

**TERMS OF REFERENCE OF BOARD AUDIT AND EXAMINATION  
COMMITTEE (“BAEC”)  
BANK ISLAM MALAYSIA BERHAD (“Bank Islam” or “The Company”)**

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1. **Introduction**      The Board Audit and Examination Committee (“BAEC” or “the Committee”) is a Committee of the Board. The BAEC is to support the Board in ensuring that there is a reliable and transparent financial reporting process and internal control system within the Bank and oversee the effectiveness of the internal auditors and external auditors of the Bank.
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2. **Authority**      The Committee shall have the authority to deliberate and approve on matters within its primary duties and responsibilities in line with the Authority Limits document or such limits as may be determined by the Board of Directors from time to time. During the discharge of such duties, the Committee shall have:-
- (a) Access to the full company records, properties and personnel.
  - (b) Independent professional advice and expertise necessary to perform its duties.
  - (c) Access to the Management and advice and services of the Company Secretary.
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3. **Primary Duties and Responsibilities**      The duties and responsibilities of the BAEC amongst others are to:
- (a) Review and ensure that the financial statements comply with applicable financial reporting standards. The Committee is to ensure fair and transparent reporting and prompt publication of financial accounts.
  - (b) 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.
  - (c) Establish an internal audit function which reports directly to the Board Audit and Examination Committee.
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- (d) Oversee that the internal audit function has an appropriate standing within the organization and have access to the BAEC at all times.
- (e) Review and assess the effectiveness of the internal audit function and ensure compliance with BNM's revised New Guidelines on Internal Audit Function of Licensed Institution requirements which include:
  - i. Review and approve the audit scope, procedures and frequency of the audit programme;
  - ii. Ensure adequate and technically competent resources for effective discharge of responsibilities;
  - iii. Review the effectiveness of infrastructure for ensuring Shariah Compliance;
  - iv. Review key audit reports and ensure appropriate necessary corrective actions have been taken by management in timely manner to address control weaknesses, policies and other problems identified by the internal audit and other control functions; and
  - v. To appoint and determine the remuneration, evaluate the performance and decide on the transfer or dismissal of the Chief Internal Auditor.
- (f) Review reports on frauds and non-fraud related irregularities.
- (g) Review the effectiveness of internal controls and risk management processes.
- (h) Oversee the External Auditors function, which include :-
  - i. Recommend to the Board for the external auditors' appointment and audit fee payable including any decision on removal;

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- ii. Review the external auditors' management letter; and management's response on weaknesses of internal accounting procedures and controls;
  - iii. Assess the suitability and independence of external auditors;
  - iv. Approve provision of non-audit services by external auditors and ensure adequacy of proper checks and balances such that the provision of non-audit services does not interfere with the external auditors' exercise of independent judgment; and
  - v. Assess the effectiveness of the external audit by meeting with the external auditors without the presence of management, at least annually.
- (i) On the implementation of Internal Capital Adequacy Assessment Process (ICAAP):-
- i. Note and monitor reports on capital adequacy; and
  - ii. Review internal audit reports on capital management.
- (j) Review and update the Board on all related party transactions to ensure that they have been established at arms length terms.

The Committee shall review any significant transactions that are not within the normal course of business and where potential conflict of interest may arise between related parties.

(k) External Experts

- i. Where the internal audit function lacks the expertise needed to perform the audit of specialized areas, external experts may be engaged. The Committee is responsible to ensure that audit of specialized areas is adequate;

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- ii. Review and ensure that the terms and scope of engagement, the working arrangement with the internal auditors and reporting requirements are clearly established; and
- iii. Review third party opinions on the design and effectiveness of the Bank's internal control framework.

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**4. Composition**

- (a) The Committee members shall be appointed by the Board.
- (b) Pursuant to BNM Corporate Governance Policy issued on 3 August 2016, the Committee must:-
  - (i) have at least three (3) directors;
  - (ii) have a majority of independent directors;
  - (iii) be chaired by an independent director, who is not the Chairman of the Board; and
  - (iv) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.
- (c) The Managing Director/ the Chief Executive Officer, the Chief Internal Auditor or any other officer of the Bank may be invited to attend the Committee meeting as and when considered appropriate by the Committee.

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**5. Secretary**

The Secretary shall be the Company Secretary of the Bank or such other person as appointed by the Committee.

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**6. Frequency of Meeting**

The Committee shall meet not less than four (4) times a year, with additional meetings for particular matters, as and when required.

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7. **Notice of Meetings**
- (a) Unless otherwise agreed by the members, the notice for each meeting confirming the venue, date and time together with the agenda of the meetings shall be forwarded to each member of the Committee at least three (3) days prior to the date of the meeting.
  - (b) In addition to the scheduled meeting, the Secretary shall convene any special meeting upon receipt of request from the Chairman/directors by giving due notice.
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8. **Quorum for Meeting**
- (a) The quorum for meeting shall be at least 50% of the total members.
  - (b) Any member who participates in the meeting via teleconferencing device shall be counted for the purpose of determining a quorum.
  - (c) A director interested in a contract or a proposed contract or arrangement shall be counted for the purpose of determining a quorum. However, he/ she must abstain from participating in discussions and decisions on matters directly involving him/ her *[extracted from the Bank’s Constitution]*.
  - (d) In the event the Chairman is unable to attend the Committee meeting, the members present may elect any one of the independent directors present (who is not the Chairman of the Board) to be the Chairman of the meeting.
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9. **Decision-Making**
- All decisions and/or approvals are to be made on unanimous basis, whilst always adhering to the quorum for meeting.
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10. **Attendance**
- Each member of the Committee is required to attend at least 75% of the Committee meetings held in each financial year.
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11. **Written Resolution**
- (a) Decision by the Committee may be made via written resolution.
  - (b) Decision made via written resolution is deemed effective after being executed by majority of the members of the Committee, who are present in Malaysia.
  - (c) All decisions and/or approvals made via written resolution shall be presented at the subsequent Committee meeting for notation.
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12. **Minutes of Meetings**
- (a) The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. The minutes must record the decisions of the Committee, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must also indicate whether any member abstained from voting or excused himself from deliberating on a particular matter.
  - (b) The minutes of meetings shall be submitted to the Board for notification in such format as determined by the Board.
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13. **Review of the Terms of Reference**
- The Board of Directors may review the Terms of Reference of the Committee once every two years or as and when is necessary.
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