



BOARD CHARTER

Version: 1.0

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Preface

Overview

This Board Charter (“Charter”) formalizes the various roles and responsibilities of the Board of Directors (“Board”), Board Committees and individual director of Bank Muamalat Malaysia Berhad (“the Bank”) with the aim of streamlining and enhancing corporate governance practices towards transparency, accountability and integrity in boardroom activities.

This Charter incorporates the Guidelines on Corporate Governance by Bank Negara Malaysia (“BNM”), the Principles and Recommendations of the Malaysia Code of Corporate Governance 2012 (“MCCG”), certain aspects of the Bank’s Articles of Association and relevant sections of the Islamic Financial Services Act 2013 (“IFSA”) and Companies Act 1965 as the duties and responsibilities of Directors are concerned.

Whilst this Charter serves as a structured guide, it shall not be construed as an exhaustive blueprint by Directors on corporate governance matters.

This Corporate Charter is not intended to be all inclusive. Consideration must be given for the need for flexibility. However, certain minimum requirements must be met as to avoid financial loss to the Bank. Users must also exercise reasonable judgment and /or consult immediate supervisors in circumstances not covered in the Charter.

All clauses stated in this Charter are conformed to the Shariah principles.

Target Audience

This Charter is intended to be a reference guide for Directors of the Bank.

Related Documents

This Charter must be read jointly with the following documents:

- Islamic Financial Services Act 2013
- Companies Act 1965
- Guidelines on Corporate Governance by Bank Negara Malaysia
- Malaysia Code of Corporate Governance 2012
- BMMB Policy on Shariah Governance v2.0
- BMMB Policy on Corporate Governance v1.0
- BMMB Policy on Fit and Proper v1.0
- Terms Reference of the Board of Directors and Board Committees

Chapter 1 – Board’s Roles and Responsibilities

This chapter gives brief description of the Board’s roles and responsibilities.

1.1 Preamble

Corporate governance refers to the way in which companies are governed, and to what purpose. It is concerned with practices and procedures for trying to ensure that a company is run in such a way it achieves its objectives, with certain amount of checks and balances to minimize abuse of power and fair treatment of the stakeholders.

The Board continuously strives to ensure that best practices are adopted in establishing accountability and integrity of the Board and Management. Hence the Board will continue to ensure that the right leadership, policy, strategy and internal controls are well in place in order to continuously deliver and sustain the Bank’s value propositions for the benefit of its stakeholders generally and at the same time, ensure continuing momentum towards reaching the Bank’s aspirations to become the preferred Islamic financial services provider.

1.2 Board’s Roles and Responsibilities

The Board is collectively responsible for the proper stewardship of the Bank’s business and the creation of long term shareholders value, whilst taking into account interest of other stakeholders. Following are the brief descriptions of the Board’s roles and responsibilities:

- Review and approve strategies, business plans and significant policies and monitor management’s performance in implementing them
- Set corporate values and clear lines of responsibility and accountability that are communicated throughout the organisation
- Ensure competent management
- Ensure that the operations of the Bank are conducted prudently, and within the framework of relevant laws and policies
- Ensures that the Bank established comprehensive risk management policies, process and infrastructure, to manage the various types of risks
- Institute comprehensive policies, processes and infrastructure to ensure Shariah compliance in all aspects of the Bank’s operations, products and activities
- Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit function, covering the financial, management and Shariah Audit

- Establish procedure to avoid self-serving practices and conflicts of interest including dealing of any form with related entities
- Ensure protection of the interests of the depositors, particularly investment account holders
- Establish and ensure the effective functioning of various board committees
- Ensure the Bank has a beneficial influence on the economic well-being of its community
- Ensure development, implementation and maintain an effective oversight over the Bank's Data Management and MIS Framework ("Framework") and ensure that the Framework is aligned with business and risk strategies of the Bank and amongst others, to include the following:-
 - To provide sponsorship and approve resource allocations for the Bank's Framework;
 - To provide oversight over Management Committee ("MANCO") and direction for the Framework, including overall data strategy, roadmap and objectives, to the Senior Management;
 - Endorse the Framework and subsequent revisions when necessary.
- Ensure establishment and adherence to the internal policies governing risk concentrations by reviewing it annually. The independent review is to be conducted regularly to verify compliance to the prudential limit and standards set by the Bank as well as the established internal policies.
- Ensure approval and oversight of the Bank's capital management framework and its related policies, processes and strategies
- Ensure approval of capital allocation on risk-adjusted basis appropriate levels of capital is maintained in line with the approved Risk Appetite and risk profile
- Ensure approval of proposed issuance, call or redemption of any capital instruments and the Bank's ordinary shares and for proposed dividend payments and reinvestment

