

- The Group's financial reporting, accounting policies and controls;
- The Group's Internal Audit functions;
- Compliance with regulatory requirements; and
- The appointment, scope of work and evaluation of the external auditor.

It is the Board's policy that at least one (1) member of the AEC shall have an accounting qualification or experience in the field of finance. The AEC meets regularly with the external auditor and Group Internal Audit.

The AEC met seven (7) times during the FY2011.

Principle 12: Financial Controls

Responsibility Statement

The Board of Directors is required by the Companies Act, 1965 to prepare financial statements for each financial year which give a true and fair view of the Group and its state of affairs, results and cash flows at the end of the financial year. Following discussions with the statutory external auditors, the Directors consider that the appropriate accounting policies are consistently applied and supported by reasonable as well as prudent judgments and estimates, and that all accounting standards which they consider applicable have been followed during the preparation of the financial statements.

The Board of Directors is responsible for ensuring that the Group keeps accounting records which are disclosed with reasonable accuracy, and for ensuring that the financial statements comply with the Companies Act, 1965.

The Board and Board Committees have the general responsibility for taking such steps to safeguard the assets of the Group.

The Group's Statement on Internal Control is set out on page 42 of this annual report.

Audit and Examination Committee Report

Terms Of Reference

The functions of the AEC are as follows:

1. To provide independent oversight of the Company/Group's financial reporting and internal control system, and ensuring checks and balances within the Company/Group.
2. To serve as an independent and objective party in the review of the financial information of the Company/Group that is presented by the Management to the Board and Shareholders.
3. To review the quarterly results and year-end financial statements of the Company/Group to ensure compliance with accounting standards and legal requirements, and to ensure fair and transparent reporting and prompt publication of the financial accounts.
4. To determine that the Company/Group has adequate established policies, procedures and guidelines, operating and internal controls, and that they are being complied with and are operating effectively in promoting efficiency and proper conduct, and protecting the assets of the Company/Group.
5. To evaluate the adequacy and effectiveness of the Management control systems of the Company/Group through the review of the reports of both the external and internal auditors that highlight internal accounting, organisational and operating control weaknesses, and to determine that appropriate corrective actions are being taken by the Management.
6. To review and approve the scope of audits, audit plans and audit reports of both the external and internal auditors.

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7. To ensure through discussions with the external and internal auditors that no restrictions are being placed by the Management and employees on the scope of their examinations.
8. To ensure that audit of specialised areas is adequate by directing the engagement of external experts to carry out the review, if required and ensure that the terms and scope of the engagement, the working arrangement with the internal auditors and reporting requirements are clearly established.
9. To ensure the adequacy and appropriateness of the scope, functions and resources of the internal audit and that they have the necessary authority to carry out their work.
10. To establish a mechanism to assess the performance and effectiveness of the internal audit function.
11. To direct and supervise any special project or investigation considered necessary.
12. To review any related party transaction and conflict of interest situation that may arise within the Company/Group including any transaction, procedure or course of conduct that raises questions of management integrity.
13. To review and approve the Internal Audit Charter of the Company.
14. To prepare when deemed necessary, periodic reports to the Board summarising the work performed in fulfilling the Committee's primary responsibilities.
15. To review the annual appointment of the external auditors, or resignation or removal of external auditors, to approve the provision of non-audit services by external auditors, to negotiate and approve the annual audit fees or special audit fees and/or non-audit service fees.
16. To review the appointment, performance evaluation, transfer and dismissal, and remuneration of the Chief Internal Auditor.

Summary of Key Activities

The following is a summary of the main activities carried out by the Committee during the year:

Internal Audit

- Reviewed and approved the Group Internal Audit's annual audit plan, including its resource and training needs.
- Reviewed the Group Internal Audit's methodology in assessing the risk levels of the various auditable areas and ensured that audit emphasis was given on critical risk areas.
- Reviewed the Group Internal Audit Charter to align with Bank Negara Malaysia's guidelines (BNM/GP10).
- Monitored the progress of Group Internal Audit in completing its audit plan and assessed the performance of Group Internal Audit.
- Reviewed the adequacy and effectiveness of the system of controls, reporting and risk management to ensure there is a systematic methodology in identifying, assessing and mitigating risk areas.
- Reviewed reports of Group Internal Audit (including internal investigations, follow up on resolution of issues raised in reports issued by Bank Negara Malaysia, external auditors and other external parties) and considered Management's response and accordingly directed Management to take the necessary remedial action. The Committee also followed-up on resolution of major issues raised in the reports.

