



**TERMS OF REFERENCE OF
BOARD RISK COMMITTEE (“BRC”)
BANK ISLAM MALAYSIA BERHAD (“Bank Islam” or “The Bank”)**

1. Introduction

Board Risk Committee (“BRC” or “the Committee”) is a Committee of the Board of Directors (“Board”). The BRC is to support the Board in meeting the expectations on risk management as set out by Bank Negara Malaysia (“BNM”) and oversee the Management’s activities in managing 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 risk and to ensure that the risk management process is in place and functioning for the Bank and its subsidiaries (“Bank Islam Group”).

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 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) Review and recommend to the Board 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 any officers of the second line of defence i.e. Group Risk Management Division, Group Credit Management Division, Group Compliance and Group Information Security & Governance Division.
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3. Primary Duties and Responsibilities

- (a) Review and recommend risk management strategies, frameworks, policies and risk appetite for Bank Islam Group for the Board’s approval.
 - (b) Review the emerging trends or issues from the risk perspective relevant to Bank Islam Group including issues raised by regulators or appointed consultants and if necessary, report to the Board for direction.
 - (c) Oversee the development and implementation of sustainability (including climate) risk management framework.
 - (d) Oversee and advise management on potential reputational risks (including climate related) that may arise from the Bank’s businesses, policies, practices, external stakeholder relationships and their perception of the Bank.
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- (e) Review and assess adequacy of risk management and other operational policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively for Bank Islam Group.
- (f) Review the implementation of capital management in line with the Capital Adequacy Framework for Islamic Bank (CAFIB) Guidelines issued by BNM.
- (g) Oversee the development and implementation of stress testing programme and climate stress testing programme in line with the BNM issued policy documents. This includes:
 - i. Review the appropriateness and consistency of stress test design towards Bank Islam's risk appetite and business strategy and ensure that the opinions of all relevant expertise across Bank Islam Group are taken into account.
 - ii. Review and provide constructive challenge on the results, scenarios and methodologies (including key assumptions) of the stress testing.
 - iii. Evaluate the appropriate management actions to mitigate the potential impacts and assess the outcome of the stress testing on Bank Islam's risk appetite, capital and liquidity planning, and strategic business (including climate) decisions.
- (h) Oversee and control the implementation of the Internal Capital Adequacy Assessment Process (ICAAP) which includes:-
 - i. Review capital plan;
 - ii. Review summary of capital adequacy reports as part of the risk reports; and
 - iii. Note mandate of capital management committee, capital management standards and policies.
- (i) Determine the risk appetite/ tolerance level of Bank Islam at enterprise and at strategic business unit levels including Bank Islam Group but not limited to sectoral limit and counterparty limits.
- (j) Review the allocation of risk-adjusted capital and broad-based limits across Bank Islam covering market, credit, operational risk, and where required climate risk.



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- (k) Review and if necessary, recommend to the Board on Bank Islam Business Continuity Management framework and policy for dealing with various extreme internal/ external events and disasters.
 - (l) Review the effectiveness of the reporting structure for the overall business activities and risk management functions and the implementation of the appropriate system to manage various types of risks undertaken by Bank Islam.
 - (m) Review the risk management processes, systems and internal controls throughout Bank Islam.
 - (n) Review regularly reports by the Management of Bank Islam and the key subsidiaries¹ 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 risk, 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.
- ¹ Key subsidiaries refer to Tier 1 subsidiaries namely BIMB Investment Management Berhad and BIMB Securities Sdn Bhd
- (o) Review and approve risk methodologies and limits for measuring and managing risks arising from Bank Islam Group’s overall management of all risks covering market, credit, operational and climate-related risks through identified tools.
 - (p) Oversee and review the effectiveness of Bank Islam Group’s Compliance programmes and implementation of the programmes, which include the following:-
 - i. approve the compliance annual review plans;
 - ii. approve the annual outsourcing plan;
 - iii. approve key initiatives to anti-money laundering / counter financing of terrorism (AML/CFT)
 - iv. review reports by the Management of Bank Islam and the key subsidiaries¹ on compliance initiatives and activities
 - v. monitor the compliance with the relevant legal and regulatory requirements as well as Shariah principles.
 - (q) Review and take note of the Shariah non-compliance event and approve rectification plan of such event prior to submission of the same to BNM within the stipulated timeframe.



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- (r) Review, monitor and regularly report to the Board on the following:-
 - i. credit transactions with connected parties;
 - ii. aggregate credit exposure to each connected party and their status; and
 - iii. material concentration.
- (s) Approve the engagement of external and independent reviewers for the validation of risk measurement methodologies and outputs.
- (t) Review and recommend to the Board any business proposals on the following:-
 - i. New products and services; and
 - ii. Discretionary power or authority limits in relation to any product programs proposals.
- (u) Review any business proposals particularly on:-
 - i. product programs and its performance;
 - ii. target market and risk acceptance criteria of any products or services; and
 - iii. product profitability assessment.
- (v) Oversee the management, operations and performance of the investment account which includes:-
 - i. Review and recommend strategies and policies including profit distribution policy, valuation policy and disclosure policy relating to investment account;
 - ii. Review the effectiveness of the risk management policies, processes, infrastructure and the reporting of various types of risk associated with the assets funded by the investment account; and
 - iii. Review and approve the competency and investment expertise of the personnel managing the investment account.
- (w) Review and recommend to the Board proposals on single or joint discretionary authority.



