

## Statement on Corporate Governance

The Board of Directors and Management of The Bank of Nova Scotia Berhad (“BNSB”) uphold and comply with the corporate governance standards and practices as set out in the Bank Negara Malaysia Policy Document on Corporate Governance.

### 1. Board of Directors

#### (a) Members of the board

The Board of Directors (“the Board”) is chaired by Theodoor Joseph Bark. The Directors who served since the date of the last report are:

Members	Status of Directorship
Theodoor Joseph Bark (Chairman)	Independent Non-Executive Director
Murugiah M.N. Singham	Independent Non-Executive Director
Noel Singh	Non-Independent Non-Executive Director
Sivadas a/l P.V.G. Menon	Non-Independent Executive Director
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 03 April 2017)	Independent Non-Executive Director

#### (b) Background of Directors

##### (i) Sivadas a/l P.V.G. Menon

Sivadas Menon is the Chief Executive Officer (“CEO”) of the Bank and was appointed to the Board as a Non-Independent Executive Director on 17 June 2016. He has been with the Scotiabank Group for over 24 years out of which he had worked at the parent bank’s Global Risk Management department in Canada for 4 years. Prior to becoming the CEO, he has held various positions in the Bank such as Senior Relationship Manager, Deputy Managing Director, Director of Credit Solutions and Chief Risk Officer, a position he held until his retirement on 31 December 2014. He holds an MBA degree from the Asian Institute of Management.

##### (ii) Theodoor Joseph Bark

Theodoor Joseph Bark was appointed to the Board as an Independent Non-Executive Director on 26 August 2013. He has over 53 years of experience in the banking industry. He held various senior positions in the ABN AMRO Bank Group for 40 years. He was previously Managing Director of ABN AMRO Malaysia and lastly as regional manager of ABN AMRO in charge of a number of Asian and Middle Eastern countries. He graduated with a degree in Business Administration. He is also a Director of HCBG Holding B.V., the Netherlands, Director of Midwest Business Corp, Panama and non-executive Director of Demir Bank International Kyrgyzstan, Kyrgyzstan.

**(iii) Murugiah M.N. Singham**

Murugiah was appointed to the Board as an Independent Non-Executive Director on 1 May 2013. He has had a career spanning 39 years with investment banking and insurance institutions as well as the capital market regulator. Murugiah was Senior General Manager & Head of Supervision, Securities Commission Malaysia for three years. Prior to that, he was with AmInvestment Bank for 26 years where he held various positions including as Director, Group Compliance and General Manager, Corporate Finance.

Murugiah is a Fellow of the Association of Chartered Certified Accountants and a Member of the Malaysian Institute of Accountants. He is also an Independent Non-Executive Director of MCIS Insurance Berhad.

**(iv) Noel Singh**

Noel Singh was appointed as a Non-Independent Non-Executive Director on 5 May 2014. He has over 30 years of experience in the finance field with The Bank of Nova Scotia in Canada, Central America, The Caribbean and Asia. He is a Member of The Society of Management Accountants of Ontario, Canada. Prior to his retirement from The Bank of Nova Scotia on January 1, 2018 he was Executive Vice President, Corporate & Commercial Banking, Thanachart Bank PCL, responsible for Cash Management, Trade Finance, Product and Process development for Corporate and Commercial Banking. He was also a member of Thanachart Bank's Senior Credit Committee for over 10 years and was also responsible for coordinating Corporate Banking client relationships between Thanachart Bank and the Scotiabank Group.

**(v) Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3<sup>rd</sup> April 2017)**

Dr. Veerinderjeet was appointed as an Independent Non-Executive Director on 5 May 2014. Dr. Veerinderjeet has extensive experience in tax matters over 30 years both as an academic as well as at a professional level (both in government and in international accounting firms). His extensive experience covers consultancy work related to international tax and domestic tax issues involving both direct and indirect taxes. Dr. Veerinderjeet graduated from the University of Malaya with a first class honours degree in accountancy and obtained his Doctorate from Universiti Putra Malaysia. He is a member of the Malaysian Institute of Certified Public Accountants, the Malaysian Institute of Accountants, the Chartered Tax Institute of Malaysia as well as CPA Australia

**(c) Roles and responsibilities of the Board**

The objective of the Board is to plan, supervise, identify/manage risks and provide direction and guidance to the management of the Group and of the Bank to successfully achieve the Group and the Bank's goal. Broad duties and responsibilities of the Board include:

- (i) Review and adopt long term and short term strategic plans for the Group and the Bank;
- (ii) Oversee the conduct of the Group and of the Bank's business to evaluate whether the business is being properly managed;
- (iii) Identify and manage principal risks; and
- (iv) Review the adequacy and the integrity of the Group and of the Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines

**(d) Directors' Training**

During the financial year 2017, the members of The Bank of Nova Scotia Berhad Board had received training on areas relevant to their duties and responsibilities as Directors by attending external conferences, seminars and talks. The Directors had attended conferences and seminars conducted by Bank Negara Malaysia and Iclif Leadership and Governance Centre. Besides, the Directors had also attended talks, dialogue sessions and focus group sessions organised by FIDE FORUM, an initiative of the alumni members of the Financial Institutions Directors' Education Programme, which is set up to enhance corporate governance practices in the boards of financial institutions and to develop world class directors who are advocates of best practices and excellence in corporate governance.

