

**Amended as at 1 November 2018**

**BOARD CHARTER**

**AFFIN ISLAMIC BANK BERHAD**

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## BOARD CHARTER

### 1. PREAMBLE

The Board acknowledges the importance of developing and maintaining a framework of Corporate Governance that is robust and sound, to promote a culture of integrity and transparency throughout Affin Bank Berhad (the “Bank”). In this regard, all Directors are required to maintain the highest standards of transparency, integrity and honesty. This standard serves as the basis for the principles that govern Directors’ conduct and their relationship with the Group’s stakeholders.

The Board Charter sets out the mandate, roles and responsibilities, and procedures of the Board and Board Committees (both individually and collectively), in setting the direction, management and control of the Bank in accordance with the principles of good corporate governance set out in the policy documents and guidelines issued by Bank Negara Malaysia (BNM) and relevant regulatory authorities.

The Board may from time to time or at least once annually review the contents of this Board Charter in tandem with the Bank’s Corporate Governance Framework, changes to the Listing Requirements, Malaysian Code on Corporate Governance (MCCG) and Companies Act 2016 to ensure its relevance and effectiveness in the light of the ever changing environment in which the Bank operates.

### 2. BOARD COMPOSITION

The composition of the Board reflects a good measure of objectivity and impartiality in order to ensure that the interest of the minority shareholders is not compromised. The influence of the nominees from the major shareholders of the Bank is balanced by the presence of the Independent Directors on the Board whose collective views carry significant weight in the Board’s deliberation and decision-making process. Other salient factors which have been taken into account in determining the Board’s composition are as follows:-

#### **Board Size**

Pursuant to Article 107 of the Bank’s Constitution, until otherwise determined by a general meeting, the number of Directors shall not be less than five (5) or more than twelve (12).

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### **Chairman**

The Chairman of the Board must not be an executive and must not have served as a Chief Executive Officer (CEO) of the financial institution in the preceding five (5) years.

### **Executive Director**

There must be no more than one (1) Executive Director, unless BNM approves otherwise.

### **Separation of Roles of Chairman and CEO**

The roles of the Chairman and CEO are strictly separated and clearly defined to ensure a balance of power and authority.

The Chairman is responsible for leading the Board in its collective oversight of management, while the CEO focuses on the business and day-to-day management of the Bank.

The balance of responsibilities between the Chairman and the CEO will be regularly reviewed to ensure the division of functions remains appropriate to the needs of the Bank.

### **Senior Independent Director**

The Board may appoint a Senior Independent Director, to whom concerns of stakeholders may be conveyed.

## **3. MAXIMUM TENURE OF INDEPENDENT DIRECTORS**

The maximum tenure of an Independent Director shall be nine (9) years of service as Independent Director in any entity of the Affin Bank Group.

An Independent Director may, upon reaching the maximum tenure and subject to the approval of BNM for his/her re-appointment as Director, remain as a Director but shall be re-designated as Non-Independent Non-Executive Director.

#### **4. BOARD EVALUATION AND ASSESSMENTS**

The Board conducts annual Board's evaluation to objectively assess the performance and effectiveness of each Director and the Board as a whole, as well as its Board Committees.

The results of the evaluation of individual Directors will be taken into account by the Board in determining its assessment of the Directors to stand for re-election at the next Annual General Meeting.

#### **5. NEW APPOINTMENT/RE-APPOINTMENT OF DIRECTORS**

##### **5.1 New Appointment of Directors**

All appointments of Directors are subject to the approval of BNM and the BNM approval will be for a specific term.

The Board Nomination and Remuneration Committee (BNRC) is responsible for assessing the candidate(s)' qualifications and experiences and whether he/she fulfills the minimum requirements as set out in the BNM Policy Document on Corporate Governance, BNM Fit & Proper Criteria and any other relevant laws. The BNRC thereafter submits its recommendation to the Board for decision on submission of application to BNM for the proposed new appointment as Director.

In identifying candidates for appointment of Directors, the BNRC does not solely rely on recommendations from existing Board members, management or major shareholders. The BNRC have the right to utilize independent sources at the cost of the Company to identify suitably qualified candidates.

Besides the above, BNRC may also consider utilising the following sources:

- Director's registry (e.g. Institute of Corporate Directors Malaysia and NAM Institute for the Empowerment of Women);
- Industry and professional associations;
- Open advertisements
- Independent search firm

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A formalised orientation programme will be held for relevant Heads of Departments/Divisions to brief the new members of the Board on the functions and areas of responsibility of their respective department/divisions.

### **5.2 Re-Appointment of Directors**

The proposed re-appointment of a Director, upon expiry of his/her current term of appointment as approved by BNM, is subject to the approval of BNM.

