

CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

The Bank's Board of Directors ("The Board") has always maintained the highest standards of corporate governance to protect and enhance the interest of all stakeholders, which include depositors and borrowers, shareholders and employees. The Board is responsible for the strategic direction of the Bank, formulation of policies and stewardship of its resources. The policies of the Bank will not only continue to exist in their present form but will continually be reviewed and enhanced. The Board ensures effective application of the principles and standards established by BNM in the Guidelines on Corporate Governance ("CG") and is reflective of good corporate governance best practices set out in the Malaysian Code on Corporate Governance 2017.

The Board consists of four (4) members, with one (1) Executive Director and who is the Chief Executive Officer ("CEO"), and three (3) Independent Directors.

The Independent Directors are (1) Y.Bhg. Dato' Mohd Sallehuddin bin Othman; (2) En. Ismail bin Mahbob; and (3) Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani.

Director's Profile

Dato' Mohd Sallehuddin bin Othman

Dato' Mohd Sallehuddin bin Othman (Dato' Sallehuddin), was appointed as a Director of the Bank on 20 November 2013. He was appointed as the Chairman of the Board on 1 June 2019. He is also a member of the Risk Management Committee, Audit Committee, Nomination Committee and Remuneration Committee. He graduated from MARA Institute of Technology with ACCA qualification and from Luton College of Technology, UK with ICMA qualification. He holds a M. Sc in Administrative Sciences from City University of London, UK.

Dato' Sallehuddin started his career with various audit firms before taking up accounting and finance positions from 1975 to 1980 in Lembaga Padi & Beras Negara (now known as BERNAS) and Pemas Charter Management (part of MMC Group). From 1981 to 1986, he was a Control Officer in Controllers Department, Asian Development Bank ("ADB") based in Manila in Philippines in charge of disbursement functions of various projects in Asia Pacific countries financed by ADB.

Dato' Sallehuddin later joined Permodalan Nasional Berhad from 1986 to 1994 as Senior Manager of Corporate Services in charge of monitoring of performance of various invested companies, and subsequently as General Manager of Human Resources Department.

From 1994 to 2000, Dato' Sallehuddin was with UMW Holdings Berhad, a public listed company on Bursa Malaysia initially as Executive Director of Automotive Division (principally with oversight functions over UMW Toyota and Perodua) since 1994. Subsequently, he was appointed as Group Managing Director with an overall responsibility of fiduciary duty as a Board member of various UMW Group of companies and day-to-day managing the operations of the Group.

From 2001 until his retirement in July 2006, he served as Group Managing Director of Malaysian Industrial Finance Berhad ("MIDF"), a publicly listed company at that time. His main responsibilities included being a Director of MIDF Group of companies (in asset management, stock-broking, investment bank, issuing house, development finance, and property), and in charge of day-to-day operations of the Group.

After retirement, Dato' Sallehuddin served as an Independent Director of Al Rajhi Banking & Investment Corporation (M) Berhad for 3 years until April 2011; and AXA Affin Life Insurance Malaysia Berhad from December 2006 until December 2017.

Currently, Dato' Sallehuddin is also a Non-Independent Chairman of MSIG Insurance (M) Berhad, and Public Interest Director of Federation of Investment Managers Malaysia and a Board Director of several private limited companies.

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Director's Profile (Contd)

Mr. Takuma Matsuyama

Mr. Takuma Matsuyama (Mr. Matsuyama), was appointed as CEO/President and Executive Director of the Bank on 6 October 2018. Mr. Matsuyama is a member of the Nomination Committee. He graduated with a B.A. in Business Administration from the COE College in USA.

Mr. Matsuyama started his career in Mitsubishi Bank of Koujimachi Branch Ltd in July 1990. He has 28 years of experience in holding various positions in Japan, a branch in Hong Kong as well as regional office in Singapore.

Prior to Mr. Matsuyama's appointment as CEO/President and Executive Director of the Bank, he was the General Manager of Strategic Alliance Office in Corporate Planning Division in Japan overseeing strategic alliance; development of relationship and synergies with Morgan Stanley; bringing business collaboration and best practice sharing into MUFG UFJ Financial Group, Inc. investment management of MUFG as the largest shareholder to MS Strategic Alliance Committee; Global Steering Committee; and sales plan for managing MUFG's share proportion.

En. Ismail bin Mahbob

En. Ismail bin Mahbob (En. Ismail) was appointed as an Independent Director of the Bank on 20 June 2014. He is the Chairman of the Risk Management Committee and the Remuneration Committee; and also a member of the Audit Committee and Nomination Committee. En. Ismail holds a Diploma in Marketing from the Chartered Institute of Marketing, UK and an associate of the Association of Chartered Islamic Finance Professional ("ACIFP") from the International Centre for Education in Islamic Finance, Malaysia ("INCEIF"). En. Ismail is a Fellow of Chartered Professional in Islamic Finance ("F.CPIF") from Chartered Institute of Islamic Finance Malaysia ("CIIF"). He was an Adjunct Fellow of College of Business, University Utara Malaysia ("UUM") till end 2018.

En. Ismail started his professional career with the insurance industry in 1977. He had served in senior positions of various sectors of the industry in the capacity of a broker, insurer, reinsurer and a retakaful operator. His last position was as the President/Chief Executive Officer of MNRB Retakaful Malaysia Berhad, Malaysia from 2007 till his retirement in 2012.

En. Ismail also served as an Independent Director ("ID") of Export-Import Bank (Malaysia) Berhad from August 2012 to August 2019 and an ID of Saudi Reinsurance Company, Saudi Arabia from December 2012 to May 2020. On 15 August 2020, En. Ismail was appointed Chairman/Independent Non-Executive Director of Syarikat Takaful Malaysia Am Berhad, a wholly owned subsidiary of public listed company, Syarikat Takaful Malaysia Keluarga Berhad.

Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani

Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Datuk Seri Dr. Nik), was appointed as an Independent Director of the Bank on 1 June 2019. He is the Chairman of the Audit Committee and the Nomination Committee; and also member of the Risk Management Committee and Remuneration Committee.

Datuk Seri Dr. Nik holds a Ph.D. in Law from the School of Oriental and African Studies ("SOAS"), University of London, United Kingdom and a Master in Law from Queen Mary College, University of London, United Kingdom. He read law at the University of Buckingham, United Kingdom. He also holds a post-graduate Diploma in Syariah Law and Practice (with Distinction) from the International Islamic University Malaysia. He is a Barrister of Lincoln's Inn and an Advocate and Solicitor of the High Court of Malaya. He was called to the Bar of England and Wales in 1985 and returned to the Malaysian Bar in 1986. He was a Visiting Fulbright Scholar, Harvard Law School in 1996 to 1997, and was formerly the Acting Dean/Deputy Dean of the Faculty of Laws, International Islamic University Malaysia. He is also a Fellow of the Financial Services Institute of Australasia (FINSIA) since 2006. Previously, he was working in a firm of accountants and in a bank at Kuala Lumpur.

Currently, he is the Chairman and Senior Partner of Messrs Zaid Ibrahim & Co. (a member of ZICO Law). Prior to joining Messrs Zaid Ibrahim & Co., he was with Messrs Baker & McKenzie (International Lawyers), Singapore.

Datuk Seri Dr. Nik is the Chairman of T7 Global Berhad and he also sits on the Board of Directors of Amanah Saham Nasional Berhad ("ASNB") and Cagamas Holdings Berhad.

Datuk Seri Dr. Nik was appointed as the Chairman of Board of Directors of IIUM Holdings Sdn Bhd, a subsidiary of International Islamic University Malaysia on 1 March 2020. Datuk Seri Dr. Nik has ceased as Independent Director of Pengurusan Aset Air Berhad and Chin Hin Group Berhad.