1.3 Matters Reserved

The following summarises the list of Matters Reserved for the Board's deliberation and decision:

i. Strategy

- Strategic decisions which are, or may be significant, in terms of future profitability.
- Any decisions to commence, discontinue or modify significantly any business activity or to enter or withdraw from a particular market sector.

ii. Capital & finance

- Decisions on share capital changes (authorized and/or issued).
- Decisions on investments or capital projects by the company or its subsidiaries where the principal sum or cost is considered significant /material

- Decisions to acquire or dispose of company assets where the acquisition cost, disposal proceeds or profit or loss on disposal, which would be likely to be regarded as significant /material by the board.
- Decisions over new borrowing or significant amendments to the terms and conditions of existing borrowings.
- Decision to issue debts and bonds
- Decisions on the adoption of treasury, risk management and accounting policies.
- Decisions to commence, discontinue or modify significantly any business activity or to enter or withdraw from a particular market sector
- Decision to write off NPF accounts exceeding RM 200,000

Note : It is considered significant/material if the amount in question is more than RM 500,000 OR 2 % of the budgeted Profit After Tax (PAT) of the Financial Year End , whichever is LOWER

iii. Terms of reference, etc

- Decisions on the wording of any changes to be recommended to the memorandum and articles of association and any other constitutional documents of the company.
- Decision on the creation, maintenance, terms of reference, leadership and membership of the board committees.
- Initial consideration of any matters (such as a company name change) which has to be decided by special resolution of the company.

iv. Delegation of authority

- Deciding delegation of authority to Board and other committees such as an Board Audit Committee, Board Risk Management Committee, MANCO, Special Board Committee ("SBC") or VETO Committee.
- Decisions to grant, or vary, power, role, responsibilities and authority levels to individual directors, especially the chairman and the Chief Executive Officer ("CEO"); and in so doing to specify by implication the ones that the board reserves to itself.
- The granting to or variation of authority levels for executive directors/senior management.

v. Appointments

- Decisions to appoint or remove a member of the Board, or the company secretary, or the senior management, following proper procedures agreed by the board.
- Decision to appoint or remove a director from the Chairmanship of the Board.
- Decisions to appoint or remove the auditors or other professional advisors.

vi. Contracts and transactions, etc.

- Decisions to commit the company to directors' contracts, including the terms of their appointment and remuneration.
- Decision to enter into any other significant contracts.
- Significant decisions relating to any transaction in which a director has a direct or indirect material interest.
- Any matter where a director (or directors') personal interests might conflict with his or her duty to the company, e.g. a political donation.
- Significant decisions on any contract or transaction material to the company falling outside the above categories.

vii. Disclosure

- Decisions to adopt financial information for publication (e.g. the annual financial statements, prospectuses, etc).
- The presentation of reports and accounts to shareholders at the Annual General Meeting.
- Decisions on anything that is likely to generate significant publicity and affect the image of the company.

viii. Meetings

- Deciding policy governing the frequency, notice, purpose, conduct, duration and reporting of board meetings; and, especially, the setting of agendas.

ix. Legal

- Payment by Bank arising out of legal dispute/legal settlement exceeding RM 100,000

Chapter 2 – Board Procedures

This chapter provides brief description on the Board Procedures on meetings.

2.1 Role of Chairman

The position of the Board's Chairman shall be held by a Non-Executive Director and must not have served as a CEO of the Bank in the past five years.

