

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT

THE BOARD OF DIRECTORS

The Bank's Board of Directors ("The Board") has always maintained the highest standards of corporate governance to safeguard 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 outlined in the Malaysian Code on Corporate Governance 2021 in support of the three key principles namely, board leadership and effectiveness; effective audit and risk management; and integrity in corporate reporting and meaningful relationship with stakeholders.

The CG Statement 2023 of the Bank is published on the Bank's website, <https://www.bk.mufig.jp/malaysia/> ("the Bank's website").

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

Dato' Noorazman bin Abd Aziz **(Independent Director)**

Dato' Noorazman bin Abd Aziz ("Dato' Noorazman") was appointed as an Independent Director of the Bank on 6 January 2023; and subsequently Chairman of the Bank on 1 July 2023.

He is currently the Chairman of Sunlife Malaysia Assurance Berhad, Sunlife Malaysia Takaful Berhad and CTOS Digital Berhad and sits on the Board of public listed Kumpulan Perangsang Selangor Berhad ("KPS").

He also chairs the Board of Trustees of Yayasan UEM, the philanthropic arm of Khazanah's UEM Group Berhad and the Board of Trustees of International Centre for Education in Islamic Finance ("INCEIF") University. He was also appointed as a Board of Trustee of OSK Foundation.

Dato' Noorazman started his career as an investment analyst at Perbadanan Nasional Berhad ("PERNAS") in 1982. He left 3 years later for an illustrious 25-year career with Citigroup in areas of corporate banking, investments, treasury and financial markets. It was during this period that he was seconded to Malaysia's Ministry of Finance ("MOF") where he served as the Director-General of Labuan Offshore Financial Services Authority ("LOFSA") and Chief Operating Officer of Kuala Lumpur Stock Exchange Berhad. After the secondment, Dato' Noorazman re-joined Citibank Berhad as its Managing Director ("MD"), Head of Corporate and Investment Bank. In 2005, he was appointed as MD/CEO of Bank Islam Malaysia Berhad and later became the MD/CEO of BIMB Holdings Berhad. He left in 2007 to co-found and became MD of Fajr Capital Ltd, a Syariah - based private equity firm based in Dubai. Thereafter, he joined Khazanah Nasional Berhad as Executive Director, Investments until he retired in June 2019.

Dato' Noorazman holds a BSc Finance from Louisiana State University, USA. He also holds membership of professional bodies like the Chartered Institute of Islamic Finance Professionals ("CIIF"), Malaysia, the Institute of Corporate Directors ("ICDM"), Malaysia and the Australian Institute of Corporate Directors ("AICD"), Australia.

Dato' Noorazman was appointed as a member of the Investment Panel of Kumpulan Wang Persaraan ("KWAP"), a statutory body that manages the pension scheme of public employees in 2019 and the Audit Oversight Board ("AOB") of the Securities Commission ("SC") on 1 August 2023.

In 2005, Dato' Noorazman was named as the winner of the first Asian Banker Achievement Award for Islamic Finance.

Mr. Motohide Okuda **(Executive Director)**

Mr. Motohide Okuda ("Mr. Okuda"), was appointed as CEO and Executive Director of the Bank on 29 March 2024. Mr. Okuda is a member of the Nomination Committee. He graduated with a Bachelor Degree in Economics from Kwansei Gakuin University, Japan and further his study, and graduated with a Master in Business Administration from University of Manchester, United Kingdom of England.

Mr. Okuda embarked on his journey with MUFG Bank, Ltd., Japan in 1998, accumulating over 25 years of broad experiences in client coverage across Japan and Netherlands. He specialised in corporate finance and advisory, strategic planning within the realms of corporate and transaction banking.

Prior to Mr. Okuda's appointment in the Bank, he was the Managing Director, Deputy Head of Transaction Banking Division of MUFG Bank, Ltd. in Tokyo, Japan. For almost six (6) years, he has been overseeing the operations of strategic planning, human resources, risk management, financial control, corporate and communications within his role.

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CORPORATE GOVERNANCE STATEMENT (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Director's Profile (Contd)

En. Rashid bin Ismail **(Independent Director)**

Encik Rashid bin Ismail ("En. Rashid"), was appointed as an Independent Director of the Bank on 19 August 2022. He is the Chairman of the Audit Committee and Nomination Committee, and also member of the Risk Management Committee and Remuneration Committee. En. Rashid graduated from Universiti Teknologi MARA ("UiTM") with a Diploma in Accountancy and holds a Bachelor Degree in Business (Accounting) from Edith Cowan University, Perth, Western Australia. He holds membership of professional bodies as a Chartered Accountant (CA) from Malaysian Institute of Accountants ("MIA") as well as CPA Australia.

