

Corporate Governance



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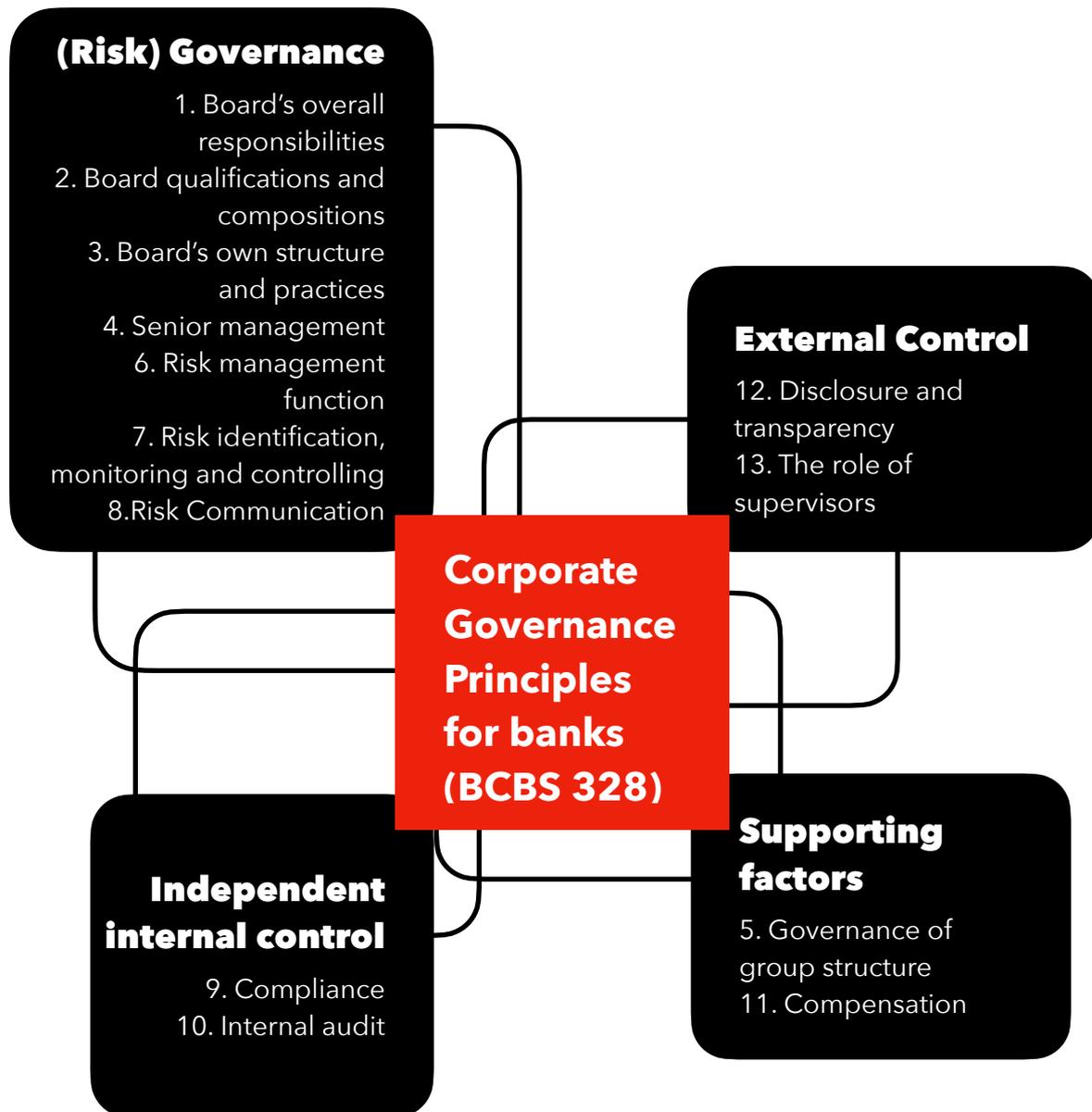
Corporate Governance Theory of SME Development Bank

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business, therefore, is central to economic health. The primary objective of corporate governance should be safeguarding stakeholders' interest in conformity with public interest on a sustainable basis. Among stakeholders, particularly with respect to retail banks, shareholders' interest would be secondary to depositors' interest.

