

**TERMS OF REFERENCE OF
BOARD AUDIT AND EXAMINATION COMMITTEE ("BAEC")**

1. **Introduction** The Board Audit and Examination Committee ("BAEC" or "the Committee") is a Committee of the Board of Directors ("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 its subsidiaries ("Bank Islam Group") and oversee the effectiveness of the internal auditors and external auditors of Bank Islam Group.

The functions of the BAEC shall be reflective of the expected roles and functions of the Committee as stipulated in Bank Negara Malaysia Corporate Governance Policy and Chapter 15 of Bursa Malaysia Securities Berhad Main Market Listing Requirements.

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) 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 quarterly results and year end financial statements focusing on any changes in implementation of major accounting policy changes, significant and unusual events and compliance with accounting standards and other legal requirements.
 - (c) Review the accuracy and adequacy of the Chairman's statement in the directors' report, corporate governance disclosures, summary of COI/potential COI and the measures taken to resolve, eliminate, or mitigate such conflicts in the Audit Committee report, interim financial reports and preliminary announcements in relation to the preparation of financial statements and annual reports.
 - (d) Establish an internal audit function which reports directly to the BAEC.
 - (e) Oversee that the internal audit function has an appropriate standing within Bank Islam Group and has access to the BAEC at all times.
 - (f) Review and assess the effectiveness of the internal audit functions, including but not limited to:
 - i. Review and approve the audit scope, procedures and frequency of the audit programme;
 - ii. Review key audit reports and ensure that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions;

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- iii. Note significant disagreements between the chief internal auditor and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings; and
 - iv. Establish a mechanism to assess the performance and effectiveness of the internal audit function.
- (g) Approve Integrity & Governance Department's ("IGD") annual Corruption Risk Management Review plan ("CRM") and oversee the CRM reviews performed by IGD.
- (h) Oversee the effectiveness of Bank Islam Group's Organisational Anti-Corruption Plan ("OACP") initiatives and adequate procedures to mitigate against Section 17A of MACC Act on corporate liability.
- (i) Deliberate the effectiveness of the whistleblowing cases investigated and presented by the Group Chief Compliance Officer and Group Chief Integrity & Governance Officer.
- (j) Review reports on frauds and non-fraud related irregularities.
- (k) Review the effectiveness of internal controls and risk management processes.
- (l) Oversee the External Auditors function, which include :-
- i. Recommend to the Board for the external auditors' appointment, re-appointment and audit fee payable including any decision on removal;
 - 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 the external auditors;

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- 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;
 - v. Assess the effectiveness of the external audit by meeting with the external auditors without the presence of management, at least annually;
 - vi. Maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the board audit committee on significant matters; and
 - vii. Ensure that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.
- (m) 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.
- (n) Review and report to the Board on all related party transactions that may rise within Bank Islam Group 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.
- (o) Review report on any conflict of interest situations to monitor compliance with the conflict of interest rules and laws to ensure the Board and senior management appropriately manage and disclose potential conflicts of interest situations that that arose, persist or may arise within the Bank Islam Group; and
- (p) The Committee shall take proper measure to resolve, eliminate and mitigate any possible conflict of interest between the policy making process and the day to day management of the Company.

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- (q) 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;
 - 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 Bank Islam Group's internal control framework.

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 majority of independent directors¹;
 - 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) Pursuant to the Malaysian Code on Corporate Governance ("MCCG") 2021:-
 - i. Chairman of the Board shall not be a member of the Committee; and
 - ii. any former partner of Bank Islam's external auditors (including those providing advisory services, tax consulting etc.) who are appointed to the Board, he/she must observe a cooling-off period of at least three (3) years before being appointed as a member of the Committee.

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(d) Pursuant to Main Market Listing Requirements of Bursa Malaysia Securities Berhad, at least one (1) member of the Committee:-

- i. Must be a member of the Malaysian Institute of Accountants (MIA); or
- ii. Have at least three (3) years working experience and
 - must have passed the examination specified in Part 1 of the First Schedule of the Accountants Act 1967; OR
 - must be a member of one (1) of the associations of accountants in Part II of the First Schedule of the Accountants Act 1967; or
- iii. fulfil such other requirements as prescribed by the Exchange.

(e) The ¹Group Chief Executive Officer, the Group 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.

¹The GCEO should include the designation of Group Managing Director.

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

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.

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 seven (7) working days prior to the date of the meeting.

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.

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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 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 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.
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.
10. **Attendance** Each member of the Committee is required to attend at least 75% of the Committee meetings held in each financial year.
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.
13. **Review of the Terms of Reference**
- The Board may review the Terms of Reference of the Committee once every two (2) years or as and when is necessary.