From 2006 to 2010, En. Rashid was appointed as Director of Amanah Ventures Sdn Bhd and Amanah Property Trust Manager Sdn Bhd, MIDF Consultancy and Corporate Services ("MIDFCCS"), Amanah Scotts Properties (KL) Sdn Bhd, Amanah Scotts Sdn Bhd, Amanah Ascott Management Sdn Bhd and Amanah Butler Malaysia Sdn Bhd. He was also appointed as Chief Executive Officer (CEO) of MIDF Property Berhad from July 2007 to July 2010.

En. Rashid was appointed as CEO and Executive Director of BIMB Securities Sdn Bhd ("BIMB Securities") from January 2011 to January 2020. He was elected as Chairman of Association of Stockbroking Companies Malaysia ("ASCM") from December 2015 to December 2017 and was also appointed as a member (Independent) of Market Participants Committee, Bursa Malaysia Berhad from July 2015 to June 2018. From January 2012 to January 2020, he served as a member of Board of Trustee of Bumiputera Dealers' Representative Education Fund ("BDREF"), Bumiputera Training Fund ("BTF") of Securities Industry Development Corporation ("SIDC").

Post his retirement from BIMB Securities in 2020, En. Rashid has been nominated and accepted as an Independent member of Regulatory and Conflicts Committee ("RACC") under Bursa Malaysia Berhad, and is currently serving as a Panel of Subject Matter Expert of Islamic Banking and Finance Institute Malaysia ("IBFIM").

En. Amin Siru bin Abdul Rahman **(Independent Director)**

En. Amin Siru bin Abdul Rahman ("En. Amin Siru") was appointed as an Independent Director of the Bank on 1 July 2023. He is a member of the Audit Committee, Nomination Committee, Risk Management Committee and the Remuneration Committee.

En. Amin Siru holds a Bachelor's Degree in Economics from University Malaya, Kuala Lumpur.

En. Amin Siru is a career banker with over 40 years' experience in branch banking, corporate banking including corporate recovery & rehabilitation and internal audit, mainly with a large multinational banking group.

His broad experience was gained in holding senior management positions and leadership roles with International Islamic banks. He was the Chief Credit Officer with Kuwait Finance House (Malaysia) Berhad since 2008 and in 2010, he was appointed the Chief Risk Officer ("CRO"). He was CRO (2013) and Chief Executive Officer (2017) of HSBC Amanah Malaysia Berhad. He was the Acting CRO of Warba Bank (K.S.C), Kuwait from April 2017 to August 2019.

He is currently a board member of Grand Signet Sdn Bhd, an oil & gas holding company, and the Director of Risk and Compliance, CPRO Solutions Sdn Bhd, an e-payment solutions enterprise.

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CORPORATE GOVERNANCE STATEMENT (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 Board assumes responsibilities for effective stewardship and control of the Bank and has established terms of reference ("TOR") to assist in discharging its responsibilities.

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

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over to the Board Committees namely, Audit Committee ("AC"); Risk Management Committee ("RMC"), Nomination Committee ("NC") and Remuneration Committee ("RC") with the roles and responsibilities as outlined in their respective TOR.

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

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 including but not limited to, outsourcing plan and material outsourcing engagement 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' maximum tolerable downtime ("MTD"), recovery time objective ("RTO") of critical business function ("CBF") 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;

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CORPORATE GOVERNANCE STATEMENT (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

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

- 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;
- 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 paragraph 11.2 of the BNM's Policy Document on Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions ("AML/CFT and TFS for FIs");
- Undertake and exercise the Board's duties, responsibilities and oversight functions as stipulated in 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.

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CORPORATE GOVERNANCE STATEMENT (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 2024, 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 | Annual Financial Crime Compliance (FCC) Awareness Session for the Board of Directors | Dato' Noorazman Mr. Takamatsu En. Rashid En. Ismail |
| 2 | Shariah Committee and Board Engagement Session | Dato' Noorazman Mr. Takamatsu En. Rashid En. Ismail |
| 3 | Joint Committee on Climate Change (JCs) Outreach Session | Mr. Takamatsu |
| 4 | Senior Leadership ESG Masterclass | Mr. Takamatsu |
| 5 | MIDA EX Roadmap Engagement Session | Mr. Takamatsu |
| 6 | Environmental, Social and Governance for Board of Directors | Mr. Takamatsu En. Rashid En. Amin Siru |
| 7 | Governance in Groups | En. Rashid |
| 8 | Remaking Corporate Governance for an ESG World | En. Rashid |
| 9 | Islamic Finance for Board of Directors' Programme | Dato' Noorazman En. Rashid En. Amin Siru |
| 10 | Mandatory Accreditation Programme (MAP) | En. Rashid |
| 11 | Global Minimum Tax & e-Invoicing | Dato' Noorazman Mr. Takamatsu En. Rashid En. Amin Siru |
| 12 | IT Cloud and Cyber Security | Dato' Noorazman En. Rashid En. Amin Siru |
| 13 | BNM-FIDE FORUM Roundtable on Licensing and Regulatory Framework for DITO Exposure Draft | Dato' Noorazman En. Ismail |
| 14 | Climate Change and Environmental Impact | Dato' Noorazman |
| 15 | INCEIF Discourse Series 6 : Tan Sri Nor Yakcop on "Islamic – Finance in Malaysia: Going Forward" | Dato' Noorazman |
| 16 | Understanding the Impact of Digital Transformation in the Financial Industry: What Board Members Need to Know | Dato' Noorazman |