We accept that corporate governance determines the allocation of authority and responsibilities by which the business and affairs of a bank are carried out by its board and senior management, it includes 'set the bank's strategy and objectives, select and oversee personnel, operate the bank's business on a day-to-day basis, protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognized stakeholders, align corporate culture, corporate activities and behavior with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations and establish control functions.

Our concern is that the board must set the "tone at the top" and oversee management's role in fostering and maintaining a sound corporate and risk culture. Management should develop a written code of ethics or a code of conduct. Either code is intended to foster a culture of honesty and accountability to protect the interest of its customers and shareholders.

Frame of Corporate Governance



1. Board's overall responsibilities

The board has overall responsibility for the bank, including approving and overseeing management's implementation of the bank's strategic objectives, governance framework and corporate culture.

Responsibilities of the board

- Responsibility for the bank's business strategy and financial soundness, key personnel decisions, internal organization and governance structure and practices, and risk management and compliance obligations.
- Establish and be satisfied with the bank's organizational structure, enable the board and senior management to carry out their responsibilities and facilitate effective decision-making and good governance including clearly laying out the key responsibilities and authorities of the board itself and of senior management and of those responsible for the risk management and control functions.
- Actively engage in the affairs of the bank and keep up with material changes in the bank's business and the external environment as well as act in a timely manner to protect the long-term interests of the bank;
- Oversee the development of and approve the bank's business strategy and objectives
- Play a lead role in establishing the bank's corporate culture and values
- Oversee implementation of the bank's governance framework and periodically review that it remains appropriate in the light of material changes to the bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements
- Establish, along with senior management and the CRO, the bank's risk appetite, taking into account the competitive and regulatory landscape and the bank's long-term interests, risk exposure and ability to manage risk effectively
- Oversee the bank's adherence to the RAS, risk policy and risk limits; Approve the approach and oversee the implementation of key policies pertaining to the bank's capital adequacy assessment process, capital and liquidity plans, compliance policies and obligations, and the internal control system
- Require that the bank maintain a robust finance function responsible for accounting and financial data;
- Approve the annual financial statements and require a periodic independent review of critical areas;
- Approve the selection and oversee the performance of the CEO, key members of senior management and heads of the control functions;
- oversee the bank's approach to compensation, including monitoring and reviewing executive compensation and assessing whether it is aligned with the bank's risk culture and risk appetite; and
- The board should ensure that transactions with related parties are reviewed to assess risk and are subject to appropriate restrictions and that corporate or business resources of the bank are not misappropriated or misapplied.

Board's concentration zone

Oversight of senior management

- Monitoring that senior management's actions are consistent with the strategy and policies approved by the board, including the risk appetite
- Question and critically review explanations and information provided by senior management
- Set appropriate performance and remuneration standards for senior management consistent with the long-term strategic objectives and the financial soundness of the bank
- Assess whether senior management's collective knowledge and expertise remain appropriate given the nature of the business and the bank's risk profile
- Actively engaged in succession plans and ensure it appropriate for senior management pos

- that appropriate steps have been or are being taken to communicate throughout the bank the corporate values, professional standards or codes of conduct it sets, together with supporting policies
- Disallow illegal activity, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery and corruption, or the violation of consumer rights
- Make clear that employees are expected to conduct themselves ethically and perform their job with skill and due care and diligence in addition to complying with laws, regulations and policies and aware that appropriate disciplinary.

Corporate culture and values

- Especially critical in terms of a bank's risk awareness, risk-taking behavior and risk management
- Setting and adhering to corporate values that create expectations that all business are conducted in a legal and ethical manner, and overseeing the adherence to such values by senior management and other employees
- Promoting risk awareness within a strong risk culture, conveying the board's expectation that it does not support excessive risk-taking and that all employees are responsible for helping the bank operate within the established risk appetite and risk limits

Risk Management and control

- The risk governance framework outline actions to be taken when stated risk limits are breached, including disciplinary actions for excessive risk-taking, escalation procedures and BOD notification
- Taking an active role in defining the risk appetite and ensuring its alignment with the bank's strategic, capital and financial plans and compensation practices.
- Ensure that the risk management, compliance and internal audit functions are properly positioned, staffed and resourced and carry out their responsibilities independently, objectively and effectively.
- Review key policies and controls with senior management and with the heads of the risk management, compliance and internal audit functions to identify and address significant risks and issues as well as determine areas that need improvement.