2.2 Frequency of Meetings and Attendance

Board meetings should be held preferably on a monthly basis, but in any event no less than once every two months. Individual directors are expected to contribute actively to the function of the Board and to allocate adequate time and effort to discharge his duties effectively.

Individual directors must attend at least 75% of the Board meetings held in each financial year.

2.3 Minutes of Meetings

The Bank shall keep full minutes of all board meetings. The minutes should record the decisions and their rationales. Any concerns or dissenting views raised by any director are discussed and minuted.

2.4 Access to Independent Professional Advice

Each member of the Board is entitled to obtain independence professional advice at the cost of the Bank.

Chapter 3 – Board Appointments/ Removals and Composition

This chapter provides brief description on the Board Procedures on appointments and removal.

3.1 Appointment of Chairman/ Directors/ CEO

The appointment of Chairman/directors and CEO of the Bank requires written consent from BNM.

Nomination and Remuneration Committee of the Bank shall make recommendations to the Board on all appointments, re-appointments and resignations of the Chairman/directors and CEO. A rigorous vetting is conducted to ensure that the proposed director or CEO is a 'fit and proper' person.

The Bank is to ensure the appointment procedure as prescribed by BNM is adhered to.

3.2 Board Performance

Annual assessment on each individual director and the CEO is conducted to ensure their effectiveness based on objective performance criteria, in line with the established Key Performance Indicators ("KPIs").

3.3 Declaration of Interests

Individual director is required to notify the Board the nature and extent of his interest in a material transaction or arrangement, and to be absent from the meeting during such deliberations.

3.4 Resignation and Removal of Directors

A written consent must be obtained from BNM before the Bank removes an independent director or an independent director resigns from the Board.

3.5 Board Balance and Composition

The size of the Board is determined in accordance with the Bank's Articles of Association, the BNM's Policy on Corporate Governance, IFSA 2013 or Shareholders' Agreement (if any), whichever prevails.

The Board shall be helmed by a Non-Executive Chairman, appointed by the Board, and must have a majority of independent directors at all times. The Board must not have more than one executive director, unless BNM approved otherwise in writing.

The Bank is to ensure that the Board comprises of majority independent directors at all times.

3.6 Maximum Tenure for Directors

The tenure of an independent director is capped at nine (9) years and the nine (9) years can either be a consecutive service of nine (9) years or a cumulative service of nine (9) years with intervals or upon expiry of the prevailing term as approved by BNM, whichever is the later date.

A director who has served the Board as an independent director for a cumulative period of nine (9) years is required to submit his resignation letter as an independent director to the Board at least three (3) months from the date of his ninth anniversary as independent director. In the event that the director is reappointed, he should be considered as a non-independent director.

Notwithstanding the above, the Shareholders may in exceptional cases and subject to the assessment of the Nomination and Remuneration Committee decide that an independent director can remain as an independent director after serving the cumulative term of nine (9) years, subject to BNM's approval. In such situation, the Board must make a recommendation and provide strong justification to BNM and shareholders in a general meeting.

A director may also continue to serve as a member of the Board beyond the age of 70 years, if the Nomination and Remuneration Committee has concluded and the Board has concurred and subject to his/her re-appointment as director being approved by shareholders pursuant to Section 129 of the Companies Act 1965.

3.7 Company Secretary

The appointment or removal of Company Secretary(ies) of the Board shall be the prerogative of the Board as a whole.

The Company Secretary is responsible for ensuring that Board procedures are followed, that the applicable rules and regulations for the conduct of the affairs of the Board are complied with and for all matters associated with the maintenance of the Board or otherwise required for its efficient operation.

The Company Secretary is responsible and accountable to the Board, for ensuring that the secretarial functions provide adequate support to the Board and Board Committees for all Board-related administrative functions.

The Company Secretary shall keep confidential the affairs of the Bank and its officers at all times.

Chapter 4 – Board Structure

This chapter provides brief description on the Board Committees.

4.1 Preamble

The Board must establish Board Committees whose compositions and terms of reference are in accordance with the BNM's Guidelines on Corporate Governance as well as best practices prescribed by the MCCG 2012.

