

**TERMS OF REFERENCE OF THE BOARD OF DIRECTORS
BANK ISLAM MALAYSIA BERHAD ("Bank Islam" or "The Bank")**

1. Introduction

The Board of Directors ("Board") is the highest authority in Bank Islam.

The Board plays critical role in ensuring sound and prudent policies and practices in the Bank and its subsidiaries ("Bank Islam Group"). It provides effective check and balance mechanism in the overall management of the Bank Islam Group.

The Board carries ultimate responsibility for the proper stewardship of the Bank Islam Group. It has the responsibility to ensure optimisation of shareholders' value and safeguard the stakeholders' interest.

The Board has a fiduciary responsibility to act in the best interest of the Bank Islam Group.

2. Authority

The Board 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 from time to time. During the discharge of such duties, the Board shall have:-

- (a) Access to the full company records, properties and personnel;
 - (b) Review and approve any appointment of such person, consultants or advisors to undertake any specific projects or as advisor to the Board; and
 - (c) Access to advice and services of the Company Secretary.
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3. Primary Duties and Responsibilities

The Board has the overall responsibility for promoting the sustainable growth and financial soundness of the Bank Islam Group for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes consideration of the long-term implications of the Board's decision on the Bank, its subsidiaries, its stakeholders and the general public. The primary duties and responsibilities of the Board are:

I. FINANCE / OPERATIONS

- (a) Review and approve all strategic and policy matters and business plan of Bank Islam Group to ensure alignment in the business direction and strategic objectives taking into account sustainability (including climate) aspects and monitor the Management's performance in implementing them based on KPIs approved by the Board.
 - (b) Review the adequacy and integrity of the Bank's accounting and financial reporting system and ensure appropriate controls are in place.
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- (c) Review and approve the following matters, including but not limited to:-
 - i. Annual Business Plan and Budget of the Bank;
 - ii. Management report which includes financial and business performance, update on credit impaired assets, material litigation and important events;
 - iii. Any corporate exercise proposals;
 - iv. Changes in corporate organisation structure;
 - v. Any write-off proposal;
 - vi. Material litigation;
 - vii. Investment proposal or ventures on strategic alliance;
 - viii. Authority Limits documents including discretionary authority vested to any officer of Bank Islam;
 - ix. Distribution of the Bank's dividend;
 - x. Any purchase and disposal of goods or fixed assets or any purchase or termination of services within limits stipulated in the Authority Limits document; and
 - xi. Acquisition of and prepayment of any financing or indebtedness of the Bank; and
 - xii. Any investments, divestment and acquisitions including the setting up of new subsidiaries/associate companies.
- (d) Approve capital plan as part of budget exercise and any significant capital raising and repayment activities and review reports on capital adequacy (as part of financial statements).
- (e) Review and approve significant business and operational frameworks and policies, and oversee its implementation including but not limited to the following:-
 - i. approval for new products or services and review the performance and profitability of such products or services;
 - ii. Dividend policy;
 - iii. Depreciation policy;
 - iv. Procurement policy;
 - v. Outsourcing policy;
 - vi. Technology, cyber and data risk management;
 - vii. Compliance policy; and
 - viii. Any Bank Islam Group policies, where relevant.
- (f) Review and approve any appointment of such person, consultants or advisors or establishment of committee or task force to undertake any specific assignments in relation to the Bank's business and operations within limits stipulated under the Authority Limits document.

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II. CORPORATE GOVERNANCE

- (a) Review and approve the Bank’s corporate governance and internal control framework.
- (b) Undertake such other duties as may be deemed appropriate relevant to corporate governance.

III. RISK MANAGEMENT

- (a) Review and approve the risk appetite, business plans and other initiatives of the Bank Islam Group which would have a material impact on the Bank’s risk profile.
- (b) Review and approve risk management policies and ensure that the Bank establishes adequate internal controls and infrastructure in addressing the risks across the group, including those arising from intra group transactions.
- (c) Review and approve the Bank’s Business Continuity Management Policy in dealing with various extreme internal/ external events and disasters.
- (d) Review and approve the entry into, or variation of, any contract, arrangement or commitment with any related party or any dealing involving conflict of interest situation.
- (e) Review and approve any new outsourcing proposals.
- (f) Review and challenge the stress testing results, scenarios and methodologies (including key assumptions) and assess the impact of stress testing on the overall risk profile of the Bank.
- (g) Review and approve the resolution of findings on Bank Islam’s Composite Risk Rating (CRR) prior to its submission to Bank Negara Malaysia (“BNM”).
- (h) Evaluate the effectiveness of the Management in managing the risks of the Bank including at least annually evaluation on the overall management of compliance risk.
- (i) Review and approve the Recovery Planning of the Bank including but not limited to the following:-
 - i. Annual submission and changes in Recovery Planning.
 - ii. Material changes and activation to the Recovery Planning prior to its submission/communication to BNM.
 - iii. Implementation of recovery options to normalise the recovery indicators.
 - iv. Transition of phases according to recovery indicators.