Board qualifications and composition

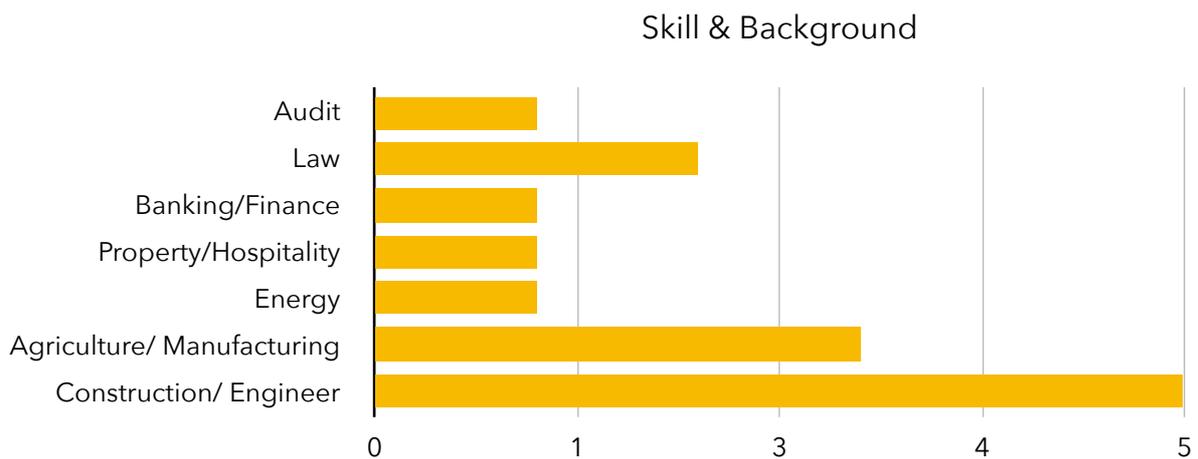
Board Composition

The board should be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity and risk profile of the bank. So that we consider to organize the board composition based on the following factors;

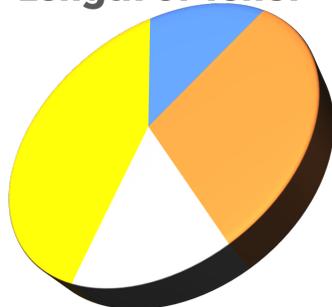
-Board members have a range of knowledge and experience in relevant areas and have varied backgrounds to promote diversity of views.

-The board collectively have a reasonable understanding of local, regional and, if appropriate, global economic and market forces and of the legal and regulatory environment. International experience, where relevant, also be considered; and

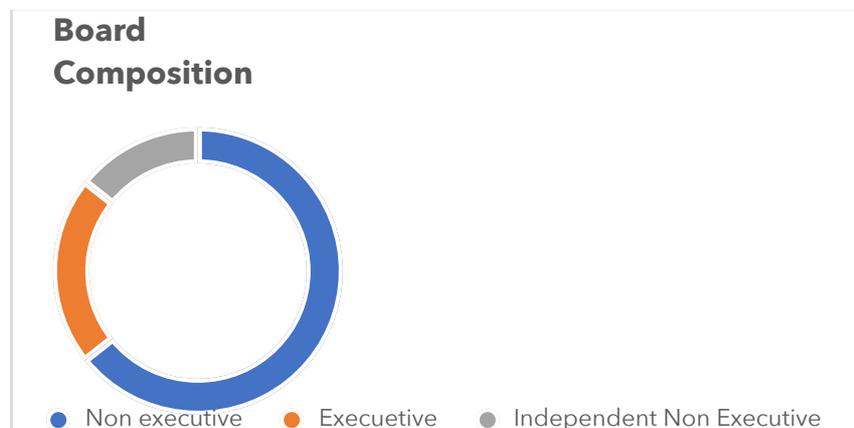
-Individual board members' attitude is facilitated communication, collaboration and critical debate in the decision-making process.