4.2 Shariah Committee

The Shariah Committee ("SC") was established in accordance with the requirements of the IFSA 2013 as well as the Bank's Articles of Association, which prescribed the setting up a Shariah body to ensure that the Bank's conduct its affairs in accordance with the Shariah principles. Members of the SC are scholars renowned for their knowledge and experience in Fiqh Muamalat. They are also responsible to review and approve the Bank's Policies, Standard Operating Procedures, User Guides, Manuals and any other documents that are deemed appropriate to obtain SC's approval.

4.3 Nomination and Remuneration Committee

The Nomination and Remuneration Committee ("NRC") provides a formal and transparent procedure for the appointment of Directors, Board Committee members, Shariah Committee members and CEO and key senior management officers for recommendation to the Board. The NRC also advises the Board on the optimal size and mix skills of the Board. The NRC is to carry annual board evaluation to assess the performance and effectiveness of the Board as a whole, Board Committees, and performance of CEO and key senior management officers.

The NRC provides a formal and transparent procedure for developing a remuneration policy for Directors, CEO and key senior management officers and ensuring that the Bank's compensation package is competitive and consistent with its culture, objectives and strategies.

The NRC will then recommend the proposed remuneration package to the Board for its approval.

4.4 Board Risk Management Committee

The Board Risk Management Committee (“BRMC”) is authorised to oversee the Management’s activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process is in place and functioning. In addition, the Board Risk Management Committee is also responsible for ensuring that a comprehensive risk management infrastructure is in place for managing the risk associated with Mudharabah and Musharakah financing or investments. They are also responsible to review and approve changes to Bank’s policies and frameworks prior to escalation to Board of Directors for approval.

4.5 Board Audit Committee

The Board Audit Committee (“BAC”), is responsible to fulfill the oversight function in relation to the adequacy and integrity of system of internal controls and financial reporting, risk management and compliance with internal policies, procedures and external applicable rules and regulations. They are also responsible to review and approve audit charter.

The BAC is authorised by the Board to investigate any activities within its terms of reference and has unrestricted access to both the internal and external auditors and senior management team of the Bank.

4.6 Veto Committee

The Veto Committee (“VC”) is responsible for the review of financing and/or investment proposals approved by the Credit Committee (“CC”) and/or Investment Committee (“IC”) of the Management based on the limits determined by the Board. VC may overrule any decision of CC and/or IC, where appropriate.

4.7 Board Special Committee

The Board may establish specialized board committees to oversee critical or major functional areas and to address matters, which require detailed review or in-depth consideration. The Board may delegate certain duties to the board committees, however, remains responsible for the decisions of the committees.

Chapter 5 – Culture

The Board is expected to conduct business legally and ethically and insist that the business associates do the same.

5.1 Ethical Behavior

The Board to ensure to promote Shariah compliance in accordance with expectations set out in the policy document on Shariah Governance Framework for Islamic Financial Institutions and ensure its integration with the Bank's business and risk strategies.

5.2 Code of Ethics

The Board is to adopt the Financial Services Professional Board's Code of Ethics for the financial services industry and consistently adhere to a high standard of professionalism and ethics in the conduct of the Bank's business and professional activities.

5.3 Preserving Confidentiality

The Board must adhere to the secrecy provision under Section 145 of the IFSA 2013 and prohibits from producing, divulging, revealing, publishing or disclosing any information pertaining to the affairs and conduct of the Bank/customer account(s) to another party.

The Board must comply with the minimum standards of conduct as per IFSA 2013 and BNM's Corporate Governance to safeguard its integrity and credibility.

5.4 Permitted Disclosures

The Board may for such purpose or in such circumstances as set out in the first column of Schedule 11 of IFSA 2013, disclose any document or information relating to the affairs or account of the Bank's customer(s) to such persons specified in the second column of Schedule 11 of IFSA 2013 or to any person where such disclosure is approved in writing by BNM.

5.5 Changes to this Charter

No changes to this Charter shall be made without the majority of the Board's approval. The Charter established by the Board shall be reviewed by the Board at two (2) years interval, or sooner, if the Board deems appropriate.