Beside trainings, the board members had been kept up-to-date with market trend, developments and related issues through technical bulletins, board meetings and discussions with Senior Management Officers of the bank and presentations by professionals engaged by the bank

**(e) Board Meetings and Frequency**

***Comments on Frequency***

During the financial year 2017, the Directors attended the following number of meetings of the Board (the number of meetings held whilst they were Directors is shown in brackets):

Theodoor Joseph Bark	8(8)
Murugiah M.N. Singham	8(8)
Noel Singh	6(8)
Sivadas a/l P.V.G. Menon	8(8)
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3 <sup>rd</sup> April 2017)	3(3)

**2. Board Committees**

As a wholly-owned subsidiary of the Bank's parent bank i.e. The Bank of Nova Scotia (BNS), the functions of Board Committees are supplemented by advice and counsel from BNS consistently. The Bank has a Technical Service Agreement with BNS, under which services are provided by BNS that has the international expertise and organisational staff support to provide these services. The terms of reference and the composition of Board Committees are set out below:-

**(a) Audit committee**

**Membership and composition**

The members of the Audit Committee are:-

Murugiah M.N. Singham ( Chairman)  
Theodoor Joseph Bark  
Noel Singh  
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3<sup>rd</sup> April 2017)

The Audit Committee shall be appointed by the Board of Directors of the Bank and shall consist of not less than three members, none of whom shall be full-time executives of the Bank. The majority of the Audit Committee members shall be Independent Non-Executive Directors and the Audit Committee shall elect a Chairman among them who is an Independent Non-Executive Director. Alternate Directors are not allowed to be appointed as members of the Audit Committee.

### **Terms of reference**

The Audit Committee is authorised by the Board to review the financial condition of the Bank, its internal controls, performance and findings of the internal auditors and to recommend appropriate action regularly, preferably not less than 4 times a year.

The primary functions of the Audit Committee are to assist the Board to:-

- (a) Ensure that the financial statements are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the statements of financial position and statements of comprehensive income for submission to the Board and ensure the prompt publication of annual financial statements;
- (b) Review internal controls, including the scope of the internal audit program, the internal audit findings, and recommend action to be taken by management. The reports of internal auditors to Audit Committee should not be subject to the clearance of the CEO or Executive Directors. The Audit Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
- (c) Review with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports, the assistance given by the management and staff to the auditors and any findings and action to be taken. The Audit Committee should also select external auditors for appointment by the Board each year; and
- (d) Review related party transactions.

### **Number of meetings held**

The Audit Committee shall meet preferably not less than 4 times a year and during the financial year 2017, the committee met seven (6) times and the attendance of the members are as follows (the number of meetings held whilst they were members is shown in brackets):-

Murugiah M.N. Singham	6(6)
Theodoor Joseph Bark	6(6)
Noel Singh	6(6)
Veerinderjeet Singh s/o Tejawant Singh (Resigned on 3 <sup>rd</sup> April 2017)	3(3)

## **(b) Risk management committee**

### **Membership and composition**

The members of the Risk Management Committee are:-

Theodoor Joseph Bark (Appointed as Chairman on 2<sup>nd</sup> June 2017)

Murugiah M.N. Singham

Noel Singh

Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3<sup>rd</sup> April 2017) (Chairman until 3<sup>rd</sup> April 2017)

### **Terms of reference**

The primary functions of the Risk Management Committee are to assist the Board:-

- (a) To perform such duties as may be required by Bank Negara Malaysia;
- (b) To review credit, investment and market risks. Also, as required by regulatory agencies, to review, monitor and recommend to the Board for approval risk related policies, procedures and standards;
- (c) To review management's periodic reports on risk exposure, risk portfolio composition and risk management activities;
- (d) To review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively; and
- (e) To ensure infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the risk taking activities.