Length of Tenor



- 0-2 years
- 2-4 years
- 4-6 years
- 6 years and above



2. Board member selection and qualifications

Identifying

Relevant areas of competence include, but are not limited to capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, regulation, compensation, corporate governance, management skill

Assessing

Board candidates should not have any conflicts of interest that may impede their ability to perform their duty independently, objectively and subject them to undue influence from management or other share holders

Past or present positions held

Personal, professional or other economic relationship with other members of the board or management

Selecting

Possess the knowledge, skills, experience and, particularly in the case of non-executive directors, independence of mind given their responsibilities on the board and in the light of the bank's business and risk profile; Have a record of integrity and good repute

Have sufficient time to fully carry out their responsibilities

Have the ability to promote a smooth interaction between board members

Director's Profiles

<p>Daw San San Yee Age 64 Executive Director Date of First Appointment: June, 2014</p>	<p>Qualification B. Sc (Chemistry)</p>
	<p>Skills & Experience Deputy Chairperson of UMFCCI Director of (MLFD- Bank)</p>

<p>Vice Chairman U Thwin Myint Maung Age 65 Executive Director Date of First Appointment: Sep 2013,</p>	<p>Qualification B. Sc (DSA)</p>
	<p>Skills & Experience Deputy Chairperson of SMED Bank</p>

Vice Chairman and CEO Dr. Zeyar Nyunt Age 47 Date of First Appointment: June 2016	Qualification B. Sc (Maths), MBA, Dip in Business law, Ph.D(Business Management), Dip in Banking& Finance;Dip in Political Science; MBF
	Skills & Experience Own Business
Non- Executive Director U Zay Thi Ha Age 44 Date of First Appointment: June 2014	Qualification B. Sc (ES)
	Skills & Experience Deputy Chairperson-Zay Gabar Co., ltd, Owner of 'Z' Corp Co., ltd

Non- Executive Director U Bo Bo Zaw Chit Hlaing Age 30 Date of First Appointment: October 2018	Qualification Bachelor in Design of Architecture, Dip in Law,(DBM)(Dip Sustainable Studies)
	Skills & Experience Director- Glowing Success Dragon Co.,ltd , New Day Energy
Independent Non- Executive Diretor U Nyein Kyaw Age 73 Date of First Appointment: June 2018	Qualification B. Sc , Dip in Engg, R.L, D.B.L, IP Law
	Skills & Experience Lawyer (Rajah & Tann NK Legal)

3.Board's own structure and practices

The board should define appropriate governance structures and practices for its own work, and put in place the means for such practices to be followed and periodically reviewed for ongoing effectiveness.

Organization and assessment of the board

The board set up the structure itself in terms of leadership, size and the use of committees so as to effectively carry out its oversight role & other responsibilities are

- periodically review its structure, size and composition as well as committees' structures and coordination;

- assess the ongoing suitability of each board member periodically (at least annually), also taking into account his or her performance on the board;
- either separately or as part of these assessments, periodically review the effectiveness of its own governance practices and procedures, determine where improvements may be needed, and make any necessary changes; and
- Use the results of these assessments as part of the ongoing improvement efforts of the board and, where required by the supervisor, share results with the supervisor.

Role of the chair

- Plays a crucial role in the proper functioning of the board
- Provides leadership to the board and is responsible for its effective overall functioning, including maintaining a relationship of trust with board members.
- Possess the requisite experience, competencies and personal qualities in order to fulfil these responsibilities.
- Ensure that board decisions are taken on a sound and well - informed basis.
- Encourage and promote critical discussion and ensure that dissenting views can be freely expressed and discussed within the decision-making process.