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities

The members of the Board are professionals in their own rights and they possess wide-ranging experiences, skills and expertise in the private sector as well as the banking industry. The members of the Board are persons of high calibre and integrity and they fulfilled the Standards on Fit and Proper Criteria under the Financial Services Act 2013 ("FSA 2013").

The roles of the Chairman and CEO are independent with clearly defined roles and responsibilities, authority and accountability to ensure proper balance of responsibility and authority. The independent directors are distinct from management and do not have any business or other relationship that could materially interfere with the exercise of their independent judgement. The Chairman is not involved in the daily management of the Bank.

(a) Roles and Responsibilities of the Board

- Review and approve strategies, business plans, other initiatives which would singularly or cumulatively, have a material impact on the Bank's risk profile, significant policies and monitor Senior Management's performance in implementing them;
- Ensure that the Bank establishes comprehensive risk management policies, processes, infrastructure and resources, to manage the various types of risks;
- Ensure the effectiveness of Risk Management Framework by taking into consideration the changes in business environment to control the Bank's risk taking activities. Also, to provide constructive challenge on the credibility and robustness of the framework;
- Establish periodic review on quantity and quality of the Risk Management reporting;
- Oversee and approve the recovery and resolution as well as business continuity plans for the Bank to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;
- Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial and management audit;
- Establish a rigorous process for the appointment and removal of directors;
- Oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank;
- Establish a written policy to address Directors' actual and potential conflict of interest;
- Establish and ensure the effective functioning of various Board committees;
- Promote Shariah compliance in accordance with expectations set out in BNM's Shariah Governance Policy Document and ensure its integration with the Bank's business and risk strategies;
- Ensure the effective management of the Bank's capital and capital adequacy levels to ensure fulfillment of regulatory and internal requirements;
- Ensure that the relevant stakeholders discharge their responsibilities for the development and effective implementation of the Bank's capital management policies and processes;
- Approve credit transactions to connected parties based on Guidelines on Credit Transactions and Exposures with Connected Parties;
- Engage with Chief Compliance Officer ("CCO") on a regular basis to provide the opportunity for the CCO to discuss issues faced by the compliance function. The Board should also consider engaging the CCO without the presence of other members of Senior Management from time to time;

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(a) Roles and Responsibilities of the Board (Contd)

- Provide the CCO with direct and unimpeded access to the Board;
- Ensure that the CCO is supported with sufficient resources, including competent officers, to perform his/her duties effectively;
- Oversee the implementation of the Bank's governance framework and internal control environment, and periodically review whether these remain appropriate in the light of material changes to the size, nature and complexity of the Bank's operations;
- Promote, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour;
- Promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- Promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank;
- Undertake the Board's duties and responsibilities as well as oversight functions as stipulated in the Companies Act 2016 ("CA 2016"), FSA 2013, Islamic Financial Services Act 2013 ("IFSA 2013"), BNM Policy Documents and Guidelines and any other regulations or directives issued by BNM from time to time;
- Undertake the Board's duties and responsibilities and oversight functions as stipulated in Section 28.2 of the BNM Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") – Banking and Deposit-Taking Institutions (Sector 1) Guideline;
- Undertake and exercise the Board's duties, responsibilities and oversight functions as stipulated in paragraph 8.1 to paragraph 8.6, paragraphs 10.41 and 10.51 of the BNM's Risk Management in Technology (RMiT) Policy Documents;
- Exercise oversight accountability over Shariah governance and compliance to ensure the processes reflect the integration of Shariah governance considerations within the business and risk strategies of the Bank as per outlined under the BNM's Shariah Governance Policy Document or any other regulations or directives issued by BNM from time to time; and
- Provide board veto clearance for large exposures based on Credit Policy of the Bank. Where such veto clearance was obtained via circulation the loan/financing exposures to be collectively deliberated and ratified in the subsequent Board meeting.

(b) Performance Criteria used to assess the Board as a whole and individually

The effectiveness of the Board is measured against the Bank's performance in terms of profitability, internal controls, compliance, risk management and cost effectiveness.

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(c) Directors' Training

The Board acknowledges the importance of continuing education for its Directors to ensure each Director possesses the knowledge and skills necessary to fulfil their responsibilities.

During the financial year ended 31 March 2020, the Directors have attended various training programmes, conference, seminars, briefing and/or workshop on issues relevant to their duties and responsibilities to further enhance their skills and knowledge and keep abreast with the latest developments in the industry and changes in the new statutory and regulatory requirements as follows:

| No. | Training Programmes | Attended by |
|-----|---|--|
| 1 | Directors' Training | Dato' Sallehuddin |
| 2 | Financial Industry Conference 2019 | Dato' Sallehuddin Mr. Matsuyama |
| 3 | Malaysia National Strategy for Financial Literacy | Dato' Sallehuddin |
| 4 | FIMM 2019 Annual Convention | Dato' Sallehuddin |
| 5 | Cyber Security Framework by Mr. Oohinata, MUFG Group Chief Information Security Officer | Dato' Sallehuddin Datuk Seri Dr. Nik En. Ismail Mr. Matsuyama |
| 6 | MFRS9 - Briefing by Deloitte | En. Ismail |
| 7 | Workshop on Banking Operations and Professional Ethics | En. Ismail |
| 8 | Seminar - "Expandability/Upscaling of Takaful Business - Going Forward" | En. Ismail |
| 9 | Financial Institution Directors' Education - Corporate Governance Programme - Module A & Module B | Mr. Matsuyama |
| 10 | Khazanah Megatrends Forum | Mr. Matsuyama |
| 11 | In-House Director's Orientation Programme | Datuk Seri Dr. Nik |
| 12 | Beyond Paradigm Summit 2019 | Datuk Seri Dr. Nik |
| 13 | The 2nd Malaysia-China Youth Civilizational Dialogue on Islam and Confucianism | Datuk Seri Dr. Nik |
| 14 | MITI Consultative Dialogue 2019 | Datuk Seri Dr. Nik |
| 15 | Education session on Cybersecurity | Dato' Sallehuddin Datuk Seri Dr. Nik En. Ismail |
| 16 | PB 2: Business Lending Workshop (Group 1) | En. Ismail |
| 17 | PB 5: International Trade Finance Workshop | En. Ismail |
| 18 | Islamic Finance for Board of Directors' Programme | Datuk Seri Dr. Nik |
| 19 | Corporate Liability Under MACC Act 2009 (Amended 2018) | Datuk Seri Dr. Nik |
| 20 | Audit Committee Institute Breakfast Roundtable 2019 | Dato Abdul Rahim |
| 21 | BNM-FIDE FORUM Dialogue with the Deputy Governor on the draft Risk Management in Technology Policy | Dato Abdul Rahim |
| 22 | Rethinking Strategy | Dato Abdul Rahim |
| 23 | Securities Commission Malaysia – World Bank – IOSCO Asia Pacific Hub Conference 2019 - Islamic Finance: A Catalyst For Financial Inclusion | Dato Abdul Rahim |
| 24 | CG Watch: How Does Malaysia Rank | Dato Abdul Rahim |

CORPORATE GOVERNANCE (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(d) Tenure of Independent Directors

The Board considers that fundamentally the independence of Directors are based on their capacity to put the best interests of the Bank and its shareholder ahead of other interests, that Directors are capable of exercising objective independent judgement.

The Board shall ensure that the length of service of the Directors does not impair the independent judgement of decision making or materially interfere with the Directors ability to act in the best interest of the Bank.

The tenure limits for Independent Director should generally not exceed nine (9) years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Bank.

(e) Frequency and Conduct of Board Meetings

Board meetings are conducted not less than six (6) times a year to discuss key issues of the Bank including review of the financial performance, operations and risk management of the Bank and to deliberate on matters that require the Board's decision and approval.