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CORPORATE GOVERNANCE STATEMENT (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(c) Directors' Training (Contd)

| No. | Training Programmes | Attended by |
|-----|--|-----------------|
| 17 | Task Force on Climate-Related Financial Disclosures | Dato' Noorazman |
| 18 | Chairperson Masterclass Series: Scaling Up the Circular Economy by Ashleigh | Dato' Noorazman |
| 19 | INCEIF Disclosure Series 7 : the Grand Design of Islamic Finance – The Tone at the Top by Tan Sri Dr Mohd Daud Bakar | Dato' Noorazman |
| 20 | Cybersecurity training by Mr Abhay Raman, CEO of Sunlife Canada | Dato' Noorazman |
| 21 | Public Lecture: Islam and Inequality: What Economics Finance from An Islamic Perspective Can Do | Dato' Noorazman |
| 22 | KWAP Board & Investment Panel Training on Sustainability | Dato' Noorazman |
| 23 | KWAP Board & Investment Panel Training on Cyber Security | Dato' Noorazman |
| 24 | Fiduciary Duty on Climate Risk Management | Dato' Noorazman |
| 25 | Anti-Trust Training – Ensuring Compliance With Competition Law | Dato' Noorazman |
| 26 | Directors' Orientation Programme | En. Amin Siru |
| 27 | The Asian Captive Conference | En. Ismail |
| 28 | The Takaful Rendezvous | En. Ismail |

d) Tenure of Independent Directors

The Board considers that fundamentally the independence of Directors are based on their capacity and capability to exercise objective independent judgement to put the best interests of the Bank and its shareholders ahead of other interests.

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.

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CORPORATE GOVERNANCE STATEMENT (CONTD)

THE BOARD OF DIRECTORS (CONTD)

Roles and Responsibilities (Contd)

(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 nine (9) Board meetings were held during the financial year ended 31 March 2024. The details of attendance of each member at the Board meetings held during the financial year ended 31 March 2024 are as follows:

| Director | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| Y.Bhg. Dato' Noorazman bin Abd Aziz <i>Independent Chairman</i> | 9 | 9 |
| Mr. Fumio Takamatsu <i>Executive Director</i> <i>(resigned with effect from 28 March 2024)</i> | 9 | 9 |
| En. Rashid bin Ismail <i>Independent Director</i> | 9 | 9 |
| En. Amin Siru bin Abdul Rahman <i>Independent Director</i> | 5 | 5 |
| En. Ismail bin Mahbob <i>Non-Independent Non-Executive Director</i> <i>(resigned with effect from 30 September 2023)</i> | 6 | 6 |
| Y.Bhg. Dato' Mohd Sallehuddin bin Othman <i>Non-Independent Non-Executive Director</i> <i>(resigned with effect from 30 June 2023)</i> | 4 | 4 |

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CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES

(a) Nomination Committee ("NC")

NC shall support the Board in carrying out its functions in the following matters concerning the Board, Senior Management, Shariah Committee and Company Secretary:

- (a) appointments and removals
- (b) composition
- (c) performance evaluation and development
- (d) fit and proper assessments

The present composition of NC is as follows:

En. Rashid bin Ismail (Chairman)
Mr. Motohide Okuda (Member)
Y.Bhg. Dato' Noorazman bin Abd Aziz (Member)
En. Amin Siru bin Abdul Rahman (Member) *(appointed with effect from 1 July 2023)*

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

During the financial year ended 31 March 2024, the NC held eight (8) meetings.

The details of attendance of each member at the NC meetings held during the financial year ended 31 March 2024 are as follows:

| NC Member | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| En. Rashid bin Ismail <i>Chairman</i> | 8 | 8 |
| Y.Bhg. Dato' Noorazman bin Abd Aziz <i>Member</i> | 8 | 8 |
| En. Amin Siru bin Abdul Rahman <i>Member</i> | 6 | 6 |
| Mr. Fumio Takamatsu <i>Member</i> <i>(ceased with effect from 28 March 2024)</i> | 8 | 8 |

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CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

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

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;
- 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 are 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.