The BNRC is responsible for assessing the performance of Directors whose current term of appointment as approved by BNM is due to expire. It shall therefore submit its recommendation to the Board for decision on the submission of application to BNM for the re-appointment of the Directors concerned.

## **6. RE-ELECTION OF DIRECTORS**

Pursuant to Article 118 of the Bank's Constitution, at least one-third (1/3) of the Directors for the time being shall retire from office at every annual general meeting and shall be eligible for re-election.

## **7. KEY RESPONSIBILITIES OF THE BOARD**

The key responsibilities of the Board are as follows:

- (i) Approving the Bank's risk appetite, annual business plan and other initiatives which would have material impact on the Bank's risk profile.
- (ii) Overseeing the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of the Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Bank.
- (iii) Overseeing the implementation of the Bank's governance framework and internal control framework, and periodically ascertaining whether they remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations.
- (iv) Ensuring regulatory compliance within the Bank.

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- (v) Promoting, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour.
- (vi) Promoting sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies.
- (vii) Overseeing and approving the recovery and resolution as well as business continuity plans of the Bank to restore its financial strength and maintain or preserve critical operations and critical services when it comes under stress.
- (viii) Promoting timely and effective communication between the Bank and BNM on matters affecting, or that may affect, the safety and soundness of the Bank.
- (ix) Undertaking various functions and responsibilities as specified in the policy documents and directives issued by BNM and other relevant laws from time to time.
- (x) Ensuring the establishment and implementation of group-wide policies and procedures to ensure Group's compliance with the regulatory requirements.

The Board, in carrying out its functions or duties shall have regard to the interests of depositors or policy owners of the Bank and Participants as defined in the Islamic Financial Services Act 2013.

Without limiting the generality of Section 65 (1) of IFSA, the Board of Directors of the Company shall:

- (a) Set and oversee the implementation of business and risk objective and strategies and in doing so shall have regard to the long term viability of the Company and reasonable standards of fair dealing;
- (b) Ensure and oversee the effective design and implementation of sound internal controls, compliance and risk management systems commensurate with the nature, scale and complexity of the business and structure of the Company;
- (c) Oversee the performance of the senior management in managing the business and affairs of the Company;
- (d) Ensure that there is a reliable and transparent financial reporting process within the Company;
- (e) Promote timely and effective communications between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company; and

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The Board reserves for its consideration significant matters such as the following:-

- (i) Approval of financial results.
- (ii) Declaration of dividends.
- (iii) Risk appetite setting.
- (iv) Annual budget and business plan.
- (v) Appointment of key responsible persons.
- (vi) Mergers and Acquisitions
- (vii) Policy Manual
- (viii) Connected Parties Transactions
- (ix) Strategic Directions

### **8. ROLE OF NON-EXECUTIVE CHAIRMAN**

The key role of the Non-Executive Chairman includes the following:

- (i) The smooth functioning of the Board, the governance structure and inculcating positive culture in the Board;
- (ii) Guidelines and procedures are in place to govern the Board's operation and conduct;
- (iii) All relevant issues are on agenda for Board meeting and all Directors are able to participate fully in the Board's activities.
- (iv) Board debates strategic and critical issues;
- (v) Board receives the necessary information on a timely basis from the Management;
- (vi) Provides avenues for all Directors to participate openly in the discussion; and
- (vii) Provides leadership to the Board and responsible for the developmental needs of the Board.

The other responsibilities of the Chairman include:

1. Chairing meetings of the Board in such a manner that will stimulate debate on issues before the Board and encourage the most effective contribution from each Director;
2. Chairing meetings of Shareholders;
3. Establishing procedures to govern the Board's work;
4. Ensuring the Board's full discharge of its duties;
5. Scheduling meetings of the full Board;
6. Organising and presenting the agenda for regular or special Board meetings based on input from other Directors and the Company Secretary;

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7. Ensuring a proper flow of information to the Board, reviewing adequacy and timing of documentary materials in support of Management's proposal and review of the performance of the Company and/or Group;
8. Ensuring adequate lead time for effective study and discussion of business under consideration;
9. Identifying guidelines for the conduct of Directors, and ensuring that each Director is making a significant contribution. The Chairman keeps under review the contributions made by the Directors;
10. Acting as liaison between the Board and Management. The Chairman should act as the main informal link between the Board and Management and particularly between the Board and the MD/CEO;
11. Ensuring that all Directors, when taking up office, are fully briefed on the terms of their appointment, duties and responsibilities and the business of the Group;
12. Together with the CEO, representing the Company and/or Group to external parties: Shareholders, creditors, consumer groups, local communities, and federal, state, and local governments;
13. In conjunction with the CEO, playing a leading role in:
  - Formulating the Board's strategic direction and planning process;
  - Encouraging high standards of propriety and promoting efficient and effective use of staff and other resources throughout the organisation; and
  - Fostering high corporate ethical standards and positive relationships with the Group's stakeholders.
14. Working with the BNRC, actively participating in the selection of Directors and ensuring the membership of the Board is properly balanced;
15. Working with the BNRC, ensuring proper committee structure, including assignments of members and committee chairmen. The Chairman should also ensure that there is a succession plan for the Board through nominations by the Directors, evaluation by the NC and approval by the full Board; and
16. Carrying out other duties as requested by the Board as a whole, depending on need and circumstance.