A total of six (6) Board meetings were held during the financial year ended 31 March 2020. The details of attendance of each member at the Board meetings held during the financial year ended 31 March 2020 are as follows:

| Director | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| Y.Bhg. Dato' Mohd Sallehuddin bin Othman <i>Independent Director</i> (Appointed as Chairman on 1 June 2019) | 6 | 6 |
| Mr. Takuma Matsuyama <i>CEO/President and Executive Director</i> | 6 | 6 |
| En. Ismail bin Mahbob <i>Independent Director</i> | 6 | 6 |
| Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani <i>Independent Director</i> (Appointed on 1 June 2019) | 5 | 5 |
| Y.Bhg. Dato Abdul Rahim bin Osman (Dato Abdul Rahim) (Retired as Chairman and resigned as Independent Director on 31 May 2019) | 1 | 1 |
| Mr. Hiroaki Demizu <i>Non-Independent Executive Director</i> (Resigned on 6 September 2019) | 3 | 2 |

The Board established Board Committees to oversee critical and major functional areas of the Bank.

The function and terms of reference of Board Committees as well as authority delegated by the Board to the Committees have been approved by the Board and are revised from time to time to ensure that they are relevant and up-to-date.

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES

(a) Nomination Committee (“NC”)

The composition of NC is as follows:

Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Chairman)(Appointed on 1 June 2019)
 Mr. Takuma Matsuyama (Member)
 Y.Bhg. Dato’ Mohd Sallehuddin bin Othman (Member)
 En. Ismail bin Mahbob (Member)
 Y.Bhg. Dato Abdul Rahim bin Osman (Member)(Retired on 31 May 2019)

The NC shall meet at least 4 times a year or as and when required.

During the financial year ended 31 March 2020, the NC held five (5) meetings.

The details of attendance of each member at the NC meetings held during the financial year ended 31 March 2020 are as follows:

| NC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani <i>Chairman</i> <i>(Appointed on 1 June 2019)</i> | 4 | 4 |
| Mr. Takuma Matsuyama <i>Member</i> | 5 | 5 |
| Y.Bhg. Dato’ Mohd Sallehuddin bin Othman <i>Member</i> | 5 | 5 |
| En. Ismail bin Mahbob <i>Member</i> | 5 | 5 |
| Y.Bhg. Dato Abdul Rahim bin Osman <i>Member</i> <i>(Retired on 31 May 2019)</i> | 1 | 1 |

NC is responsible for the following matters:

- to establish the minimum requirements for the Board on the required mix of skills, experience, qualifications and other core competencies of a Director and CEO. The requirements and criteria shall be approved by the full Board;
- to assess and recommend to the Board the nominees for appointment; re-appointment upon the expiry of terms of appointment as approved by BNM; or removal of Directors, Senior Management and Shariah Committee members if he/she no longer meets the minimum requirements set out in paragraphs 10.2 to 10.5 and 17.2 to 17.4 of CG respectively and paragraphs 33(c) and (d) of the IFSA 2013, or has been assessed to be ineffective, errant or otherwise unsuited to carry out his/her responsibilities;
- to assess and recommend to the Board the nominees for appointment or removal of Company Secretary if he/she is disqualified under Section 238 of the CA 2016 or no longer complied with the Fit and Proper requirements;
- to oversee the overall composition of the Board and Board Committees in terms of appropriate size, required mix of skills, experience and core competencies and adequate balance between Executive Directors, Non-Executive Directors and Independent Directors through annual review;
- to establish the mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board, the contribution of the Board’s various committees and the performance of the CEO as well as other Senior Management and Company Secretary. The annual assessment to be conducted shall be based on objective performance criteria as approved by the full Board;

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(a) Nomination Committee ("NC") (Contd)

- to ensure that all Directors receive appropriate continuous training programmes in order to keep abreast with the latest developments in the industry and changes in the new statutory and regulatory requirements;
- to support the Board oversight on the appointment, succession planning and performance evaluation of Senior Management, Shariah Committee ("SC") members and Company Secretary;
- to assess on an annual basis that the Directors/CEO, Senior Management and Shariah Committee members are not disqualified under Section 59 of the FSA 2013 and Section 68 of IFSA 2013 and that the Directors/CEO and Shariah Committee members continue to comply with the standards for 'fit and proper' criteria as approved by the Board;
- to assess and to ensure Independent Directors comply with the definition of Independent Director as defined in the CG;
- to carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time;
- to assess and nominate the appointment or renewal of appointment of Expatriates Officers consistent with the qualifications, experience and criteria applicable in BNM's guidelines; and
- to monitor the effectiveness of transfer of skills and expertise from expatriates employed in Senior Management and specialist positions to staff of the Bank as well as the industry generally.

(b) Remuneration Committee ("RC")

The composition of RC is as follows:

En. Ismail bin Mahbob (Chairman)

Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)

Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Member) (Appointed on 1 June 2019)

Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

The RC shall meet at least once a year or as and when required.

During the financial year ended 31 March 2020, the RC held three (3) meetings.

The details of attendance of each member at the RC meetings held during the financial year ended 31 March 2020 are as follows:

| RC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| En. Ismail bin Mahbob <i>Chairman</i> | 3 | 3 |
| Y.Bhg. Dato' Mohd Sallehuddin bin Othman <i>Member</i> | 3 | 3 |
| Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani <i>Member (Appointed on 1 June 2019)</i> | 3 | 3 |
| Y.Bhg. Dato Abdul Rahim bin Osman <i>Member (Retired on 31 May 2019)</i> | * | * |

* There was no meeting held prior to Dato Abdul Rahim's retirement

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(b) Remuneration Committee ("RC") (Contd)

The RC is responsible for the following matters:

- to review periodically and recommend to the Board the remuneration policy of the Bank, including material changes made to the policy to ensure that the remuneration remains appropriate to each Director, Member of SC, CEO and other members of *Senior Management and other Material Risk Taker's contribution, taking into account the level of expertise, commitment and responsibilities undertaken;
- to review annually the remuneration for each Director, CEO and other members of *Senior Management and other Material Risk Takers;
- to recommend to the Board a framework of remuneration for Directors, SC members, CEO and other members of *Senior Management covering fees, salaries, allowances, bonuses and benefits-in-kind in discharging their duties;
- to recommend to the Board the adjustments in remuneration package reflecting the SC members, Executive Directors and CEO's contributions for the year; and which are competitive and consistent with the Bank's culture, objectives and strategy;
- to ensure that the level of remuneration for Non-Executive Directors and Independent Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board; and
- to carry out such other responsibilities as may be specified by BNM or delegated by the Board from time to time.

* "Senior Management" and "other Material Risk Takers" comprise persons as defined/stated in the Bank's Remuneration Policy.

(c) Audit Committee ("AC")

The composition of AC is as follows:

Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Chairman) (Appointed on 1 June 2019)
Y.Bhg. Dato' Mohd Sallehuddin bin Othman (Member)
En. Ismail bin Mahbob (Member)
Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

The AC shall meet at least four (4) times a year.

During the financial year ended 31 March 2020, eight (8) meetings were held.

The External Auditors may request a meeting with or without the presense of the Management.

The AC may at their discretion invite any Director, Executive Directors or any person to attend the meeting.

The details of attendance of each member at the AC meetings held during the financial year ended 31 March 2020 are as follows:

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC") (Contd)

| AC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani <i>Chairman (Appointed on 1 June 2019)</i> | 5 | 5 |
| Y.Bhg. Dato' Mohd Sallehuddin bin Othman <i>Member</i> | 8 | 8 |
| En. Ismail bin Mahbob <i>Member</i> | 8 | 8 |
| Y.Bhg. Dato Abdul Rahim bin Osman <i>Member (Retired on 31 May 2019)</i> | 3 | 3 |

The terms of reference of the AC include the reinforcement of the independence and objectivity of the internal audit function and the specification of the scope and review of the Bank's financial statements which includes the findings of both the Internal and External Auditors. The AC also recommends the appointment and re-appointment of the External Auditors as well as reports to the Board on the maintenance of sound internal control system and adequacy of risk management processes and the fulfilment of regulatory compliances.