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CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

(b) Remuneration Committee ("RC")

RC shall support the Board in actively overseeing the design and operation of the Bank's remuneration system in accordance with the Bank Negara Malaysia (BNM) Guidelines on Corporate Governance.

The present composition of RC is as follows:

En. Amin Siru bin Abdul Rahman (Chairman)
En. Rashid bin Ismail (Member)
Y.Bhg. Dato' Noorazman bin Abd Aziz (Member)

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

During the financial year ended 31 March 2024, 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 2024 are as follows:

| RC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| En. Amin Siru bin Abdul Rahman <i>Chairman</i> <i>(appointed with effect from 1 October 2023)</i> | 2 | 2 |
| En. Rashid bin Ismail <i>Member</i> | 3 | 3 |
| Y.Bhg. Dato' Noorazman bin Abd Aziz <i>Member</i> | 3 | 3 |
| En. Ismail bin Mahbob <i>Member</i> <i>(ceased with effect from 30 September 2023)</i> | 1 | 1 |

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.

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BOARD COMMITTEES (CONTD)

(c) Audit Committee ("AC")

The AC's functions and responsibilities are to support the Board to ensure that there is a reliable and transparent financial reporting process within the Bank. The AC is primarily responsible for reviewing and monitoring the integrity of the Bank's financial reporting process, accounting records, risk management process and system of internal controls.

The present composition of AC is as follows:

En. Rashid bin Ismail (Chairman)
Y.Bhg. Dato' Noorazman bin Abd Aziz (Member)
En. Amin Siru bin Abdul Rahman (Member)

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

During the financial year ended 31 March 2024, nine (9) meetings were held.

The External Auditors may request a meeting with or without the presence 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 2024 are as follows:

| AC Member | Number of Meetings | |
|--|--------------------|----------|
| | Held | Attended |
| En. Rashid bin Ismail <i>Chairman</i> | 9 | 9 |
| Y.Bhg. Dato' Noorazman bin Abd Aziz <i>Member</i> <i>(appointed with effect from 6 January 2023)</i> | 9 | 9 |
| En. Amin Siru bin Abdul Rahman <i>Member</i> | 6 | 3 |
| En. Ismail bin Mahbob <i>Member</i> <i>(ceased with effect from 30 September 2023)</i> | 5 | 5 |

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.

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BOARD COMMITTEES (CONTD)

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

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 and provide assurance that the financial information presented by management is relevant, reliable and timely;
- to oversee the effectiveness of the internal audit function of the Bank and evaluate the quality of audits performed;
- 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;
- 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; and
- to oversee the compliance with laws and regulations and observe proper code of conduct established.

The AC is authorised by the Board:

- to review any activity of the Bank within its Terms of Reference. It is authorised to seek any information or documents/resources it requires from any Director or member of Management; and all employees are directed to co-operate with any request made by the Audit Committee;
- to obtain independent 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; and
- be kept regularly updated on audit matters and to be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by Management or Internal Audit Department, if any.



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BOARD COMMITTEES (CONTD)

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

The functions and responsibilities of the AC are:

Internal Audit

- to approve on the appointment, remuneration, performance appraisal, transfer and dismissal of the Chief Internal Auditor ("CIA");
- to review and if appropriate, approve the Internal Audit Charter and procedure manual;
- to review and approve the adequacy of the internal audit scope, procedures, plan, frequency and budgeted man-days; 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 review and consider reports and findings issued by regulatory authorities; and to ensure that Management has taken the necessary corrective actions in a timely manner;
- to review key audit reports and any findings raised by Internal Audit Department; and to ensure that Management has taken/is taking the 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 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.

Matrix Reporting

- to ensure internal audit department matrix reporting to Internal Audit for Asia (AIAO) is governed by the agreed scope (AIAO oversight function); and
- to ensure that the final call/decision making on the Internal Audit Department or internal audit matters will be made by the Chief Internal Auditor and/or with Audit Committee's concurrence.

External Auditors

- to review the terms of appointment, re-appointment, removal of the external auditor; and their remuneration and terms of engagement; and make recommendations to the Board for approval by the Bank's shareholder;
- 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 External Auditors' Assessment Policy;
- 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 and discussing problems and reservations arising from interim as well as final audits;
- to review the external auditor's management letter and Management's response to the management letter, if any;
- to review the report of the external auditors including any significant matters; and to ensure Management has taken/is taking the 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

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

The function and responsibilities of the AC are: (Contd)

Financial Reporting

- to review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosure and interim financial reports and any preliminary announcements in relation to the preparation of financial statements;
- 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) significant and unusual events and transactions;
 - (iii) major judgemental areas;
 - (iv) significant adjustments resulting from the audit;
 - (v) the going concern assumption;
 - (vi) compliance with applicable financial reporting standards;
 - (vii) compliance with BNM and legal requirements; and
 - (viii) adequacy of provision for contingencies and bad and doubtful debts.