Board committees

To increase efficiency and allow deeper focus in specific areas, a board may establish certain specialized board committees. Each committee should have a charter or other instrument that sets out its mandate, scope and working procedures

Asset & Liability Management Committee

ALM is considered a comprehensive and dynamic framework for measuring, monitoring and managing the market risk of our bank. We can manage the structure of balance sheet in such way that the net earnings from interest is maximized within the overall risk preference of the institution. And also extend to liquidity risk management, market risk management; trading risk management, funding and capital planning and profit planning and growth projection. Our AML committee consist of Chairperson, Secretary and other executive directors. It usually meets monthly basic and AML committee meeting schedule for 2019 are as followed;

Committee Members	Member status	Attendance
U Sein Thit (Chairperson)	Non-Executive Director	5/5
U Nyein Kyaw (Secretary)	Independent Non-Executive Director	5/5
U Tin Aung Than (Member)	Non-Executive Director	4/5
U Than Kyaw (Member)	Non-Executive Director	3/5

Audit Committee

An audit committee should be required for systemically important banks and is strongly recommended for banks organization's size, risk profile or complexity. It responsible for framing policy on internal audit and financial reporting, overseeing the financial reporting process, providing oversight of and interacting with the bank's internal and external auditors, approving, or recommending to the board or shareholders for their approval, the appointment, remuneration, dismissal of external auditors, reviewing and approving the audit scope and frequency. It consists three members and usually meets quarterly basic and AC meeting for 2019 are as followed;

Committee Members	Member status	Attendance
U Nyein Kyaw (Chairperson)	Independent Non-Executive Director	4/5
U Myo Aung(Secretary)	Independent Non-Executive Director	5/5
U Kyaw Kyaw Soe (Member)	Non-Executive Director	5/5

Risk Committee

The risk committee of the board is responsible for advising the board on the bank's overall current and future risk appetite, overseeing senior management's implementation of the risk management system, reporting on the state of risk culture in the bank, and interacting with and overseeing the chief risk officer. It includes oversight of the strategies for capital and liquidity management as well as for all relevant risks of the bank, such as credit, market, operational and reputational risks, to ensure they are consistent with the stated risk appetite. It consists four members and usually meets quarterly basic that are held on as follow;

Committee Members	Member status	Attendance
Dr. Zeyar Nyunt (Chairperson)	Chief Executive Officer	5/5
U Nyein Kyaw(Secretary)	Independent Non-Executive Director	5/5
Dr. Nyan Thit Hlaing (Member)	Non-Executive Director	4/5
U Than Kyaw (Member)	Non-Executive Director	4/5

4. Senior management

Under the direction and oversight of the board, senior management should carry out and manage the bank's activities in a manner consistent with the business strategy, risk appetite, remuneration and other policies approved by the board

Role of Senior Management

Senior management provide the board with the information it needs to carry out its responsibilities, supervise senior management and assess the quality of senior management's performance. Senior management keep the board regularly and adequately informed of material matters including, changes in business strategy, risk strategy/risk appetite, the bank's performance and financial condition, breaches of risk limits or compliance rules, internal control failures, legal or regulatory concerns and issues raised as a result of the bank's whistle blowing procedures.

Profile of Senior Management

Name	Position	Age	Qualification	Skill & Experience
Daw Silver Myint	M.D	59	LLB	23 Years
Daw Hla Hla Win	DMD	56	B.SC, D.A, D.B	23 Years
U Thet Moe	Sr GM	57	B.SC	23 Years

5: Governance of group structures

The bank should assess whether the group's corporate governance framework includes adequate policies, processes and controls and whether the framework addresses risk management across the businesses and legal entity structures and ensure that the group's corporate governance framework includes appropriate processes and controls to identify and address potential intragroup conflicts of interest, such as those arising from intragroup transactions.

6. Risk management function

The independent risk management function is a key component of the bank's second line of defense. This function is responsible for overseeing risk-taking activities across the enterprise and should have authority within the organization to do so.

Key activities of the risk management function include that identifying material individual, aggregate and emerging risks, assessing these risks and

measuring the bank’s exposure to them, subject to the review and approval of the board, developing and implementing the enterprise- wide risk governance framework, which includes the bank’s risk culture, risk appetite and risk limits, ongoing monitoring of the risk-taking activities and risk exposures in line with the board- approved risk appetite, risk limits and corresponding capital or liquidity needs, establishing an early warning or trigger system for breaches of the bank’s risk appetite or limits, influencing and, when necessary, challenging decisions that give rise to material risk; and reporting to senior management and the board or risk committee on all these items, including but not limited to proposing appropriate risk-mitigating actions.