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- (x) Review and recommend to the Board on any new outsourcing proposals and approve renewal of the outsourcing services including the appointment and/or renewal of the outsourcing service provider.
 - (y) Review the resolution of findings on Bank Islam’s Composite Risk Rating (CRR) and approve its quarterly status updates prior to submission to BNM.
 - (z) Review and recommend 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; and
 - ii. Corruption Risk Management Framework.
 - (aa) Oversee a robust and reliable corruption risk information and monitoring system.
 - (bb) Ensure enforcement of an effective anti-corruption system in preventing the risks of persons associated² with Bank Islam Group from undertaking the corrupt practices.
- Notes:
²*Persons associated refers to the director, employee, business associates and any person who performs services for or on behalf of the Bank.*
- (cc) Evaluate the performance and decide on the transfer or dismissal of the Group Chief Compliance Officer, Group Chief Risk Officer, Group Chief Credit Officer and Group Chief Information Security Officer.
 - (dd) Review and recommend to the Board the Recovery Planning, 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. Integration of the Recovery Planning with existing risk appetite and risk management frameworks
 - iv. Allocation of sufficient resources and adequate representation across the Significant Entities and core organisation function in order to support development and maintenance of the Recovery Planning
 - v. Promoting the understanding of Recovery Planning process at all relevant levels across the Bank Islam Group



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- (ee) Support the Board of the Bank in overseeing technology, cyber and data-related matters including, but not limited to:
- i. Review and recommend to the Board on the IT and cybersecurity strategic plans.
 - ii. Ensure that risk assessments undertaken in relation to material technology applications submitted to the Bank Negara Malaysia are robust and comprehensive.
 - iii. Review and deliberate on the outcomes of the following assessments which include but are not limited to the following:
 - Production data centre resilience and risk assessment (DCRA)
 - Network resilience and risk assessments (NRA)
- (ff) Undertake such other duties and responsibilities as determined by the Board of the Bank.
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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;
 - iv. comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee; and
 - v. not have any executive director.
- (c) In line with the recommendations by the Malaysian Code of Corporate Governance 2021 (“MCCG 2021”), Chairman of the Board shall not be a member of the Committee.
- (d) The ³Group Chief Executive Officer, the Group Chief Risk Officer or any other officer of the Bank may be invited to attend the Committee meeting as and when considered appropriate by the Committee.
- (e) Members of Shariah Supervisory Council shall be invited to attend the meeting as Permanent Invitee.

³The Group Chief Executive Officer should include the designation of Group Managing Director



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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 meetings | The Committee shall meet not less than six (6) times a year, with additional meetings for particular matters, as and when required. |
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| 7. Notice of Meetings | <p>(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 seven (7) working days prior to the date of the meeting.</p> <p>(b) In addition to the scheduled meeting, the Secretary shall convene any special meeting upon receipt of request from the Chairman/directors by giving a reasonable notice of the meeting of not less than two (2) working days.</p> |
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| 8. Quorum for meetings | <p>(a) The quorum for meeting shall be at least 50% of the total members.</p> <p>(b) Any member who participates in the meeting via tele-conferencing device shall be counted for the purpose of determining a quorum.</p> <p>(c) A director interested in a contract, or a proposed contract or arrangement <u>shall be counted</u> for the purpose of determining a quorum. However, he/ she must abstain from participating in discussions and decisions on matters directly involving him/ her. <i>[extracted from the Bank's Constitution]</i>.</p> <p>(d) In the event the Chairman is unable to attend the Committee meeting, the members present may elect any one (1) of the independent directors' present (who is not the Chairman of the Board) to be the Chairman of the meeting.</p> |
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| 9. Decision-Making | <p>All decisions and/or approvals are to be made on unanimous basis, whilst always adhering to the quorum for meeting.</p> <p>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.</p> |



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| 10. Attendance | Each member of the Committee is required to attend at least 75% of the Committee meetings held each financial year. |
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| 11. Written Resolution | <p>(a) Decision by the Committee may be made via written resolution.</p> <p>(b) Consent from the Chairman shall be obtained prior to the circulation of any written resolution.</p> <p>(c) Decision made via written resolution is deemed effective after being executed by all members of the Committee, who are present in Malaysia.</p> <p>All decisions and/or approvals made via written resolution shall be presented at the subsequent Committee meeting for notation.</p> |
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| 12. Minutes of Meetings | <p>(a) The Secretary shall minute the proceedings and resolutions of all meetings of the Committee.</p> <p>(b) The minutes of meetings shall be submitted to the Board for notification in such a format as determined by the Board.</p> |
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| 13. Review of the Terms of Reference | <p>(a) The Board may review the Terms of Reference of the Committee once every two (2) years or as and when is necessary.</p> |
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