The primary objectives of the AC are:

- to support the Board in ensuring that there is reliable and transparent financial reporting process within the Bank;
- to oversee the effectiveness of the internal audit function of the Bank;
- to foster a quality audit of the Bank by exercising oversight over external auditors in accordance with the expectations set out in the policy document on external auditor;
- to act as a committee of the Board to assist in discharging the Board's responsibilities in relation to the Bank's good governance, management and internal controls, accounting policies and financial reporting;
- to provide, by way of regular meetings, a line of communication between the Board and the external auditors; and
- to enhance the perceptions held by other interested parties (such as shareholders, regulators and other financial institutions) of the credibility and objectivity of financial reports.

The AC is authorised by the Board:

- to be provided with sufficient support and resources to investigate any matter within their mandates;
- to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the AC; and
- to obtain external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary, and the cost of such advice shall be borne by the Bank.

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC") (Contd)

The functions and responsibilities of the AC are:

Internal Audit

- to approve on the appointment, performance appraisal, transfer and dismissal of the Chief Internal Audit ("CIA");
- to review and make recommendation to the Board on the remuneration of CIA;
- to review and approve the audit plan, audit charter, procedure manual and budgeted man-days;
- to review and approve the audit scope, procedure and frequency, and to confirm that Management has placed no restrictions on the scope of audits;
- to establish a mechanism to assess the performance and effectiveness of the internal audit function;
- to ensure that the internal audit function is adequately resourced and has appropriate standing within the Bank and to ensure coordination between the internal and external auditors;
- to consider the findings of the Banking Supervision Department of BNM, if any and Management's response;
- to review the key audit reports; and ensuring 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; and
- to note the significant disagreements between the CIA 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.

External Auditors

- to make recommendation to the Board on the appointment/re-appointment, removal and remuneration of the external auditors;
- to monitor and assess the independence of the external auditors including by approving the provisions of non-audit services by external auditors subject to the Policy of Provision of Non-Audit Services of the Bank;
- to monitor and assess the effectiveness of the external auditors including by meeting with the external auditors without the presence of Management at least annually;
- to ensure Senior Management takes necessary corrective actions in a timely manner to address external audit findings and recommendations; and
- to maintain regular, timely, open and honest communication with the external auditors, and requiring the external auditors to report to the AC on significant matters.

Financial Reporting

- to review the accuracy and adequacy of the Chairman's statement in the Directors' report, corporate governance disclosure and interim financial statements and preliminary announcements in relation to the preparation of financial statements;

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(c) Audit Committee (“AC”) (Contd)

Financial Reporting (Contd)

- to review the quarterly and annual financial statements before submission to the Board, focusing particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from the audit;
 - (iv) the going concern assumption;
 - (v) compliance with applicable financial reporting standards;
 - (vi) compliance with BNM and legal requirements; and
 - (vii) adequacy of provision for contingencies and impairment allowances.
- to review the adequacy and effectiveness of the Bank’s governance processes, risk management and internal controls prior to endorsement by the Board;

Risk Management and Governance

- to review third-party opinions on the design and effectiveness of the Bank’s internal control framework; and
- to monitor compliance with the Board’s conflicts of interest policy which at a minimum must:
 - (i) identify circumstances which constitute or may give rise to conflicts of interests;
 - (ii) clearly define the process for directors to keep the Board informed on any change in his circumstances that may give rise to a conflict of interests;
 - (iii) identify those responsible for maintaining updated records on each Director’s conflicts of interest; and
 - (iv) articulate how any non-compliance with the policy will be addressed.

Related Party Transactions

- to review and update the Board on all related party transactions and conflicts of interest situations that may arise within the Bank including any transaction, procedure or conduct that raises questions of management integrity.

Other matters

- to consider other matters as the AC considers appropriate or as authorised by the Board.

(d) Risk Management Committee (“RMC”)

The primary objectives of the RMC are to oversee the Bank’s activities in managing credit, market, liquidity, operational, legal, compliance and other risks; and to ensure that a risk management process is in place and functioning.

RMC is authorised to assist the Board in ensuring that the overall objectives of the Bank in risk management are achieved.

The composition of RMC is as follows:

En. Ismail bin Mahbob (Chairman)

Y.Bhg. Dato’ Mohd Sallehuddin bin Othman (Member)

Y. Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani (Member) (Appointed on 1 June 2019)

Y.Bhg. Dato Abdul Rahim bin Osman (Member) (Retired on 31 May 2019)

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee (“RMC”) (Contd)

The RMC shall meet at least once every quarter.

The RMC held six (6) meetings during the financial year ended 31 March 2020.

The details of attendance of each member at the RMC meetings held during the financial year ended 31 March 2020 are as follows:

| RMC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| En. Ismail bin Mahbob <i>Chairman</i> | 6 | 6 |
| Y.Bhg. Dato’ Mohd Sallehuddin bin Othman <i>Member</i> | 6 | 6 |
| Y.Bhg. Datuk Seri Dr. Nik Norzrul Thani bin N. Hassan Thani <i>Member (Appointed on 1 June 2019)</i> | 5 | 5 |
| Y.Bhg. Dato Abdul Rahim bin Osman <i>Member (Retired on 31 May 2019)</i> | 1 | 1 |

The RMC’s functions and responsibilities are to oversee the managing of key risk areas of the Bank covering credit risk, market risk, liquidity risk, operational risk and information security risk; and to ensure that the risk management process is in place and is functioning effectively. Its responsibilities include the review of risk policies and risk tolerance. A comprehensive Risk Management Policy approved by the Board has been implemented. It also reviews and assesses the adequacy of risk management process to identify, measure, monitor, control and manage the overall risk profile of the Bank.

The RMC’s responsibilities and functions are:

Risk Governance

- to review and recommend risk management strategies, policies and risk tolerance for Board’s approval;
- to review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risks and the extent to which these are operating effectively;
- to review periodic reports from respective departments which include Risk Management Units, Compliance (including compliance issues), Housing Loan, Treasury, etc;
- to ensure infrastructure, resources and systems are in place for risk management and compliance i.e. ensure that the staff responsible for implementing risk management and compliance systems and performing those duties independently of the Bank’s risk taking activities;
- to oversee the formal development of policies (including Credit risk, Market risk, Liquidity risk and Operational risk policies, Compliance related policies etc.) within the Bank, encompassing all products and businesses; and ensuring the development of policy manual and procedures;
- to execute oversight role regarding implementation of the Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”);
- to approve credit transactions with connected parties based on Guidelines on Credit Transactions and Exposures with Connected Parties (at least 2 non-executive Directors who are independent of the transaction) as delegated by the Board;

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee (“RMC”) (Contd)

The RMC’s responsibilities and functions are: (Contd)

Risk Governance (Contd)

- to adhere to the BNM’s ‘Risk Management in Technology (RMiT) Guidelines’, including but not limited to Part B Policy requirements clause 8 Governance item 8.1 to 8.6 on Responsibilities of the Board of Directors, item 10.41 and 10.51 on effective oversight on Third Party service provider and cloud services;
- to adhere to items 28.2 under Section 28 of BNM’s Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) – Banking and Deposit-Taking Institutions (Sector 1);
- to provide input to the design and implementation of the remuneration system to ensure that risk exposures and risk outcomes are adequately considered;
- to approve the appointment, performance review and remuneration, and dismissal of the Chief Risk Officer (“CRO”); and
- to provide constructive challenge to Senior Management and critically review the risk information and developments affecting the Bank.