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- (j) Review regularly reports on risk exposure to credit risk, market risk, liquidity risk, operational risk (which includes legal risk, compliance risk, Shariah non-compliance risk, technology risk, cyber risk, data risk, and business continuity risk), sustainability risk (including climate-related risk) and other relevant new and emerging risks, risk portfolio composition and risk management activities including the adequacy of tools, systems and resources for the successful execution of risk functions within Bank Islam Group.
- (k) Provide oversight and accord sufficient priority and resources for technology, cyber and data risk management including but not limited to:
 - i. Ensure and oversee the adequacy of IT and cybersecurity strategic plans covering a period of no less than three (3) years.
 - ii. Ensure allocation of sufficient time to discuss cyber risks and related issues, including the strategic and reputational risks associated with cyber incidents.
 - iii. Ensure continuous engagement in technology developments including cybersecurity preparedness, education, and training.

IV. SUSTAINABILITY (INCLUDING CLIMATE-RELATED RISK AND OPPORTUNITIES)

- (a) Promote sustainability through appropriate environmental (including climate), social and governance considerations over the short, medium and long-term in the Bank's business strategies.
- (b) Oversee the effective management of climate-related risks and opportunities arising from climate change in order to safeguard the Bank's resilience against the adverse impacts of climate change while actively promoting a just and orderly transition of the economy.
- (c) Review and approve sustainability (including climate) related targets and metrics, as recommended by the BSSC and BRC.
- (d) Stay up to date on sustainability (including climate) related developments.
- (e) Review and approve the policy on climate-related disclosures to promote credible and high-quality disclosures and mitigate the risks of greenwashing, including internal controls and governance arrangements over the disclosure process.

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- (f) Review, recommend and approve where relevant, BIMB Group’s Sustainability and climate-related disclosures (Sustainability Report, Sustainability Statement in BIMB Group’s Annual Integrated Report), Task Force for Climate-Related Financial Disclosures (“TCFD”), International Financial Reporting Standard (“IFRS”) S1 and S2, etc.)

V. HUMAN RESOURCES

- (a) Review and approve the appointment, renewal and removal, the remuneration and promotion as well as succession plans of the Board, Shariah Supervisory Council (“SSC”) members and ¹key senior management personnel including the Company Secretary.
- (b) Review and approve the succession plan for directors and ²Group Chief Executive Officer and nomination of directors and Group Chief Executive Officer of Bank Islam Group.
- (c) Review and approve Human Resource policy including but not limited to the succession planning policy, salary and remuneration policy including bonuses and other staff benefit, code of conduct, code of ethics, whistle blowing procedures, disciplinary action procedures and grievance procedures.
- (d) Annually review the performance of individual directors, SSC members and ¹key senior management personnel including the Group Chief Executive Officer and effectiveness of the Board and the SSC as a whole.

Review and approve any policies related to directors including Directors Remuneration policy, Tenure of Directorship and Directors Training.

Notes:

¹Key senior management refers to the Officers holding the General Manager position and above including the Group Chief Executive Officer, Group Chief Operating Officer, Group Chief Financial Officer, Group Chief Risk Officer and such other designation as determined by the Board from time to time.

²The Group Chief Executive Officer should include the designation of Group Managing Director.

VI. SHARIAH GOVERNANCE

- (a) Review and approve Bank Islam Group Shariah Compliance Policy as well as other policies relating to Shariah in relation to the Bank’s business and operations upon consultation with the SSC.

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- (b) Oversee the implementation of BNM Shariah Advisory Council rulings and decisions or advice of the SSC within all business and functional lines, including any business or risk implications arising from such implementation.
- (c) Oversee the implementation of the internal control framework to prevent Shariah non-compliance and any rectification measures to resolve incidences or circumstances that may result or have resulted in Shariah non-compliance.