Risk Management and Governance

- to review the adequacy and effectiveness of the Bank's governance processes, risk management and internal controls prior to endorsement by the Board;
- 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 interest;
 - (ii) clearly define the process for directors to keep the Board informed on any change in his circumstances that may give rise to conflicts of interest;
 - (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 course of conduct that raises questions of management integrity.

Other matters

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



DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

(d) Risk Management Committee ("RMC")

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, legal and compliance risk, information security risk as well as emerging risks such as ESG risk, climate risk, pandemic risk and cyber 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.

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

The present composition of RMC is as follows:

En. Amin Siru bin Abdul Rahman (Chairman)
En. Rashid bin Ismail (Member)
Y.Bhg. Dato' Noorazman bin Abd Aziz (Member)

The RMC shall meet at least once every quarter.

The RMC held six (6) meetings during the financial year ended 31 March 2024.

The details of attendance of each member at the RMC meetings held during the financial year ended 31 March 2024 are as follows:

| RMC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| En. Amin Siru bin Abdul Rahman <i>Chairman</i> <i>(appointed with effect from 1 October 2023)</i> | 3 | 3 |
| En. Rashid bin Ismail <i>Member</i> | 6 | 6 |
| Dato' Noorazman bin Abd Aziz <i>Member</i> | 6 | 6 |
| En. Ismail bin Mahbob <i>Chairman</i> <i>(ceased with effect from 30 September 2023)</i> | 4 | 4 |

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;

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

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

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

Risk Governance (Contd)

- 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 BNM's 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;
- to adhere to BNM's RMIT Policy Document;
- to adhere to the requirements under paragraph 11.2 of BNM's Policy Document on 'Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions ("AML/CFT and TFS for FIs");
- 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");
- to provide constructive challenge to Senior Management and critically review the risk information and developments affecting the Bank;
- to propose for Board's approval the Business Continuity Management ("BCM") Framework, ensure a sound BCM practices consistent with risk tolerance, and workable Business Continuity Plan ("BCP") is in place for critical business function;
- to propose for Board's approval the Outsourcing Management Framework for sound governance of outsourcing management and effective management of outsourcing risk;
- to provide oversight of climate-related risks to safeguard the Bank's resilience against the adverse impacts of climate change and actively promote a just and orderly transition to low-carbon economy; and
- to ensure climate-related risks are embedded into the Bank's internal control frameworks across the three lines of defence for robust management of material climate-related risk.

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;

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

BOARD COMMITTEES (CONTD)

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

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

Risk Strategy (Contd)

- 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 oversee capital quantification and scenario analysis methodologies;
- 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;
- 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 CCO;
- to participate and challenge the BCM process i.e. to endorse Maximum Tolerable Downtime ("MTD") and Recovery Time Objective ("RTO") of critical business functions, and to be updated with timely information on Business Continuity Plan ("BCP") and Disaster Recovery Plan ("DRP") test results for critical business function and applications conducted;
- to deliberate, challenge and propose for Board's approval on Outsourcing Plan and material outsourcing engagement;
- to assess and review the recovery plan during its initial development and subsequent material changes, where applicable; and
- to provide constructive challenges to the conclusions, reasoning analysis and assumptions underpinning the recovery plan, including risk models and quantitative risk methodologies used in the recovery indicator framework and scenario analysis.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

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.

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 and operational 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 ("ALCO")
- (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 decisions, 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 integrates 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(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;
- Calculate the Expected Credit Loss ("ECL") on Bank's portfolio based on approved methodology, processes, tools and requirements under MFRS 9 *Financial Instruments*;
- Regular review of watch list borrowers and delinquent accounts are conducted to monitor progress of recovery;
- Formulate stress scenario and conduct the stress testing of Bank's portfolio to gauge the Bank's capability to absorb external shocks arising from hypothetical adverse stress scenarios;
- Reverse stress testing is conducted annually to identify unviable scenarios and potential vulnerable areas; and
- Under ICAAP, the material risk assessment is conducted annually and perform the Bank's internal capital adequacy assessment process, under both normal and stress scenarios, over the next 3 years.