Risk Strategy

- to evaluate and assess the adequacy of strategies to manage the overall risk associated with the Bank’s activities;
- to ensure strategies, policies and procedures of the ICAAP as well as internal capital target, trigger and risk appetite are reviewed annually under a formal review process that is well documented;
- to ensure that the capital management policies and activities are effectively integrated into the overall risk management framework;
- to recommend to the Board on the appropriateness and suitability of the risk appetite; and
- to review the capital planning and funding strategy.

Risk Management & Control

- to review management’s periodic reports on risk exposures, risk portfolio composition and risk management activities, adherence to risk appetite; and the implementation of risk management and compliance policies, processes, and controls within the Bank in managing the key risks to the Bank as well as emerging risks;
- to monitor, assess and advise on the credit risk portfolio composition of the Bank;
- to evaluate risks under stress scenarios and the capacity of the Bank’s capital to sustain such risks;
- to assess the risk-return trade-off;
- to review reports of the credit review process, asset quality and ensure that corrective action is taken;
- to review and evaluate the various credit products engaged by the Bank to ensure that it is conducted within the standards and policies set by the Board;
- to evaluate and assess risk concerning development and introduction of new products and services;
- to review and evaluate business continuity management and processes;

CORPORATE GOVERNANCE (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee ("RMC") (Contd)

The RMC's responsibilities and functions are: (Contd)

Risk Management & Control (Contd)

- to oversee capital quantification and scenario analysis methodologies;
- to review the IT risk management framework of the Bank;
- to review the Bank's Single Counterparty Exposure Limit ("SCEL");
- to review the Threshold Limits for Business Sectors;
- to oversee the risk management for Islamic banking;
- to ensure that the cyber security risk of the Bank is properly managed; and
- to at least annually, evaluate the effectiveness of the Bank's overall management of compliance risk, having regard to the assessments of senior management and internal audit, as well as interactions with the Chief Compliance Officer ("CCO").

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The risk management within the Bank is governed by a risk management and internal control framework, which sets out the risk management governance and infrastructure, risk management processes and control responsibilities. In the Bank, effective risk management is inculcated by a risk awareness culture across all levels of staff in the Bank through effective communication, training, clear policies and procedures as well as organisational structure, which clearly defined roles and responsibilities of all employees.

The adequacy and effectiveness of the risk management and internal control framework are subject to periodic review by the Bank's control functions including Risk Management, Internal Audit and Compliance to ensure continuous improvements in operational efficiency while taking into consideration changes in risk appetite, external environment and regulatory requirements.

Notwithstanding the risk management and internal control framework that have been put in place, they provide reasonable, but not absolute assurance that the Bank will not be adversely affected by any event that may be reasonably foreseen.

Overall Risk Management Policy

The risks faced by the Bank are broadly divided into two categories:

- credit and market risks that are inherent in our profit-seeking activities; and
- risks associated with the Bank's operations.

The Bank's goal is to achieve a balance between earnings and risks. For this purpose, the Bank has instituted an integrated Risk Management Policy to identify, measure, monitor, control and manage risks using consistent standards and techniques in each of the Bank's business.

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

Outline of risk management and control responsibilities:

- the Board is ultimately responsible for the management of risks; the Board through the RMC maintains overall responsibility for risk oversight of the Bank;
- the RMC oversees Senior Management's functions in managing the key risk areas of the Bank in order to ensure that the risk management process is in place and functioning effectively. The Committee is responsible for the risk oversight for the major areas of risk covering credit risk, market risk, liquidity risk, operational risk and information security risk. Its responsibilities also include the review and recommendation of the risk management strategies, policies and risk tolerance. It also reviews and assesses adequacy of risk management policies and framework in identifying, measuring, monitoring, controlling and managing the overall risk; and
- dedicated independent risk management and control committees are responsible for identification, monitoring of risks and monitoring of compliance with the risk policies.

The independent risk management committees which comprise members of the management team, relevant heads of department and chaired by CRO are as follows:

- (a) Assets & Liabilities Management and Market Risk Committee
- (b) Operational Risk Management and Control Committee ("ORMCC")
- (c) Credit Risk Management Committee ("CRMC")

The AC, supported by Internal Audit Department ("IAD"), is to provide an independent assessment of the adequacy and reliability of the risk management processes, and compliance with risk policies and regulatory guidelines of the above risk management committees.

The Shariah Committee is responsible to provide Shariah decision, views and opinions relating to Islamic financial business of the Bank including the endorsement of product-related documentation and Shariah-related policies and procedures.

The Bank has established, within its risk management policy, a structured approach to enterprise wide risk management which balances risk and return, and integrating risk management processes for credit risk, market risk, liquidity risk, operational risk and information security risk for more effective risk management. The risk management process is categorised into the following processes:

- Risk Identification, Assessment and Measurement; and
- Risk Control, Mitigation and Monitoring.

(a) CREDIT & CORPORATE RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- A comprehensive Credit Rating system is used to grade the quality of loans/financing and track changes in credit risk profile of the loan portfolio;
- An independent assessment of loans/financing applications are performed by the holding company;
- Regular review of watch list borrowers and delinquent accounts are conducted to monitor progress of recovery;
- Stress testing of loans/financing portfolio are performed to test the Bank's capability to absorb stimulate shocks on the adverse scenarios from credit risk factors;
- Reverse stress testing is conducted annually to identify unviable scenario and potential vulnerable areas; and
- Under ICAAP, the material risk assessment is conducted annually and perform the Bank's capital adequacy assessment, under both normal and stress scenario, over the next 3 years.

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(a) CREDIT & CORPORATE RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Credit Policy documents the core credit processes including the process of credit risk rating and collateral policy;
- Impairment Policy documents the general requirements for classification of credit-impaired loans/financing and provisioning and the circumstances under which a loans/financing can be rescheduled/restructured/written off;
- Analysis and reporting to the Board/RMC/CRMC on the loans/financing exposure, asset quality, concentration level, movement of credit-impaired loans and expected credit losses of credit portfolio;
- Review of counterparty limits of money market activities, foreign exchange activities and other business activities;
- Review of Internal Capital Adequacy Assessment Process was performed by Regional Risk Office, ARMO;
- SCEL Policy documents the requirements in managing and monitoring exposures to a single counterparty and persons connected to it; and
- Periodic monitoring and reporting of Risk Appetite Statements (“RAS”) limits/thresholds set on key risk exposures.

(b) MARKET RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Mark-to-market technique is used to revalue marketable securities, equities, interest rate and foreign currency positions; and
- Exposures such as position size, Value-at-Risk and loss amounts are computed as a measurement of market risks.

(ii) Risk Control, Mitigation and Monitoring

- The market risk limits are set after taking into consideration the risk appetite of the Bank and the risk-return relationship;
- Market risk exposures of both the trading and banking book positions are monitored against pre-determined market risk limits;
- Both the utilisation and compliance status of market risk limits are regularly reported to Assets & Liabilities Management and Market Risk Committee by the Market Risk Management Department (“MRMD”);
- Regular reviews on interest rate outlook, vulnerability of net interest income to movement in interest rates and development of strategies to mitigate interest rate risks;
- Changes in market value of investment and dealing securities due to interest rate movements are monitored and reported; and
- Stress testing of trading and banking portfolios are performed to test the Bank’s capability to absorb simulated shocks from market risk factors.

(c) LIQUIDITY RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- The Bank’s assets and liabilities as well as off-balance sheet positions are included in liquidity risk measurement;

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(c) LIQUIDITY RISK MANAGEMENT (CONTD)

(i) Risk Identification, Assessment and Measurement (Contd)

- The primary tools for assessing liquidity risk are the maturity mismatch analysis, assessment on the concentration of funding and the availability of unencumbered assets; and
- Establish Early Warning Indicator to identify potential warning signs in relation to the Bank's funding liquidity risk position.