### **Number of meetings held**

The attendance of the Risk Management Committee members during the financial year 2017 are as follows (the number of meetings held whilst they were members is shown in brackets):-

Theodoor Joseph Bark	6(6)
Murugiah M.N. Singham	6(6)
Noel Singh	6(6)
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3 <sup>rd</sup> April 2017)	3(3)

## **(c) Nomination committee**

### **Membership and composition**

The members of the Nomination Committee are:-

Theodoor Joseph Bark (Chairman)  
Murugiah M.N. Singham  
Noel Singh  
Sivadas a/l P.V.G. Menon  
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3<sup>rd</sup> April 2017)

### **Terms of reference**

The primary functions of the Nomination Committee are to assist the Board:-

- a. To establish minimum requirements for the Board, i.e. a required mix of skills, knowledge, experience and core competencies required of a Director and make recommendations to the Board with regards to any changes through an annual review. The Committee is also responsible for establishing the minimum requirements for the CEO. The requirements and criteria should be approved by the Board;
- b. To assess and recommend the nominees for Directors and Board Committee members as well as nominees for the CEO. This includes assessing and recommending all Board appointments, reappointments and resignations, before an application is submitted to Bank Negara Malaysia (BNM) for approval;
- c. To oversee the overall composition of the Board, in terms of the appropriate size and skills, and the balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
- d. To recommend to the Board the removal of a Director or CEO from his/her position on the Board and management if he or she is ineffective, errant and negligent in discharging his/her responsibilities;
- e. To ensure that there are established performance evaluation processes for 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 CEO and other key senior management officers. An annual assessment should be conducted based on objective performance criteria and such performance criteria should be approved by the Board; and
- f. To assess the fitness and propriety of Directors and senior management on an annual basis, to ensure that the Directors and key senior management officers are not disqualified under Section 59 of the Financial Services Act, 2013 and continue to comply with the 'fit and proper' standards.

## Number of meetings held

The attendance of the Nomination Committee members during the financial year 2017 are as follows (the number of meetings held whilst they were members is shown in brackets):-

Theodoor Joseph Bark	8(8)
Murugiah M.N. Singham	8(8)
Noel Singh	6(8)
Sivadas a/l P.V.G. Menon	8(8)
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3 <sup>rd</sup> April 2017)	3(3)

## (d) Remuneration committee

### Membership and composition

The members of the Remuneration Committee are:

Murugiah M.N. Singham (Appointed as Chairman on 2<sup>nd</sup> May 2017)  
Theodoor Joseph Bark (Chairman until 2<sup>nd</sup> May 2017)  
Noel Singh  
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3<sup>rd</sup> April 2017)

### Terms of reference

The primary functions of the Remuneration Committee are to assist the Board:-

- (a) To recommend to the Board for approval a remuneration framework for Directors, CEO and key senior management officers. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and the responsibilities of the CEO and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain Directors of caliber, and yet not excessive to the extent that the Bank's funds are used to subsidise any excessive remuneration packages. The framework should cover all aspects of remuneration including Directors' fees, salaries, allowances, bonuses, share options and benefits-in-kind;
- (b) To recommend specific remuneration packages for the Executive Directors and the CEO. The package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependent on short-term performance to avoid incentives for excessive risk taking. As for Non-Executive Directors and Independent Directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board;

- (c) To support a remuneration framework that supports the Bank’s culture, objectives and strategy and in order to be consistent with The Bank of Nova Scotia’s global strategies, the Bank has adopted The Bank of Nova Scotia’s compensation program as governed by the policies and practices set out in The Bank of Nova Scotia Compensation Policy; and
- (d) Where major decisions related to the objective of this Committee are made by the parent company, the Committee shall evaluate the issues before making recommendations to the Board for adoption and consult with the human resources department of The Bank of Nova Scotia as appropriate.

**Number of meetings held**

The attendance of the Remuneration Committee members during the financial year 2017 are as follows (the number of meetings held whilst they were members is shown in brackets):-

Theodoor Joseph Bark	5(5)
Murugiah M.N. Singham	5(5)
Noel Singh	5(5)
Veerinderjeet Singh s/o Tejwant Singh (Resigned on 3 <sup>rd</sup> April 2017)	3(3)

**3. Risk Management**

Comprehensive risk management procedures and policies are in place and employed by the BNSB to efficiently manage the operational, credit, market and liquidity risks arising from commercial activities undertaken by the Bank. The risk management policies are closely adhered to and the Board has oversight of this to ensure that the operations of the Bank are conducted in a prudent manner. Detailed descriptions of the core risks are provided in Note 33 to the financial statements.

**4. Internal Audit**

The internal audit function in the Bank reports to the Audit Committee of the Bank and is also under the supervision of The Bank of Nova Scotia, Executive Offices Audit department through an additional reporting relationship to the Regional Chief Auditor, Asia Pacific. The local internal audit function is supported through review of the annual audit plan, review of work completed, training, as well as providing internal audit resources and specialist for audit projects whenever necessary.

