

HONG LEONG ISLAMIC BANK BERHAD

BOARD CHARTER

**HONG LEONG ISLAMIC BANK BERHAD (“the Bank”)
- BOARD CHARTER**

The Board Charter sets out the mandate, responsibilities and procedures of the Board of Directors (“**Board**”), and Board Committees in accordance with principles of good governance set out in the policy documents and guidelines issued by Bank Negara Malaysia (“**BNM**”) and other relevant regulatory authorities.

The Board shall periodically review and update the Board Charter in tandem with any changes to regulatory requirements.

1. Introduction

- 1.1 The Board has the overall responsibility for promoting the sustainable growth and financial soundness of the Bank.
- 1.2 The Board elects a Chairman whose primary responsibility is the effective overall functioning of the Board.
- 1.3 The Board appoints a Chief Executive Officer (“**CEO**”) who is responsible for the business and day-to-day management of the Bank.

2. Composition

- 2.1 The number of Directors shall not be less than three (3) or more than twelve (12).
- 2.2 The Chairman of the Board shall not be an executive member of the Board and shall not have served as a CEO of the Bank in the past five (5) years.
- 2.3 The Board shall not have more than one (1) executive director, unless BNM approves otherwise in writing.
- 2.4 The Board shall have a majority of Independent Directors at all times.
- 2.5 Directors who are Board members of the Bank and its affiliates shall remain in the minority of the Board of the Bank if:
 - (a) the affiliate is a licensed bank or licensed investment bank;
 - (b) the affiliate is holding company or subsidiary of the Bank that is itself a financial institution; or
 - (c) there are strong operational dependencies between the Bank and the affiliate. Operational dependencies are heightened where the relevant institutions operate under centralised or shared services arrangements, particularly in respect of control functions.

“Affiliate” refers to any corporation that controls, is controlled by, or is under common control with, the Bank.

2. Composition (cont'd)

2.6 A former partner of the external auditor of the Bank shall not serve or be appointed as a Director of the Bank until at least three (3) years after:

- (a) he/ she ceases to be an officer or partner of that audit firm; or
- (b) the audit firm last served as an external auditor of the Bank.

3. Terms of Reference ("TOR") of the Board

The main responsibilities of the Board are to:

- 3.1 review from time to time and approve the Bank's corporate mission, statement and broad strategies, risk appetite, business plans and other initiatives which would have a material impact on the Bank's risk profile including financial soundness, reputation and key operational controls and ensure that there is an appropriate risk management framework and appropriate systems to manage these risks;
- 3.2 approve the internal capital target, Internal Capital Adequacy Assessment Process ("**ICAAP**") and Capital Management framework;
- 3.3 ensure that senior management discharges its responsibilities for the development and effective implementation of ICAAP;
- 3.4 review and approve specific investments and divestments;
- 3.5 review and approve material transactions before implementation;
- 3.6 ensure that the Bank has adequate management resources to achieve its objectives and to support the CEO and that a satisfactory plan for succession management is in place;
- 3.7 ensure that the Bank has in place procedures to enable effective communication with stakeholders;
- 3.8 promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank;
- 3.9 oversee, review and continuously monitor the adequacy, integrity and implementation of the Bank's governance framework, internal control framework and management information framework, including systems for compliance with applicable laws, regulations, rules, directives and guidelines as well as to prevent Shariah non-compliance and any rectification measures to resolve incidences or circumstances that may result or have resulted in Shariah non-compliance, and periodically review whether the frameworks remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations;

3. **TOR of the Board (cont'd)**

- 3.10 promote, together with senior management, a sound corporate culture within the Bank which reinforces ethical, prudent, professional behaviour in the conduct of business and reflects the importance of adhering to Shariah requirements in product development and marketing, strategy formulation, business operations, risk management practices and other aspects that promote end-to-end compliance with Shariah in accordance with regulatory framework and requirements, where applicable;
- 3.11 promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- 3.12 ensure the integrity of the Bank's financial and non-financial reporting;
- 3.13 establish and regularly review succession plans for the Board to promote Board renewal and address any vacancies;
- 3.14 oversee the selection, performance, remuneration and succession plans of the CEO, control function heads, material risk takers and other members of senior management, including officers who are entrusted to implement the BNM policy document on Shariah Governance ("**Officers**"), and to ensure that the measures of their performance are aligned with Shariah governance objectives. The Board may delegate matters relating to appointments and assessment of senior management and Officers, control function heads and, material risk takers to Board Committees and/or CEO as the Board deems fit;
- 3.15 approve and review periodically the Remuneration Policy of the Bank;

The remuneration for each director, Shariah Committee ("**SC**"), senior management and other material risk takers must be approved by the Board annually;
- 3.16 approve policies relating to governance structure and reporting arrangements, Shariah non-compliance risk management and other areas that are material to the effective implementation of Shariah governance within the Bank;
- 3.17 oversee the implementation of Shariah Advisory Council ("**SAC**") rulings and decisions or advice of the SC within all business and functional lines, including any business or risk implications arising from such implementation; and
- 3.18 oversee and approve the recovery and resolution as well as business continuity plans for the Bank to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress.