(ii) Risk Control, Mitigation and Monitoring

- Internal liquidity risk management limits are set;
- Compliance with BNM's Liquidity Coverage Ratio and internal liquidity risk management policy are monitored and reported to Assets & Liabilities Management and Market Risk Committee;
- Liquidity contingency funding plans are in place and documented;
- Monitoring of changes in the Bank's funding structure, if any;
- Stress testing of assets and liabilities are performed to test the Bank's capability to absorb simulated shocks from liquidity risk factors; and
- Monitoring and reporting of Liquidity Coverage Ratio requirements.

(d) OPERATIONAL RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Implementation and utilisation of Risk Control Self Assessment ("RCSA") and Global Control Self Assessment ("GCSA") process;
- Implementation of Enterprise Governance Risk and Compliance ("E-GRC") solution to automate the overall Operational Risk Management environment;
- Review of new and existing procedures by ORMCC prior to implementation and approval;
- Collecting Loss Event Data ("LED") and analyse causes and preventative actions taken on losses from fraud and control lapses;
- Review of systems and network confidentiality, integrity and availability;
- Review of New and Existing Products and Services to identify and minimise risk;
- Implementation and review of Business Continuity Management ("BCM") Programme and coordinate simulation runs;
- Implementation of System Risk Evaluation to identify and manage system risk;
- Identify the potential Operational Risk based on the results of Self-Inspection findings, RCSA, GCSA and Outsourcing review activities; and
- Development of Shariah Risk Register to assist in risk identification for Islamic business transactions.

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(d) OPERATIONAL RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Procedures and methods established to control and mitigate operational risk;
- Regular risk and Key Risk Indicator (generic/specific "KRI" of Business Units and BNM's Operational Risk Integrated Online Network) reporting on operational risk matters via ORMCC and RMC;
- Implementation of periodic User ID and Access Management review process in adherence to the principle of segregation of duties, independent checks, segmented system access control and multi-tier authorisation processes;
- Implementation of Post Incident Reporting process to review the effectiveness of countermeasures committed to minimise risk of operational incidents and to identify weaknesses in operational processes and procedures;
- Implementation of Annual Review on Products and Services to manage and minimise risk;
- Execution of Testing and Exercising as planned in ensuring back-up procedures and contingency plans are up-to-date;
- Review on the Outsourcing Management process to manage risks from service providers on outsourced operations;
- Overall assurance on the adequacy and reliability of the operational risk management system by IAD; and
- Analyse and monitor countermeasures of Self-Inspection findings to minimise operational risk.

(e) INFORMATION SECURITY RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Use of self-assessment checklist; and
- Review of Information Security Incident reports to identify weaknesses in Information Security processes and procedures.

(ii) Risk Control, Mitigation and Monitoring

- Review and report on information security discussed at regular meetings of IT Steering Committee ("ITSC") chaired by Head of Operations, System and Planning Unit;
- Exceptions will be reported to ORMCC and RMC regularly; and
- Comprehensive and up-to-date documentation of Information Security Standards and Procedures.

(f) COMPLIANCE RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Compliance Risk Assessment ("CRA") is performed utilising CRA tools for determining the key areas of compliance focus, allocation of compliance resources and deployment of compliance monitoring, testing and training;
- Established compliance risk assessment plan and schedule from applicable compliance risk universe;
- Determination of residual risk and risk ratings by utilising a standardised methodology (including taking into consideration the business activity) in a consistent manner; and
- Comprehensive risk assessment is performed annually with quarterly refresh.

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(f) COMPLIANCE RISK MANAGEMENT (CONTD)

(ii) Risk Control, Mitigation and Monitoring

- Implement Core Compliance Policies and Financial Crime Policies consistent with Group's direction and local regulation;
- Develop and maintain regulatory inventory, i.e. to keep track on changes to laws, rules and regulations ("LRR") that may result in changes to the Bank's risk profile and operation;
- Conduct periodic monitoring and testing based on key focus areas and/or triggered events;
- Inform Senior Management regarding key issues and concerns around compliance related events and development;
- Implement issue management guidelines to enable effective identification, escalation, reporting and remediation of compliance issues;
- Raise compliance awareness through training and various compliance culture program;
- Adopts the strategy of constructive engagement with regulatory authorities; and
- Regulatory compliance team that provide compliance advise to the business areas as well as assisting to resolve regulatory issues.

Internal Audit

Internal Audit is an independent and objective function to assist the AC of the Board in discharging the responsibilities defined in the terms of reference of the AC. Reviews are conducted on the operations, activities, systems, procedures and practices of the Bank and reports on the findings are submitted with recommendations to the AC. Such reporting serves to provide the desired status of independence for the Internal Auditors to determine adequate coverage of audit and to be impartial and unbiased in performing audit examinations.

In carrying out its responsibilities, the IAD has full, free and unrestricted access to all activities, records, property and personnel. The Internal Auditors are encouraged to be consulted for advice such as to provide comments based on lessons learnt from past audit experience which could be beneficial when new systems are planned to be introduced incorporating significant changes in internal control processes and standards. Such advice does not exempt the subjects from being audited subsequently for possible additional improvements.

Internal Audit is governed by the policies and objectives of the Bank, applicable laws and regulations such as the FSA 2013, IFSA 2013, BNM's Guidelines on Minimum Audit Standards for Internal Auditor of Financial Institutions and the Institute of Internal Auditors' International Standards for Professional Practice of Internal Auditing.

Responsibilities

Internal Audit is entrusted with the responsibility to appraise the appropriateness and effectiveness of the internal control system of the Bank's operations, activities, systems, procedures and practices and for advising Management on their condition. The Department will include the evaluation of the following in its scope of work to effectively discharge its responsibilities:

- Compliance with internal policies, applicable laws and regulations;
- Adequacy and effectiveness of risk management, internal controls and governance process;
- Appropriateness of Management's approach to risk and control in relation to the Bank's objectives;
- Reliability, integrity and continuity of the information technology, payment systems and electronic delivery channels;

CORPORATE GOVERNANCE (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Internal Audit (Contd)

Responsibilities (Contd)

- Adequacy and effectiveness of the system of assessing capital and robustness of stress testing procedures;
- Reliability, integrity and timeliness of regulatory reporting, accounting records, financial reports and management information;
- Adequacy and effectiveness of anti-money laundering measures;
- Compliance with Shariah principles as determined by the Shariah Committee;
- Provide independent assurance on the adequacy and effectiveness of departments entrusted to oversee the compliance function and responsible for oversight of the risk management function;
- Conduct ad-hoc/special assignments/reviews as requested by Management or AC;
- Planning audit assignments and presenting the annual audit plan for approval by AC; and
- Monitor progress of rectification actions by auditees.

SHARIAH COMMITTEE (“SC”)

The Bank’s SC was established to ensure that the Bank’s Islamic banking objectives and operations, business, affairs and activities are in compliance with Shariah rules and principles. The roles and responsibilities of the Bank’s SC are as prescribed in the Shariah Governance Policy Document issued by BNM and in compliance with the respective members’ letter of appointment.