The mission of the Audit Department is to provide enterprise-wide, independent, objective assurance over the quality and effectiveness of the organisation's controls and operational and risk management processes and to provide advisory services designed to improve the Bank’s operations. The Audit Department helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, internal control and governance processes. The Audit Department employs a risk-based approach, driven by a systematic and comprehensive risk assessment model which is used to risk assess the audit universe, identify priority areas for audit, and establish frequency for cyclical audit projects.



The fundamental framework for the Audit Department is the Committee of Sponsoring Organizations (COSO) framework, a well-recognised risk and control framework for the evaluation of the design and operating effectiveness of internal control. The use of the COSO framework is fully integrated into the work of the Audit Department, including audit planning, the development of audit programs, and audit reporting.

The scope of work of the Audit Department is set with the objective of determining whether internal control, risk management, and governance processes are adequately designed and effectively implemented by management to provide reasonable assurance that the following internal control objectives are achieved:

- (a) Efficiency and effectiveness of operations, including the safeguarding of assets;
- (b) Reliability of financial reporting; and
- (c) Compliance with laws and regulations.

The scope of work includes an assessment of whether:

- (a) Risks and controls are appropriately identified, assessed, managed and monitored across the bank and its outsourced operations;
- (b) An effective control environment is maintained;
- (c) Information is effectively shared and issues are appropriately escalated and communicated; and
- (d) Quality and continuous improvement are fostered in the control processes.

The scope of the reviews is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. During the financial year, the Bank's Audit Committee carried out its duties as set out in the terms of reference. The Audit Committee has active oversight on the internal audit's independence, scope of work and resources. The Audit Committee regularly reviews the actions taken on internal control issues identified in reports prepared by Internal Audit and evaluates the effectiveness and adequacy of the internal control system.

Internal audit has defined procedures to report control deficiencies or breaches noted which includes obtaining management action plans for correction. Follow-up and escalation procedures are in place for tracking all deficiencies or breaches to full resolution.

## 5. Remuneration

The BNSB's remuneration practices are aligned to those of The Bank of Nova Scotia. Remuneration policy, plan design and decisions are aligned with the Bank's strategy and risk culture and support appropriate risk behaviours. The Bank's incentive plan provides a consistent, competitive and transparent incentive pay experience, while strengthening the alignment between individual performance and the Bank's strategic priorities. One of the remuneration program's key features is the flexibility it gives leaders to make incentive pay recommendations that reflect the employees' individual contributions. Increased transparency in the award calculation explicitly shows the impact of business performance on the final award, helping employees' understand the relationship between pay and performance. To review The Bank of Nova Scotia's compensation discussion and analysis, please refer to page 48 to 69 at <http://www.scotiabank.com/ca/common/pdf/management-proxy-circular-en.pdf>

### Directors' Remuneration

Aggregate remuneration of all Directors during the year are as follows:

	Executive Director	Non-executive Directors		
	Sivadas a/l P.V.G. Menon	Theodoor Joseph Bark	Murugiah M.N. Singham	Veerinderjeet Singh s/o Tejwant Singh
	RM'000	RM'000		
<b><u>Non-deferred, Fixed Remuneration</u></b>				
<i>Cash-based</i>				
Salary and other remuneration	899	-	-	-
Fees	-	127	97	41
<b><u>Non-deferred, Variable Remuneration</u></b>				
<i>Cash-based</i>				
Non-Deferred	300	-	-	-
<i>Non-cash-based</i>				
Benefits-in-kind	4	-	-	-

## Senior Managements and Material Risk Taker's Remuneration

	Senior Management*		Material risk taker**	
	RM'000	No	RM'000	No
<b><u>Fixed Remuneration</u></b>				
<i>Cash-based</i>				
Salaries	3,707	10	2,780	7
Others	1,220	10	621	7
<b><u>Variable</u></b>				
<i>Cash-based</i>				
Non-Deferred	2,062	10	1,258	7
Deferred	29	1	29	1
Shares and share-linked instruments	19	1	-	-
<i>Non-Cash-based</i>				
Benefit-in-kind	89	9	24	6
<b><u>Outstanding deferred remuneration</u></b>	No. of shares		No. of shares	
Deferred Shares	1,662	2	443	1

\* Senior management of the Bank are defined as Chief Executive Officer, Head of Corporate Banking, Chief Risk Officer, Head of Treasury, Head of Execution, Head of Operations, Head of Compliance, Head of Finance, Head of Human Resource, and Head of Internal Audit.

\*\* Material risk takers are defined as employees whose responsibilities have material impact on the risk exposure of the Bank , and employees whose responsibilities require them to take on material risk exposure on behalf of the Bank.