(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 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(b) MARKET RISK MANAGEMENT (Contd)

(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;
- 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 Indicators 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(d) OPERATIONAL RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Risk identification and assessment activities scheduled periodically for in-scope operational risk subjects to identify and measure risks, among others (but not limited to) Risk Control Self Assessment ("RCSA"), Global Control Self Assessment ("GCSA"), Self Identified Issue ("SII"), Outsourcing Review, Shariah Review, Product Review, IT Risk, Self Inspection etc;
- Review of new and revision of the existing procedures/policies and processes prior to implementation and approval;
- Collecting Loss Event Data ("LED") with root cause analysis conducted to identify relevant and effective preventative actions to prevent from recurring risk in the future arising from fraud or operational control lapses;
- BCM Program established to identify risk associated with the business functions and set up plans to address business recovery in the event of disaster. The plan is tested periodically to ensure relevancy and workability to prepare for disaster;
- Review of new and existing products and services offered to identify and minimise risk associated with the product and service offerings;
- Implementation of System Risk Evaluation to identify and manage system risk and compliance to rules and regulations. Plan for countermeasures or action plan to rectify discrepancies noted from the exercise will be established with approval from Management;
- Identify the potential Operational Risk associated with third party dependencies via periodic review of third party engagement and deliverables; and
- Shariah Risk Register was established to assist in risk identification for Islamic business transactions.

(ii) Risk Control, Mitigation and Monitoring

- Policies, procedures, checklists and methods established to control and mitigate operational risk;
- Regular review on Key Risk Indicator (generic/specific "KRI" of Business Units and BNM's Operational Risk Integrated Online Network) to manage risks in the business functions, reporting on operational risk matters escalated via ORMCC and RMC;
- 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;
- 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(e) IT RISK MANAGEMENT

(i) Risk Identification, Assessment and Measurement

- Proactive approach to risk identification involves comprehensive assessments of potential threats and vulnerabilities across all IT system and proceses; and
- Rigorous risk assessment methodologies to evaluate the potential impact and likelihood of identified IT risks.

(ii) Risk Control, Mitigation and Monitoring

- Our IT risk framework encompasses a multifaceted approach to mitigate IT risks at various levels of our organisation.
- Continous monitoring is integral to our IT risk management strategy, allowing us to detect and respond to emerging threats in real-time. We utilise advanced monitoring tools and analytics to monitor network activity, detect anomalies and assess the effectiveness of our controls.
- Comprehensive and up-to-date documentation of Information Security Standards and Procedures;
- Periodic assessment against the cybersecurity maturity standards with subsequent plan established to minimise the gap; and
- Continuous and periodic training and awareness to stakeholders within the Bank including Board of Directors on information security subjects.



DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

(f) COMPLIANCE AND LEGAL 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 (which includes financial crime risk assessment) is performed annually.

(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 and legal related events and development;
- Implement issue management guidelines to enable effective identification, escalation, reporting and remediation of compliance and legal issues;
- Raise compliance awareness through training and various compliance culture program;
- Adopts the strategy of constructive engagement with regulatory authorities;
- Regulatory compliance team that provides compliance advice to the business areas as well as assisting to resolve regulatory issues; and
- Legal team that provides legal advice to the business.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK (CONTD)

Overall Risk Management Policy (Contd)

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, Internal Audit 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 Internal Audit Functions of Licensed 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. Internal Audit 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;
- 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.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

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;
- 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 three (3) members and their profiles are as follows:

Assoc. Prof. Dr. Said Bouheraoua

Associate Professor Dr. Said Bouheraoua obtained his Bachelor in Fiqh and Usul Fiqh from the University of Algiers in 1991, Master of Quran and Sunnah in 1998 and Ph.D in Fiqh/Usul Fiqh (Shariah) from International Islamic University Malaysia (IIUM) in 2002. At present, he is a Director, Research Development & Innovation for ISRA Research Management Centre, INCEIF University. He is registered Shariah Adviser with Securities Commission Malaysia which regulates the Islamic Capital Market as well as serving Malaysian Life Reinsurance Group Bhd (MLRe) Retakaful as Chairman of Shariah Committee. He is also a member of Higher Shariah Committee at the Central Bank of the Oman Sultanate. For foreign Islamic Financial Institution involvement, he is the Chairman of Shariah Committee of SunTrust Bank Nigeria and Trust Bank Amanah Suriname. He had won the Lamya al-Faruqi Award for Academic Excellence in 1999, organised by International of Islamic Thought and IIUM. He has been appointed as the Chairman of SC of the Bank effective 3rd July 2022.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (CONTD)

SHARIAH COMMITTEE ("SC") (CONTD)