VII. COMPLIANCE

- (a) Approve the establishment of the compliance function and ensure the compliance function and the Group Chief Compliance Officer are provided with appropriate standing, authority and independence;
- (b) Review and deliberate compliance issues regularly based relevant reports or proposals to ensure such issues are resolved effectively and expeditiously and operations of the Bank are in compliance with:
 - i. The relevant framework of laws including but not limited to the Islamic Financial Services Act 2013, Companies Act 2016, security laws, Listing Requirements, Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act ("AMLATFPUAA") 2001, Malaysian Anti-Corruption Commission ("MACC") Act 2009 and any regulations and guidelines under the relevant laws;
 - ii. The relevant Shariah principles; and
 - iii. Any established policies and procedures of the Bank.
- (c) Consider and provide any response, attestation, undertaking or confirmation as required by regulatory authorities in relation to compliance with regulatory requirements.
- (d) Review and approve all policies related to anti-bribery and corruption including but not limited to the following:
 - i. Anti-Corruption Plan in accordance with National Anti-Corruption Plan;
 - ii. Corruption Risk Management Framework;
 - iii. Requirements of Adequate Procedures under Malaysian Anti-Corruption Commission Act;
- (e) Oversee a robust and reliable corruption risk information and monitoring system; and

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- (f) Ensure enforcement of an effective anti-corruption system in preventing the risks of persons associated³ with the Bank from undertaking the corrupt practices.

Notes:

³Persons associated refers to the director, employee, business associates and any person who performs services for or on behalf of the Bank.

VIII. OTHERS

- (a) Promote a sound corporate culture within the Bank which reinforces ethical, prudent and professional conduct and behavior. This includes:
- i. the setting of tone from the top to ensure reasonable standards of fair dealing as set out in the BNM Policy Document on Fair Treatment of Financial Consumers (“FTFC”) by demonstrating commitment to the FTFC including the fair treatment of vulnerable customers.
 - ii. approve all policies related to the FTFC to achieve the desired outcome in ensuring appropriate reflection of FTFC in the business strategies and operations.
 - iii. ensure the integration of FTFC principles into the Bank’s strategic objectives, risk appetite and business plans to drive fair consumer outcomes and long-term trust.
- (b) Approve any corporate branding exercise affecting the corporate image of Bank Islam including logo, tagline and annual report.
- (c) Review and approve any appointment of corporate representatives and power of attorneys to act on behalf of the Bank.
- (d) Oversee the Sadaqa House initiative and endorse the framework, policies and programmes, monitor its financial integrity and governance and ensure that adequate resources and controls are in place to support its sustainability and effectiveness ensuring its alignment with the Bank’s mandate, values and social impact objectives.
- (e) The Board shall also have the authority to review and approve such other matters as determined by the Board of the Bank, from time to time.

4. Composition

- (a) Pursuant to Clause 140 of the Bank’s Constitution, minimum numbers of the Board is five (5) and maximum is 15.
- (b) Pursuant to BNM Corporate Governance Policy issued on 3 August 2016:

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- i. The Chairman of the Board shall be a non-executive. He must not have served as the Chief Executive Officer of the Bank in the past five (5) years;
- ii. The Board must have a majority of Independent Directors at all times;
- iii. The Board must not have more than one Executive Director⁴, except with BNM’s approval.

Notes:

⁴*Executive Director refers to a director of the Bank who has management responsibilities in the Bank or any of its affiliates.*

- (c) The Chairman of Shariah Supervisory Council shall be invited to attend the meeting as a Permanent Invitee.
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5. Secretary

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

6. Frequency of meetings

The Board shall meet not less than six (6) times a year, with additional meetings for particular matters, as and when required.

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 Board at least seven (7) working days prior to the date of the meeting.
 - (b) In addition to the scheduled meeting, the Secretary shall convene any special meetings of the Board upon receipt of request from the Chairman/directors by giving a reasonable notice of the meeting of not less than two (2) working days.
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8. Quorum for meetings

- (a) The quorum for meeting shall be at least 50% of the Board.
 - (b) Any director who participates in the meeting via tele- conferencing 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 Board meeting, Senior Independent Non-Executive Director shall 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.
- Notwithstanding the above, the Chairman shall call for a vote of the members if the circumstances warrant for a vote where the decision shall be carried out based on the majority. In the event of equality of vote, the Chairman shall have a casting vote.
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- 10. Attendance** Each member of the Board is required to attend at least 75% of the board meetings held each financial year.
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- 11. Written Resolution**
- (a) Decision by the Board may be made via written resolution.
 - (b) Consent from the Chairman shall be obtained prior to the circulation of any written resolution.
 - (c) Decision made via written resolution is deemed effective after being executed by all directors who are present in Malaysia.
 - (d) All decisions and/or approvals made via written resolution shall be presented at the subsequent Board’s 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 Board.
 - (b) The minutes of meetings shall be submitted to the Board for notification in such a format as determined by the Board.
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- 14. Review of the Terms of Reference** The Board may review the Terms of Reference of the Board once every two (2) years or as and when is necessary.
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