The key roles and responsibilities of the SC include:

- To advise and provide input to the Board on Shariah matters including regular update or reporting, and attending the Board meeting whenever required by the Board;
- To advise the Bank on Shariah matters in ensuring the Bank’s Islamic banking operations comply with Shariah principles at all times;
- To endorse Shariah and other relevant policies and procedures for Islamic banking operations and to ensure that the contents are Shariah compliant;
- To approve the Bank’s Islamic banking products including the relevant documentations as follows:
 - (i) The terms and conditions contained in the forms, contracts, agreements or legal documentations used in executing the transactions; and
 - (ii) The product manuals, advertisements, sales illustrations and brochures used to describe the product.
- To perform an oversight role on Shariah compliance related matters to the Bank’s Islamic banking operations including assessing the work carried out by Shariah Review and Shariah Audit to ensure Shariah compliance;
- To provide report as part of the Bank’s annual report on the state of Shariah compliance by confirming the appropriate tests, procedures and review works have been performed;
- To provide necessary assistance on Shariah matters to the Bank’s related parties such as legal, compliance, auditors or consultants etc. in ensuring Shariah compliance;

CORPORATE GOVERNANCE (CONTD)

SHARIAH COMMITTEE ("SC") (CONTD)

The key roles and responsibilities of the SC include: (Contd)

- To advise on matters to be referred to the Shariah Advisory Council ("SAC") of BNM and/or SAC of Securities Commission Malaysia ("SCM") for matters that could not be resolved (whenever necessary); and
- To provide written Shariah opinions in circumstances where the Bank makes reference to the SAC of BNM and/or SAC of SCM for further deliberation, or where the Bank submits applications to BNM for new product approval as outlined in BNM guidelines.

The SC of the Bank consists of four (4) members and their profiles are as follows:

Assoc. Prof. Dr. Abdul Karim bin Ali

Associate Professor Dr. Abdul Karim obtained his Bachelor of Shariah (First Class Honours) from the University of Malaya in 1990 and Ph.D in Islamic Studies from the University of Edinburgh, Scotland in 1996. At present, he is a lecturer at the Academy of Islamic Studies, University of Malaya. Previously, he was the Deputy Director (Undergraduate) at the Academy of Islamic Studies, University of Malaya (2010-2014) and the Head of Fiqh and Usul Fiqh Department at the Academy of Islamic Studies, University of Malaya (2009-2010). He has been a member of the SC of the Bank since 2008.

Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi

Associate Professor Dr. Syed Musa obtained his Diploma in Business Studies from Ngee Ann Polytechnic, Singapore in 1984, Bachelor of Business Administration (First Class Honours) from the International Islamic University Malaysia ("IIUM") in 1989 and Doctor in Business Administration ("DBA") from University of Strathclyde, Glasgow, United Kingdom in 1994. IIUM. At present he is a lecturer at the IIUM Institute of Islamic Banking and Finance ("IIBF"). Previously, he was the Dean of the IIBF, and Dean of Graduate School of Business, University Tun Abdul Razak. Currently, he serves as a member of Shariah Supervisory Council of Labuan Financial Services Authority since 2014. He has served as a member of Shariah Advisory Council of Securities Commission Malaysia ("SAC") from 2017 until 2020. He had also served as Accounting and Auditing Standards Committee of Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and was engaged as consultant to Islamic Financial Services Board ("IFSB") Transparency and Market Discipline standard. He has been a member of the SC of the Bank since 2012.

Prof. Dato' Dr. Mohd Azmi bin Omar

Professor Dato' Dr. Mohd Azmi obtained his Bachelor of Science (Finance) in 1983 and Master of Business Administration from the Northern Illinois University, United States of America in 1985 and PhD in Finance from the Bangor University, Wales, United Kingdom in 1994. At present, he is the President and Chief Executive Officer at International Centre for Education in Islamic Finance (INCEIF) - The Global University of Islamic Finance since October 2017. Prior to his current position, he served as the Director-General at Islamic Research and Training Institute ("IRTI"), Islamic Development Bank Group, Jeddah, Kingdom of Saudi Arabia. He is a member of Board of Trustees of Responsible Finance Institute (RFI Foundation and formerly a member of the External Advisory Group for the International Monetary Fund ("IMF") Interdepartmental Working Committee on Islamic Finance. He accumulated vast experiences in International Islamic University Malaysia (IIUM), having served in various capacities including Deputy Rector (Academic & Research), Dean of IIUM Institute of Islamic Banking and Finance (IIBF) and Dean of Faculty of Economics and Management Sciences. Currently, he also serves as a member of Shariah Committee to Bank Rakyat Malaysia, Etiqa Takaful Malaysia and an Islamic Finance Expert to the Autoriti Monetari Brunei Darussalam. He has been a member of the SC of the Bank since June 2020.

Assoc. Prof. Dr. Mohamad Zaharuddin bin Zakaria

Associate Professor Dr. Mohamad Zaharuddin obtained his Bachelor of Shariah and Judiciary (First Class honours) from Universiti Sains Islam Malaysia ("USIM") in 2005 and Master of Islamic Judiciary from University of Jordan in 2008 and PhD in Fiqh and Usul Fiqh from the International Islamic University Malaysia ("IIUM") in 2014. At present, he is a lecturer at the Faculty of Shariah and Law, USIM. He also serves as the Coordinator of the Centre for Awqaf and Zakat, USIM. Currently, he serves as a member of SC at Bank Simpanan Nasional. He has been a member of the SC of the Bank since June 2020.

The SC meets at least once in every two (2) months.

The SC held seven (7) meetings during the financial year.

CORPORATE GOVERNANCE (CONTD)

SHARIAH COMMITTEE (“SC”) (CONTD)

The details of attendance of each member at the SC meetings held during the financial year ended 31 March 2020 are as follows:

| SC Member | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| Assoc. Prof. Dr. Abdul Karim bin Ali <i>Member (Appointed as Chairman effective 1 October 2019)</i> | 7 | 7 |
| Assoc. Prof. Dr. Syed Musa bin Syed Jaafar Alhabshi <i>Member</i> | 7 | 7 |
| Dr. Safinar binti Salleh <i>Member (Term ended on 31 May 2020)</i> | 7 | 7 |
| Dr. Noor Suhaida binti Kasri <i>Member (Term ended on 31 May 2020)</i> | 7 | 6 |
| Dr. Luqman bin Haji Abdullah <i>Chairman (Resigned effective 1 October 2019)</i> | 4 | 4 |

REMUNERATION STRATEGY

The Bank’s Remuneration Policy, which has been endorsed by the Bank’s Remuneration Committee and approved by the Board, applies to all of the Bank and acts as a guiding principle in relation to the design and management of our remuneration programmes.

The overall purpose of the Reward Philosophy is to attract, motivate and retain high-performing individuals in a manner that supports robust governance in line with MUFG’s risk appetite; is aligned with MUFG’s business strategy, objective, values and long term interests and ensure the franchise is sustainable and that the firm’s financial resources are aligned to the principals of safety and soundness.

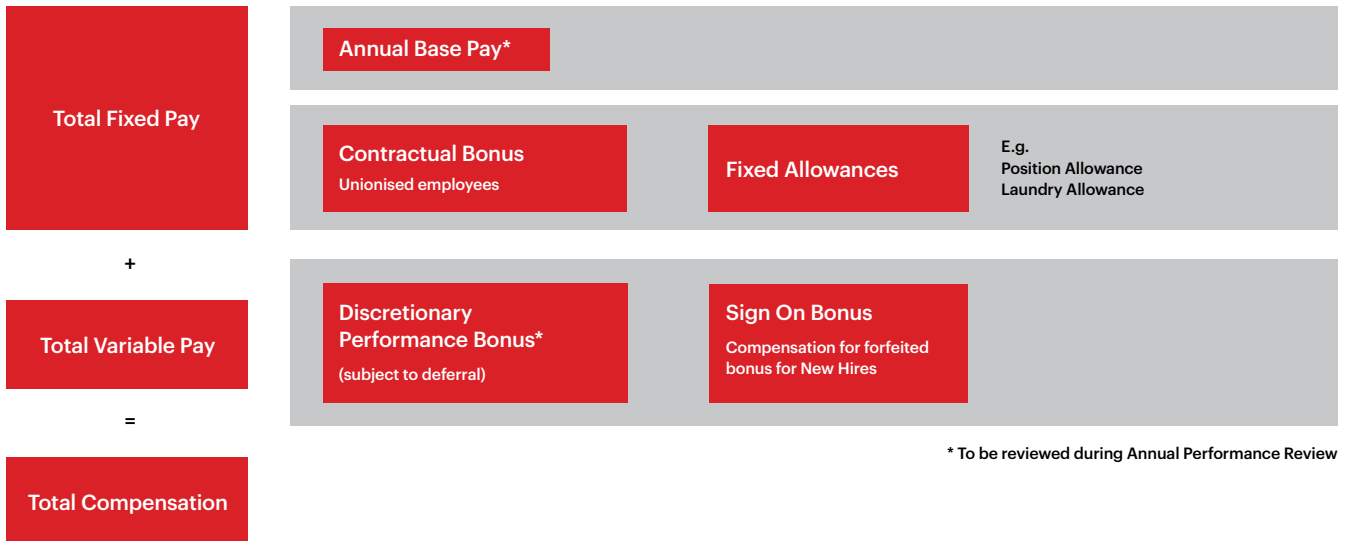
In order to achieve this, MUFG’s remuneration programs are designed around the following core principles:

- **Pay for Performance:** There shall be a link between performance and remuneration to identify and reward top performance. Performance measurements include both the “what” and the “how”;
- **Total Compensation:** Remuneration is to be determined and evaluated on a Total Compensation basis, including Base Salary, Fixed Allowance and discretionary Variable Pay;
- **Align to MUFG’s Values:** Remuneration decisions shall be linked to and support MUFG’s values;
- **Support Prudent Risk Taking:** Ensure that remuneration arrangements are designed to appropriately balance risk and financial results in a manner that does not encourage employees to expose the firm to excessive or imprudent risk;
- **Market Competitive:** Provide awards that are competitive and attractive in the market place;
- **Fair and Transparent:** Employees are to be treated fairly and remuneration decisions should be made free from any form of discrimination and/or inequity. The approach to remuneration shall be transparent, clearly communicated and well understood; and
- **Regulatory Compliance and Governance:** Remuneration arrangements must comply with all applicable regulatory and legal requirements.

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(a) COMPONENTS OF REMUNERATION



The Discretionary Performance Bonus is accrued in the current financial year and paid in the following financial year. Total Compensation is computed by adding the total fixed pay in the financial year and total variable pay mainly from Discretionary Performance Bonus.

| | | |
|----------|---|--|
| Fixed | Consist of base salary and fixed allowances | <p>Fixed Pay strategy</p> <p>a) MUFG has the ability to pay across the full Peer Group Market Range.</p> <p>b) MUFG Fixed Pay strategy employs a long-term approach to determine desired pay levels for each role considering the said role’s fixed pay market position and preceding years’ Performance Reviews on the following:</p> <ul style="list-style-type: none"> i. Consistent Exceptional Performer may have a target pay at the upper end; and ii. Consistent Poor Performers may have a target pay at the lower end of the Market Range. |
| Variable | Payable annually through cash bonus | <p>a) Bonus will be differentiated towards top performances to ensure Total Compensation reflects their performance for the year. Bonus should be differentiated enough to reward top performers financial aligning to MUFG’s culture and not encourage excessive risk taking and/ or inappropriate behaviours;</p> <p>b) Bonus are not linked to current Fixed Pay or Base Salary levels;</p> <p>c) Variable Pay differentiated at a Department and Individual Level based on performance;</p> <p>d) Discretionary differentiated bonuses to be awarded during Annual Pay Review exercise;</p> <p>e) Poor Performers to receive zero variable pay; and</p> <p>f) To safeguard the independence and authority of individuals engaged in control functions, MUFG shall ensure that the remuneration of such individuals is based principally on the achievement of control functions objectives, and determined in a manner that is independent from the business lines they oversee.</p> |

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(b) MEASUREMENT OF PERFORMANCE

The Bank's performance is determined in accordance with a balanced scorecard which includes key measures on profitability, cost, capital, shareholder's return, medium to long-term strategic initiatives, as well as, audit and compliance positions.

The Bank's key measures are cascaded to the business units and functions accordingly, and subsequently to the Key Performance Indicator ("KPI") scorecards of individuals.

For each employee in the Bank, performance is tracked through KPIs of Standardised Bank Performance Management Format in a balanced scorecard. In addition to financial targets, KPIs in the balanced scorecard could include measures or customer experience, risk management and operational efficiency process controls, audit and compliance findings, as well as development related measures.

At the end of the year, performance of each individual is then holistically assessed through the Bank's performance management framework which is based on the balanced scorecard and the individual's competencies.

(c) DETERMINATION OF VARIABLE REMUNERATION

Based on the Bank's performance, the Management will determine the overall variable remuneration pool taking into consideration key performance measures. The Bank's pool will be allocated by the Management to the business units and function based on their respective performance and adjustment in view of market relevance of the employment remuneration.

Variable remuneration of each individual employee is determined based on individual assessment and the adequacy of bonus pool allocated to the business unit function to which the individual belongs.

The control functions of Audit, Compliance, and Risk functions operate independently from the business units in the Bank, and have appropriate authority to carry out their individual functions without intervention from the business units. To prevent conflict of interest, remuneration of employees in these control functions are not dictated by business units that they support. Remuneration of the CEO, CRO, CCO and CIA are approved by the Board and the relevant Board Committees.

(d) DIRECTORS' REMUNERATION

This is disclosed in Note 32 of the financial statements.

CORPORATE GOVERNANCE (CONTD)

REMUNERATION STRATEGY (CONTD)

(e) REMUNERATION DISCLOSURE FOR SENIOR MANAGEMENT AND OTHER MATERIAL RISK TAKERS

| Total value of remuneration awards for the financial year | 31 March 2020 | | | 31 March 2019 | | |
|---|---------------|---------------|--------------------|---------------|---------------|--------------------|
| | Unrestricted | Deferred | Number of Officers | Unrestricted | Deferred | Number of Officers |
| Senior Management | RM'000 | RM'000 | | RM'000 | RM'000 | |
| Fixed remuneration | | | | | | |
| • Cash based | 6,456 | - | 11 | 5,582 | - | 13 |
| • Others | 1,181 | - | 8 | 902 | - | 10 |
| Variable remuneration | | | | | | |
| • Cash based | 4,003 | 376 | 8 | 1,209 | 376 | 10 |
| • Others | 269 | - | 3 | 254 | - | 3 |
| Sub total | 11,909 | 376 | 30 | 7,947 | 376 | 36 |
| Other material risk takers ("ORMT") | | | | | | |
| Fixed remuneration | | | | | | |
| • Cash based | 4,380 | - | 12 | 5,008 | - | 14 |
| • Others | 744 | - | 12 | 772 | - | 14 |
| Variable remuneration | | | | | | |
| • Cash based | 1,910 | - | 11 | 1,707 | - | 14 |
| Sub total | 7,034 | - | 35 | 7,487 | - | 42 |
| Total | 18,943 | 376 | 65 | 15,434 | 376 | 78 |

There are no shares and share linked instruments granted to Senior Management and other material risk takers during the financial year.

RELATED PARTY TRANSACTIONS

Payments made on services rendered by the holding company are on documented contractual terms and there is no related party transaction with the Board of Directors or Senior Management.

RATING BY EXTERNAL RATING AGENCIES

On 6 December 2019, RAM Rating Services Berhad has assigned the Bank a long-term rating of AA1 and a short-term rating of P1 with stable outlook.

COMPLIANCE WITH BNM'S EXPECTATIONS ON FINANCIAL REPORTING

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that BNM's expectations on financial reporting have been complied, including those as set out in the Guidelines on Financial Reporting.