Y.Bhg. Prof. Emeritus Dato' Dr. Mohd Azmi bin Omar

Y.Bhg. Prof. Emeritus Dato' Dr. Mohd Azmi bin Omar 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 INCEIF University 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). Currently, he also serves as a member of Shariah Committee to Bank Rakyat Malaysia and Etiqa Takaful Malaysia. He is also a former member of Shariah Advisory Council of Securities Commission Malaysia and was formerly an Islamic Finance Expert Advisor to the Brunei Darussalam Central Bank. Recently, he led a team who developed the Indonesia Shariah (Islamic) Economy Masterplan 2019-2024 for the Government of Indonesia. Other recent consulting projects led by him includes the Kazakhstan Islamic Finance Masterplan 2020-2025 for the Astana International Financial Center (AIFC) and Republic of Kazakhstan. 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 Chairman of SC at Bank Simpanan Nasional and member of Shariah Committee at Zurich Takaful Malaysia. He has been a member of the SC of the Bank since June 2020.

The SC shall meet at least two (2) times a year.

The SC held eight (8) meetings during the financial year ended 31 March 2024.

The details of attendance of each member at the SC meetings held during the financial year ended 31 March 2024 are as follows:

| SC Member | Number of Meetings | |
|---|--------------------|----------|
| | Held | Attended |
| Assoc. Prof. Dr. Said Bouheraoua <i>Chairman</i> | 8 | 8 |
| Y.Bhg. Prof. Emeritus Dato' Dr. Mohd Azmi bin Omar <i>Member</i> | 8 | 8 |
| Assoc. Prof. Dr. Mohamad Zaharuddin bin Zakaria <i>Member</i> | 8 | 8 |

REMUNERATION STRATEGY

The Bank's Remuneration Policy, which has been endorsed by the Bank's Remuneration Committee and approved by the Board, applies across 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, objectives, values and long term interests and ensure the franchise is sustainable and that the Bank's financial resources are aligned to the principles 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.

DIRECTORS' REPORT

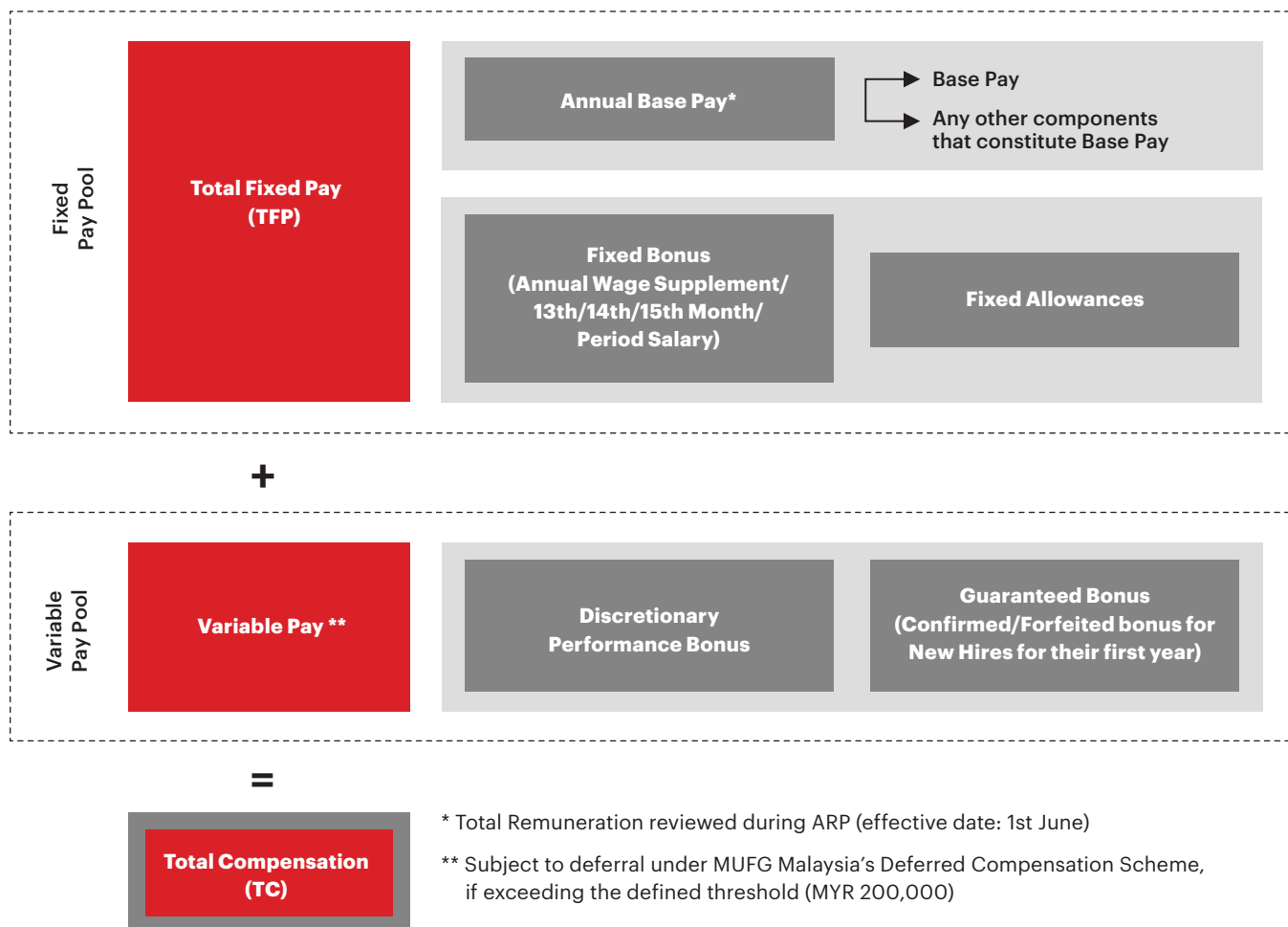
CORPORATE GOVERNANCE STATEMENT (CONTD)

