Mizuho Bank (Malaysia) Berhad

Company Registration No. 201001039768(923693-H)

TERMS OF REFERENCE

BOARD REMUNERATION COMMITTEE

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TERMS OF REFERENCE OF BOARD REMUNERATION COMMITTEE

1. OBJECTIVE

1.1 The objective of the Terms of Reference ("**TOR**") is to set out the principal roles and responsibilities of the Board Remuneration Committee ("**BRC**"), procedures for governing the meetings and decision making process of the BRC in accordance with the authority granted by the Board, the principles of good governance set out in the policy documents and guidelines issued by Bank Negara Malaysia ("**BNM**") and other relevant regulatory authorities. This TOR shall be read together with the Board Charter and TOR of the Board.

2. AUTHORITY

2.1 The BRC is authorised by the Board to act within its TOR and shall be vested with such power and authority to undertake and implement its duties and responsibilities as set out in its TOR, to obtain the resources which it requires, including but not limited to obtaining independent professional advice, if necessary, at the Bank's expense, and to have full and unrestricted access to information to enable the BRC to fulfill its objectives.

3. PRINCIPAL ROLES AND RESPONSIBILITIES

3.1 Pursuant to the mandate granted via the Constitution of MBM, BRC is formed with the objective to assist the Board in overseeing the establishment of sound remuneration systems that would form a key component of the governance and incentive structure through which the Board and Senior Management drive performance, convey acceptable risk taking behaviour and reinforce MBM's corporate and risk culture. The remuneration systems are guided by the following principles, where relevant:-

(i) the overall remuneration system of MBM must:-

(a) be subjected to active oversight to ensure that the system operates as intended;
(b) be in line with the business and risk strategies, corporate values and long-term interests of MBM;
(c) promote prudent risk-taking behaviour and encourage individuals to act in the interests of MBM as a whole, taking into account the interests of MBM's customers; and
(d) be designed and implemented with input from the control functions and the Board Risk Management Committee ("**BRMC**") to ensure that risk exposures and risk outcomes are adequately considered.

(ii) there is sufficient risk-measurement expertise to understand the interaction between remuneration practices and risk taking including the historical risk realisation trends to mediate disputes on how remuneration should change during periods of high losses.

(iii) the remuneration for individuals within MBM is aligned with prudent risk-taking, symmetric with risk outcomes. This includes ensuring that:-

(a) remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgment;
(b) the size of the bonus pool is linked to the overall performance of MBM;
(c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of MBM; and
(d) bonuses are not guaranteed, except in the context of sign-on bonuses.

(iv) the remuneration payout schedules must reflect the time horizon of risks and take account of the potential for financial risks to crystallise over a longer period of time including the compulsory adoption by MBM of a multi-year framework to measure the performance of Senior Officers* and Material Risk Takers**. Such a framework must provide for:-

(a) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
(b) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
(c) adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit or MBM attributable to the individual or if he/she commits serious legal, regulatory or internal policy breaches.

Notes:-

* *"Senior Officers" refer to the Chief Executive Officer ("CEO"), Deputy CEOs, Chief Operating Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, and Head of Human Resources Section and shall automatically include any amendments made under the "Qualification, Fit and Proper Policy" as approved by the Board from time to time.*

** *"Material Risk Takers" refer to Head of Treasury Section and Head of Corporate Banking Section 2 and shall automatically include any amendments made from time to time.*

*** *The proposed remuneration package during the initial appointment should be tabled to the BRC for deliberation and recommendation to the Board for approval.*

(v) MBM promotes the behaviors that are aligned to the intended effects of incentive structures whereby:-

(a) the variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
(b) the determination of performance measures and variable remuneration consider that certain indicators may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to MBM's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
(c) Senior Officers and Material Risk Takers commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

3.2 Where the laws or the Constitution of MBM require the matter to be tabled, reported, assessed or approved by the Board, the same shall be governed under the Board Reserved Matters. Under the Board Reserved Matters, the Board shall have the sole authority to approve/decide on the matters stated therein. The BRC shall be responsible to oversee, review/assess and recommend the matters for the Board's decision.

3.3 The duties and responsibilities of BRC shall include the following and the BRC may be mandated by the Board to decide/approve on the matters stated below. For avoidance of doubt, this mandate shall not be sub-delegated by BRC unless otherwise approved by the Board:-

3.3.1 Board and its Members

(i) Formulate and periodically review the Directors' Remuneration Policy.

(ii) Periodically review the remuneration of Directors on the Board, including Board Committees' remuneration, at a minimum rate of not less than once in every three (3) years, to ensure it reflects the expected role of the Board and commensurate with their level of expertise, contribution, commitment and responsibilities undertaken, as well as to align to the market, especially peer banks.

3.3.2 Shariah Committee and its Members

(iii) Periodically review Shariah Committee Members' remuneration, at a minimum rate of not less than once in every three (3) years, to ensure the same commensurate with the accountabilities, duties and responsibilities of the Shariah Committee and is aligned to the market.

3.3.3 Senior Management, Material Risk Takers and Company Secretary

(iv) Review the annual remuneration of the CEO (including the framework for CEO's Expenditure), Senior Officers, Material Risk Takers and Company Secretary including ensuring that:-

(a) a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and MBM institution-wide measures that adequately assess performance;
(b) the variable portion of remuneration increases along with the individual's level of accountability;

For Senior Officer who is engaged in control functions i.e. the Chief Risk Officer, Chief Compliance Officer and Chief Internal Auditor, there must be safeguard on the independence and authority of these individuals and the remuneration of such individuals must be based principally on the achievement of control functions' objectives and determined in a manner that is independent from the business lines they oversee.