## **9. ROLE OF CHIEF EXECUTIVE OFFICER**

9.1 The role of Chief Executive Officer includes the following:

- (i) Developing the strategic direction of the Bank.
- (ii) Ensuring that the Bank's strategies and corporate policies are effectively implemented.
- (iii) Ensuring that Board decisions are implemented and Board directions are responded to.
- (iv) Providing directions in the implementation of short and long-term business plans.
- (v) Providing strong leadership that, effectively communicates sound and viable vision, management philosophy and business strategy to the employees.
- (vi) Keeping the Board fully informed of all important aspects of the Bank's operations and ensuring sufficient information is distributed to Board members.
- (vii) Ensuring the day-to-day business affairs of the Bank are effectively managed.

9.2 The CEO must devote the whole of his professional time to service the Bank and must not hold directorships in more than five (5) entities other than the Bank.

## **10. ROLE OF NON-EXECUTIVE DIRECTORS**

The role of Non-Executive Directors includes the following:

- (i) Ensuring effective check and balance in the proceedings of the Board.
- (ii) Constructively challenging and contributing to the development of business strategy and direction of the Bank.
- (iii) Scrutinizing the performance of management in meeting agreed goals.
- (iv) Mitigating any possible conflict of interest between the policy-making process and the day-to-day management of the Bank.
- (v) Ensuring adequate systems and controls are in place to safeguard the interests of the Board, the stakeholders, depositors and Participants as defined in the Islamic Financial Services Act 2013.
- (vi) Acquiring knowledge about the business of the Group, the statutory and regulatory requirements for effective discharge of their duties to the Group, and are aware of the physical, political and social environment in which it operates.

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- (vii) Studying in advance information packets and documentary materials provided and being prepared to discuss their contents at Board meetings.
- (viii) Being available to advise Management between Board meetings when necessary.
- (ix) Actively participating in and effectively contributing to Board discussions towards meeting the duties and responsibilities of the Board and Committee discussions (where applicable).
- (x) Acting honestly, in good faith and in the best interests of the Group as a whole, using due care and diligence in fulfilling his or her responsibilities, and exercising the powers attached to that office.
- (xi) To devote sufficient time, commitment and attention to discharge their duties and responsibilities fully and effectively as NED.

### **11. PROCEDURES OF THE BOARD**

#### **11.1 Board Meetings and Attendance**

The Board holds at least eleven (11) Board meetings in a year.

Board meetings are scheduled in advance at the beginning of the year with additional meetings duly convened as and when to review progress reports on the Bank's financial performance, approved strategies, business plans and significant policies as well as to consider business and other proposals which require the Board's approval.

A Director must attend at least 75% of the Board meetings held in each financial year, and must not appoint another person to attend or participate in a Board meeting on his behalf.

Participation at a Board meeting by way of other than physical presence, will be the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations.

For example, if any Director opts to participate in a Board meeting by telephone or video conference, some safeguards would include:

- (a) ensuring that the telephone or video conference bridge is on a secure network;

- (b) ensuring that the Director that is dialing in to the conference bridge is in a private area with no other persons present, other than any other persons authorized to attend the Board meeting; and
- (c) the Director uses secure devices to dial in to the conference bridge.

### **11.2 Board Papers and Supply of Information to Board**

The Board has full and timely access to information on Board matters via materials distributed in advance of meetings to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed prior to the meetings.

Notice of meetings shall be circulated at least seven (7) days and the agenda for each meeting shall be circulated at least five (5) days before each meeting to the Directors and all those who are required to attend the meeting. Written materials including information requested by the Board from Management and/ or external consultants shall be received together with the agenda for the meetings.

The Board papers include the minutes of the previous Board meeting, minutes of the Board Committees and reports on related banking aspects such as financials, investment, operational Information Technology, Human Resource, Shariah Risk Management, Shariah Compliance and Audit matters as well as regulatory compliance matters.

All Board members have unrestricted access to timely and accurate information and access to the advice and services of the Company Secretary who is responsible for ensuring that the Board meetings' procedures are followed and that all applicable rules and regulations are complied with. Procedures have to be in place for Directors to seek professional advice at the Bank's expense.