External Audit

- Reviewed the appointment of the external auditor and their independence and effectiveness.
- Reviewed their audit plan, annual audit fees and scope of work for audit and non-audit assignments.
- Reviewed the external auditor's results and report as well as the Management's consequent responses to the findings of the external auditor.

Financial Results

- Reviewed the quarterly results and financial statements of the Group before recommending them to the Board of Directors for approval.

- Reviewed the annual audited financial statements of the Group with the external auditor prior to submission to the Board for approval.
- Compliance with the following regulatory requirements was ensured:
 - Provisions of the Companies Act, 1965 and the Banking and Financial Institutions Act, 1989
 - Capital Markets And Services Act, 2007
 - Securities Commission Act, 1993
 - Main Market Listing Requirements of Bursa Malaysia
 - Applicable accounting standards in Malaysia
 - Other relevant regulatory requirements

Related Party Transactions

- Reviewed related party transactions and the adequacy of the Group's procedures in identifying, monitoring, reporting and reviewing related party transactions.

Principle 13: Internal Audit

Internal Audit Function

Group Internal Audit function operates under a charter from the AEC that gives it unrestricted access to review all activities of the Group. The Head of Group Internal Audit reports to the AEC. The internal auditing function is conducted on an AmBank Groupwide basis to ensure consistency in the control environment and the application of policies and procedures.

Group Internal Audit focuses its efforts on performing audits in accordance with the audit plan, which is prioritised based on a comprehensive risk assessment of all activities undertaken by the Group. The structured risk assessment approach ensures that all risk-rated areas are kept in view to ensure appropriate audit coverage and audit frequency. The risk-based audit plan is reviewed annually taking into account the changing financial significance of the business and risk environment. The AEC reviews and approves Group Internal Audit's annual audit plan.

Group Internal Audit also performs investigations and special review, and participates actively in major system development activities and project committees to advise on risk management and internal control measures.

The AEC approves the annual audit work plan, and a risk-based audit approach is used to ensure that the higher risk activities in each business unit are audited each year.

The audit activities can be summarized as follows:



The main objective of the audit reviews is to assess the adequacy and effectiveness of risk management and systems of internal controls in the following areas:

- Retail Banking
- Islamic Banking
- Business Banking
- Corporate & Institutional Banking
- Investment Banking
- Markets
- Life & General Insurance
- Takaful Business
- Funds & Asset Management
- Asset & Liabilities Management
- Group Shared Services

Group Internal Audit plays an active role in ensuring compliance with the requirements of Regulatory Authorities. Group Internal Audit also works collaboratively with the External Auditor, Risk Management Department and Group Compliance to ensure maximum reliance and avoid duplication of effort.

There is an effective process for ensuring prompt resolution of audit issues. Group Internal Audit tables regular updates to the AEC on the progress of significant issues until such issues are satisfactorily resolved.

Key Risk Areas and Internal Focus



Principle 14: External Audit

Messrs Ernst & Young is the Company's external statutory auditor and the auditor of the Company's consolidated accounts for the preparation of this annual report. The external auditor performs independent audits in accordance with the Malaysian Accounting Standards, and reports directly to the AEC. The AEC additionally:

- Pre-approves all audit and non-audit services;
- Regularly reviews the independence of the external auditor; and
- Evaluates the effectiveness of the external auditor.

The External Auditor is re-appointed by the shareholders of the Company annually, after review of the services provided by the AEC and the recommendation of the Board.

Non-Audit Services

The external auditor may not provide services that are perceived to be in conflict with the role of the auditor. These include assisting in the preparation of the financial statements and sub-contracting of operational activities normally undertaken by Management, and engagements where the auditor may ultimately be required to express an opinion on its own work.

Specifically the policy:

- Limits the non-audit service that may be provided; and
- Requires that audit and permitted non-audit services must be pre-approved by the AEC.

The AEC has reviewed the summary of the non-audit services provided by the external auditor in FY2011 and has confirmed that the provision of services is compatible with the general standard of independence for auditors.

Audit Fees

The total statutory and non-statutory audit fees for the Group (excluding expenses and service tax) in FY2011 amounted to RM2.58 million (FY2010: RM2.26 million).

Assurance-related and Other Non-audit Fees

Assurance-related and other non-audit fees for FY2011 (excluding expenses and service tax) amounted to RM1.36 million (FY2010: RM6.19 million). These fees are primarily related to assurance services such as implementation of Financial Reporting Standards and validation of Perbadanan Insurans Deposits Malaysia Returns.