Any proposals made to the BRC pertaining to the Chief Risk Officer, Chief Compliance Officer and the Chief Internal Auditor must be endorsed by the BRMC and the Board Audit Committee, respectively.

(v) Formulate and periodically review the Remuneration Policy for All Employees Including Senior Officers and Other Material Risk Takers.

3.3.4 Others

(vi) Review annual bonus/incentive pools, salary increment and performance bonus for employees of MBM.

(vii) Review key policies, framework and any other regulatory reporting as may be required by regulators with regard to remuneration systems of MBM.

(viii) Review the following in the event of any remuneration payout schedules duly approved by the Board:-

(a) any deferment of payment of a portion of variable remuneration;
(b) any calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and/or
(c) any adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit or MBM attributable to the individual or if he/she commits serious legal, regulatory or internal policy breaches.

(ix) Review any remuneration matters that are subjected to the approval of MBM's Shareholder.

(x) Any other matter as may be empowered by the Board from time to time.

4. SIZE AND COMPOSITION

4.1 The BRC must consist of at least three (3) Directors, majority of the whom must be Independent Directors and the BRC must not have Executive Director in its membership.

4.2 The BRC Members must have the skills, knowledge and experience relevant to the responsibilities of BRC. The BRC Member must maintain a sound understanding of the business of MBM as well as relevant market and regulatory developments including a commitment to ongoing education.

5. CHAIRMAN

5.1 The Board shall appoint the Chairman of the BRC ("**BRC Chairman**") and the person so appointed must be an Independent Director and must not be the Chairman of the Board.

5.2 In the absence of the BRC Chairman, the remaining BRC Members present shall elect an Independent Director among themselves to chair the BRC meeting.

6. SECRETARY

6.1 The Company Secretary of MBM or his/her nominee approved by the BRC shall act as the Secretary of the BRC.

7. FREQUENCY

7.1 The BRC meeting shall be held at least once in each financial year or at any such interval or number of time(s) as the BRC may deem necessary to fulfill its responsibilities.

8. ATTENDANCE

8.1 The BRC Member must attend at least 75% of the BRC meetings held in each financial year. The BRC Member shall not appoint another person to attend or participate in BRC meeting on his/her behalf.

8.2 The BRC Members may participate in a meeting by means of conference telephone or similar electronic tele-communicating equipment by means of which all persons participating in the meeting can hear each other and participate throughout the duration of the meeting. The participation in such meetings shall constitute attendance of the BRC members at such meeting. However, attendance at BRC meetings, by way other than physical presence, must remain the exception rather than the norm.

8.3 The BRC may invite any other Director or any other person to attend the meetings as and when the BRC may deem appropriate and necessary.

9. QUORUM

9.1 The quorum for the BRC meeting shall be at least half (50%) of the total number of the BRC Members.

10. NOTICE

10.1 The BRC meeting may be summoned by the Chairman of BRC or by the Secretary on requisition of BRC Member. The BRC shall determine the time and place of the BRC meeting.

10.2 A reasonable prior written Notice of meeting shall be given to each BRC Member, preferably (7) days before the date of the BRC meeting. The Notice of meeting may be waived subject to the consent of all BRC Members.

11. AGENDA AND PAPERS

11.1 The Secretary, in consultation with the BRC Chairman, shall draw up the BRC meeting Agenda (together with the associated material) for circulation to each BRC Member, preferably seven (7) days before the date of the BRC meeting.

11.2 The BRC papers, proposals and reports shall clearly address the background, objective, key issues, key considerations/rationale, impact and other relevant information to enable the BRC Members to make an informed and effective decision or recommendation.

12. DECISION

12.1 Each BRC Member shall be entitled to one (1) vote in deciding the matters deliberated by the BRC. Any decision of the BRC shall be determined by a majority of votes.

12.2 In the event of an equality of votes, the BRC Chairman shall be entitled to a second or casting vote.

13. MINUTES

13.1 The discussions and conclusions of the BRC meetings shall be minuted, in a clear, accurate, consistent, complete and timely manner. The minutes shall record the decisions of the BRC, including key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must indicate whether any member of the BRC had abstained from voting or excused himself from deliberating on a particular matter.

13.2 The BRC meeting minutes shall be signed by the Chairman of the BRC meeting at which the proceedings were held or by the Chairman of the next BRC meeting.

13.3 A Circular Resolution in writing signed by a majority of the BRC Members shall be as effective as a resolution passed at a meeting of the BRC duly convened and held, and may consist of several documents in the like form, each signed by one or more of the BRC Member.

"Documents in the like form" include approval given by Director through a legible confirmed transmission by facsimile, telex, cable, telegram or other forms of electronic communications.

14. REPORTING TO BOARD

14.1 The BRC shall report to the Board on material matters arising at the BRC meetings, on all matters within the BRC's purview and, where applicable, shall present the BRC's recommendations to the Board for Board's decision / approval.

14.2 Other matters assessed, reviewed or decided by the BRC may be reported to the Board via minutes of the BRC meetings tabled to the Board from time to time. The BRC Chairman may update the matters separately as and when required.

15. OTHER PROVISIONS

15.1 This TOR of BRC will be reviewed and updated (if required) once in every 3 years and as and when required so as to ensure its relevancy in line with the development of the Bank's business operations and regulatory requirements.

15.2 Notwithstanding the delegation of authority to the BRC, nothing herein stated shall prevent the matters from being directly reviewed, assessed or decided by the Board or restrict the Board from delegating its specific responsibilities to individual Director, Management or any person/entity.

15.3 The Board remains fully accountable for any authority delegated to the BRC.

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