### **11.3 Quorum for Board meetings**

Pursuant to BNM Policy Document on Corporate Governance, the quorum for the Board meetings shall be the presence of at least half the number of the Board members.

## **12. CONFLICT OF INTEREST**

Pursuant to Section 67 of the Islamic Financial Services Act 2013 (IFSA), a Director is required to disclose to the Board the nature and extent of his/her interest in a material transaction or material arrangement, and, if such material transaction or material arrangement is being deliberated during a Board meeting, to be absent from the meeting during such deliberations.

For the purpose of Section 67 (4) of the IFSA:-

- (i) an existing or proposed transaction or arrangement will be considered “material” if it is one which a Director is required to declare under the Companies Act 2016, unless the director or any person linked to him cannot reasonably be expected to derive a benefit or suffer a detriment from the transaction or arrangement in a way that will place the Director in a position of conflict; and
- (ii) an interested Director must make the disclosure by way of a written notice to all members of the Board and the Company Secretary:-
  - (a) as soon as practicable after being aware of his/her interest in the material transaction or arrangement; and
  - (b) if the material transaction or arrangement is being deliberated at a board meeting, before the commencement of that deliberation.

Interested Directors are required to declare immediately to the Board should they be interested in any transaction to be entered into directly or indirectly by the Bank. An interested Director is required to abstain from deliberations and decisions of the Board on the transactions.

## **13. BOARD COMMITTEES**

The Board has established a number of Board Committees whose composition and terms of reference are in accordance with the BNM Policy Document on Corporate Governance and are consistent with the principles and practices of the Malaysian Code of Corporate Governance.

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The Board has delegated specific authorities and responsibilities to the Board Committees, which operate under approved terms of reference for the respective Board Committee, primarily to assist the Board in the execution of its duties and responsibilities.

The Board Committees shall report and keep the Board informed of the Board Committee's work and the outcome of their meetings (which should include the key deliberations and decisions) on delegated matters. Certain delegated matters may be submitted to the Board for further deliberation/approval at the Board's level, if required.

The key responsibilities of the Board Committees are as follows:-

(i) Group Board Audit Committee (GBAC)

The BAC is responsible for providing oversight on reviewing the adequacy and integrity of the internal control systems and overseeing the work of the internal and external auditors.

(ii) Shariah Committee (SC)

The key responsibilities of the Shariah Committee are to advise the Board on Shariah matters pertaining to the Islamic operations and to deliberate and endorse Shariah related matters. The Shariah Committee is supported by the Shariah compliance and research functions.

(iii) Group Board Risk Management and Compliance Committee (GBRMCC)

The GBRMCC is responsible for overseeing management's activities in managing credit, market, liquidity, operational, legal reputational and other risks so as to ensure that the risk management process and compliance framework including policies, procedures and processes are adequately in place and functions effectively.

(iv) Group Board Credit Review and Recovery Committee (GBCRRC)

The GBCRRC is responsible for providing critical review of financing and other credit facilities with higher risk implications, after due process of checking, analysis, review and recommendation by the Group Credit function, and if found necessary, exercise the power to veto financing applications that have been approved by the Group Management Credit Committee.

(v) Board Nomination and Remuneration Committee (BNRC)

The BNRC is responsible for providing a formal and transparent procedure for the appointment of Directors, CEO and Senior Management. The BNRC develops the remuneration policy for Directors, Shariah Committee members, CEO, Senior Management and other material risk takers. It also assesses the effectiveness of individual Directors, the Board as a whole and the performance of the CEO as well as Senior Management.

The BNRC reviews and recommends to the Board the process for succession planning for the Board members, Managing Director/CEO and Senior Management, ensures that compensation is competitive and consistent with the Bank's culture and strategic objectives. For this purpose, BNRC may obtain advice from experts in compensation and benefits, both internally and externally.

The Board may set up other relevant Board Committees to assist the Board on any matters as and when required.

#### **14. EXTERNAL BOARD APPOINTMENTS**

- 14.1 Any Director, while holding office, is at liberty to accept other Board appointments (outside the Group) so long as the appointment is not in conflict with the business of the Company and does not detrimentally affect the Director's performance as a director. When a Director has multiple board representations, he must ensure sufficient time and attention are given to the affairs of the Company
- 14.2 The Director shall inform the Board of such external Board appointments as soon as possible prior to accepting any additional appointment of directorships in other public listed companies. The notification shall include an indication of time commitment required under the new appointment.
- 14.3 To ensure full commitment and sufficient time is given to the affairs of the Company, a Non-Executive Director (NED) of the Company must not hold more than 5 directorships in listed companies (Pursuant to paragraph 15.06 (1) of the Main Market Listing Requirements)