REMUNERATION STRATEGY (CONTD)

In order to achieve this, MUFG's remuneration programs are designed around the following core principles: (Contd)

- **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.
- **Regulatory Compliance and Governance**
Remuneration arrangements must comply with all applicable regulatory and legal requirements.

(a) COMPONENTS OF REMUNERATION



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REMUNERATION STRATEGY (CONTD)

(a) COMPONENTS OF REMUNERATION (CONTD)

Remuneration is to be determined and evaluated on a Total Compensation basis, including Base Salary, Fixed Allowances and discretionary Variable Pay.

The Total Compensation approach enables a holistic consideration of the employee's remuneration and strengthening the Bank's 'Pay for Performance' culture through differentiation in Total Compensation outcomes, reflective of performance.

| | | |
|--------------|---|--|
| Fixed pay | Consist of Annual Base Pay, Fixed Bonus (or period salary) and Fixed Allowances | <ul style="list-style-type: none">• MUFG has the ability to pay across the full Peer Group Market Range to ensure equity of treatment for employees;• 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:<ul style="list-style-type: none">i. Consistent Exceptional Performers and key resources can be paid at upper level of the Market Range, andii. Consistent Poor Performers can be paid at the lower level of the Market Range. |
| Variable pay | Payable annually through cash bonus | <ul style="list-style-type: none">• Discretionary Variable Pay will be differentiated towards top performers to ensure Total Compensation reflects their performance for the year. Discretionary Variable Pay should be differentiated enough to reward top performers but still align to MUFG's values and does not encourage employees to expose the firm to excessive or imprudent risk;• Discretionary Variable Pay are not linked to current Fixed Pay or Base Salary levels;• Discretionary Variable Pay are differentiated at a Department and Individual Level based on performance;• Discretionary Variable Pay to be awarded during Annual Review Process exercise;• Discretionary Variable Pay are not guaranteed and subject to employees' performance and the Bank's overall financial performance;• Poor Performers for two (2) consecutive years to receive zero variable pay;• Poor Performers at the lowest rating to receive zero variable pay; and• 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. |

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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 on 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 35 of the financial statements.

DIRECTORS' REPORT

CORPORATE GOVERNANCE STATEMENT (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 2024 | | | 31 March 2023 | | |
|---|---------------------|-----------------|--------------------|---------------------|-----------------|--------------------|
| | Unrestricted RM'000 | Deferred RM'000 | Number of Officers | Unrestricted RM'000 | Deferred RM'000 | Number of Officers |
| Senior Management | | | | | | |
| Fixed remuneration | | | | | | |
| • Cash based | 5,808 | - | 10 | 6,048 | - | 9 |
| • Others | 1,193 | - | 8 | 1,238 | - | 8 |
| Variable remuneration | | | | | | |
| • Cash based | 3,214 | 402 | 10 | 5,095 | 344 | 9 |
| • Others | 365 | - | 3 | 271 | - | 2 |
| Sub total | 10,580 | 402 | | 12,652 | 344 | |
| Other Material Risk Takers | | | | | | |
| Fixed remuneration | | | | | | |
| • Cash based | 5,021 | - | 13 | 4,596 | - | 13 |
| • Others | 925 | - | 13 | 843 | - | 13 |
| Variable remuneration | | | | | | |
| • Cash based | 2,044 | - | 13 | 3,310 | 15 | 13 |
| Sub total | 7,990 | - | | 8,749 | 15 | |
| Total | 18,570 | 402 | | 21,401 | 359 | |

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