Risk Management Structure

Our Bank has been structured to facilitate all aspects of risk management, while each business unit’s responsibility and segregation of duties have been clearly identified in accordance with internal control practices.

Board of Directors and Committee members	<ul style="list-style-type: none"> • Approving all risk management policies and guidelines, setting risk limits and risk appetites. • Ensuring the adequacy and effectiveness of risk management system and internal controls.
Monitoring and Recovery Department	<ul style="list-style-type: none"> • Overseeing and monitoring risk management policies and overall risk profile per the policies and guidelines approved by the Bank’s Board of Directors.
Business Units	<ul style="list-style-type: none"> • Business functions are accountable for managing all risks inherent in their day to day activities. • Control functions are responsible for Day-to-Day responsible for measuring and monitoring all related risks.

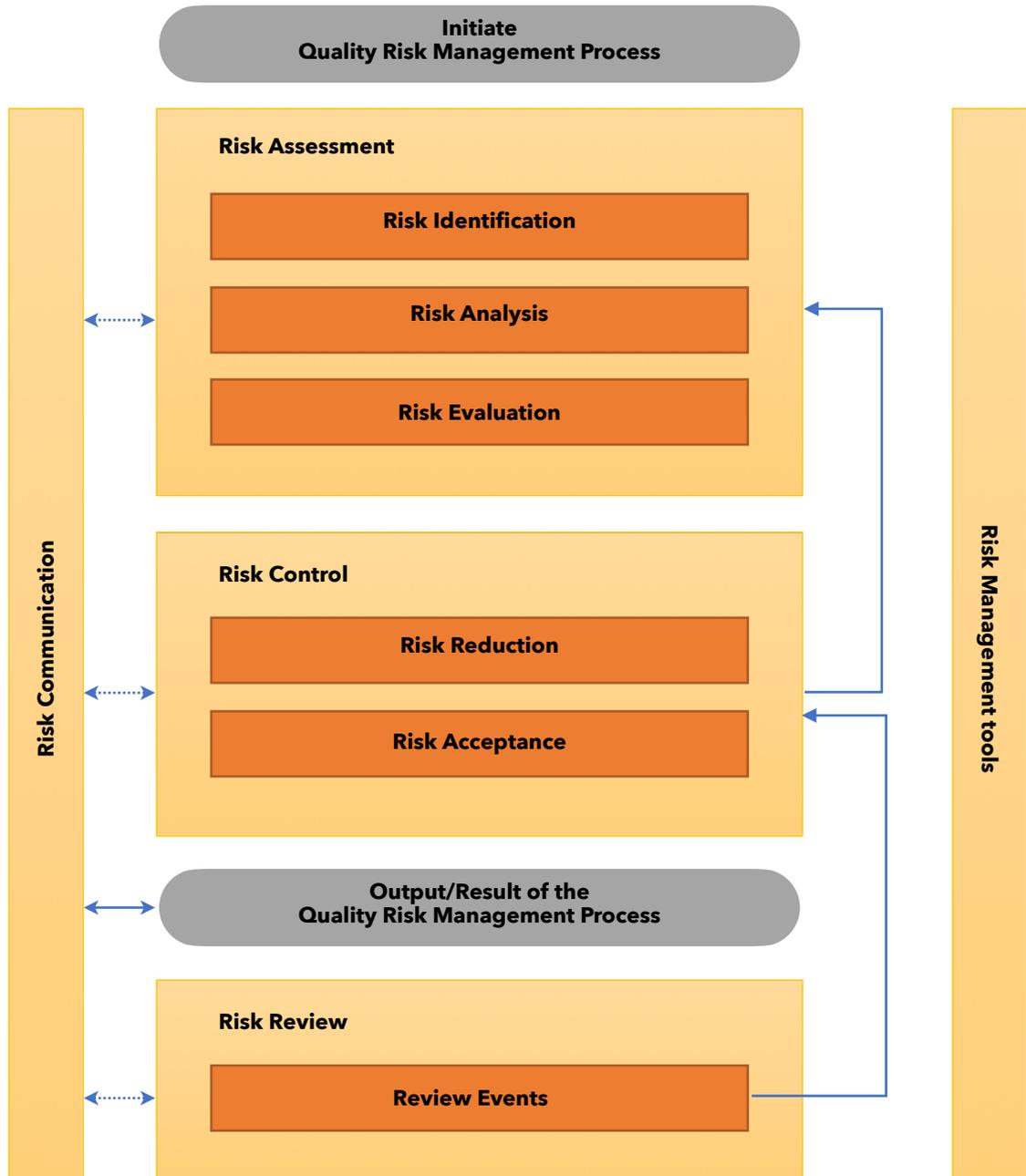
7: Risk identification, monitoring and controlling

Risks should be identified, monitored and controlled on an ongoing bank-wide and individual entity basis. The sophistication of the bank's risk management and internal control infrastructure should keep pace with changes to the bank's risk profile, to the external risk landscape and in industry practice. Risk identification should encompass all material risks to the bank, on- and off-balance sheet and on a group-wide, portfolio-wise and business-line level.

Risk Management Stages



8: Risk communication



9: Compliance

The bank's board of directors is responsible for overseeing the management of the bank's compliance risk. The board should establish a compliance function and approve the bank's policies and processes for identifying, assessing, monitoring and reporting and advising on compliance risk. An independent compliance function is a key component of the bank's second line of defense. This function is responsible for, among other things, ensuring that the bank operates with integrity and in compliance with applicable, laws, regulations and internal policies. The compliance functions advise the board and senior management on the bank's compliance with applicable laws, rules and standards and keep them informed of developments in the area. Our compliance team consist of four members as follows;

Name	Position	Age	Qualification	Skill & Experience
U Than Htike Thu	AGM	29	Dip in Computer Studies, Dip in IT	8 Month
Daw War War Hnin	UD	25	B.C.Sc	2 Years 7 Month

10: Internal audit

The internal audit functions provide independent assurance to the board and support board and senior management in promoting an effective governance process and the long-term soundness of the bank. An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. It provides an independent assurance to the board of directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation.

Internal Audit Team



11.Compensation

The bank's remuneration structure supports sound corporate governance and risk management. Remuneration systems form a key component of the governance and incentive structure through which the board and senior management promote good performance, convey acceptable risk-taking behavior and reinforce the bank's operating and risk culture. The board (or, by delegation, its compensation committee) is responsible for the overall oversight of management's implementation of the remuneration system for the entire bank. The following table describe remuneration and benefits received by the directors.

Board Member	Benefit (MMK)
<u>Executive Directors</u>	
Chairperson	3,000,000/-
Deputy Chairperson	1,500,000/-
Chief Executive Officer	100,000,00/-
<u>Non- Executive Directors</u>	
Independent Non-Executive Director	300,000/-
Non-Executive Director	300,000/-

12: Disclosure and transparency

The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants. Transparency is consistent with sound and effective corporate governance. Our bank annually held the Annual General Meeting and disclose financial information, strategies, structures and related risks and controls. In our AGM report describe above the things with the accurate and clear data to presented such that shareholders, depositors, other relevant stakeholders and market participants. And also announce to public on bank's website www.smedevelopmentbank.com.mm in its annual and periodic financial reports, or by other appropriate means.

13: The role of supervisors

Supervisors should have processes in place to fully evaluate a bank's corporate governance. Such evaluations may be conducted through regular

reviews of written materials and reports, interviews with board members and bank personnel, examinations, self-assessments by the bank, and other types of on- and off-site monitoring. The evaluations should also include regular communication with a bank's board of directors, senior management, those responsible for the risk, compliance and internal audit functions, and external auditors. Supervisors should evaluate whether the board and senior management have processes in place for the oversight of the bank's strategic objectives, including risk appetite, financial performance, capital adequacy, capital planning, liquidity, risk profile and risk culture, controls, compensation practices, and the selection and evaluation of management. Supervisors should focus particular attention on the oversight of the risk management, compliance and internal audit functions.

We submit related report to the Central Bank of Myanmar that include compliance report, risk management report, financial data such as liquidity ratio, capital adequacy ratio and others reports. We presented to the supervisors (CBM) when they made the on -site and off- site supervison.