4. Responsibilities of the Chairman

The Chairman is responsible to lead and coordinate the activities of the Board and has the following specific responsibilities:

- 4.1 conduct meetings of the Board, and shareholders;
- 4.2 schedule Board meetings in a manner that enables the Board and its Committees to perform their duties effectively;
- 4.3 prepare, in consultation with the CEO, other Directors and Committee chairmen the agendas for the Board and Committee meetings;
- 4.4 ensure that appropriate procedures are in place to govern the Board's operation;
- 4.5 ensure that decisions are taken on a sound and well-informed basis, including by ensuring that all strategic and critical issues are considered by the Board and that Directors receive the relevant information on a timely basis;
- 4.6 encourage healthy discussion and ensure that dissenting views can be freely expressed and discussed; and
- 4.7 lead efforts to address the Board's developmental needs.

5. Responsibilities of the CEO

The CEO is the senior executive of the Bank and is responsible for:

- 5.1 formulating the vision for the Bank and recommending policy and the strategic direction of the Bank for approval by the Board;
- 5.2 providing management of the day-to-day operations of the Bank;
- 5.3 acting as the spokesman of the Bank;
- 5.4 implementing the business and risk strategies, remuneration, effective Shariah governance policies, procedures, practices and other policies in accordance with the direction given by the Board;
- 5.5 establishing a management structure and reporting arrangement that provides a clear scope of accountability between the business lines and the internal control functions that are involved in managing Shariah non-compliance risks, including the accountability of the senior officer leading a Shariah department or unit;
- 5.6 promoting, together with the Board, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour in the conduct of business;
- 5.7 addressing actual or suspected breaches of regulatory requirements or internal policies in a timely and appropriate manner; and

5. Responsibilities of the CEO (cont'd)

- 5.8 regularly updating the Board with the material information the Board needs to carry out its oversight responsibilities, particularly on matters relating to –
- (i) the performance, financial condition and operating environment of the Bank;
 - (ii) internal control failures, including breaches of risk limits;
 - (iii) any potential or actual Shariah non-compliance events; and
 - (iii) legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.
- 5.9 implement the rulings of the SAC and the decision or advice of the SC with due regard by the Board;
- 5.10 implement an effective communication policy that supports a sound understanding of Shariah matters across the Islamic Financial Institutions; and
- 5.11 conduct regular assessment to evaluate the quality of operational support provided to the SC and address any inadequacies arising thereof.

6. Responsibilities of Individual Directors

The responsibilities of Individual Directors broadly include the following:

- 6.1 ensure there is a proper check and balance on the Board, taking into consideration the interest of all shareholders;
- 6.2 improve governance standards and make significant contributions to the Bank's decision making;
- 6.3 make assessment of information, reports or statement when the interests of Management, Bank and/or shareholders diverge; and
- 6.4 keep all Board information, discussions, deliberations and decisions that are not publicly known confidential and not use information gained through the Board for own or others' benefit or advantage.

7. Responsibilities of Non-Executive Directors

In addition to Clause 6 above, the roles of the Non-Executive Directors include the following:

- 7.1 providing independent and objective (in the case of Non-Executive Directors who are Independent) views, assessment and suggestions in deliberations of the Board; and
- 7.2 constructively challenging and contributing to the development of the business strategies and direction of the Bank.

8. Company Secretary

The Company Secretary supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions, facilitates effective information flow amongst the Board, Board Committees and senior management and attending meetings and recording minutes of the proceedings.

The Board shall have access to the advice and services of a qualified and competent Company Secretary to facilitate the discharge of their duties effectively.

The appointment and removal of Company Secretary shall be subject to the approval of the Board.

9. Board Committees

The Board has established the following Board Committees whose compositions, functions, responsibilities and authority delegated by the Board are set out in the respective Board Committees' terms of reference, which are available at the Bank's website at www.hlisb.com.my:

- Board Audit and Risk Management Committee;
- Nomination and Remuneration Committee; and
- Board Information and Technology Committee.

Board Committees shall report, update and keep the Board informed on the significant issues, key deliberations, recommendations and decisions on delegated matters.

The Board remains fully accountable for any authority delegated to the Board Committees.

10. SC

The roles and responsibilities of the SC as prescribed in the BNM policy document on Shariah Governance are set out in the SC's TOR.

While the SC is responsible to perform an oversight role on Shariah matters related to the Bank's business operations and activities, the Board remains responsible for the direction and control of the Bank's business and risk strategies.

11. Matters Reserved & Delegated by the Board

The responsibilities and procedures of the Board, Board Committees and SC are set out in their respective TOR.

Matters reserved for the Board's decision include the following:

11. Matters Reserved & Delegated by the Board (Cont'd)

- 11.1 business direction and key strategies;
- 11.2 new or changes to the Strategic Business Plans;
- 11.3 mergers and acquisitions;
- 11.4 expansion/entry into new markets and regions;
- 11.5 corporate restructuring/reorganisation;
- 11.6 set-up of new subsidiaries; joint venture partnerships;
- 11.7 new investments/acquisitions/disposals of significant assets; and
- 11.8 any other matters, which include Shariah governance matters in accordance with BNM policy document on Shariah Governance, as deemed necessary by the Board.

The Board may delegate the authority on any of the above matters to the Board Committees, SC, CEO, management committees or senior management as it deems fit.

12. Proceedings of Directors

- 12.1 The proceedings of Directors, where applicable, shall be governed by the provisions of the Constitution of the Bank and the relevant laws and regulations regulating the proceedings of Directors.
- 12.2 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.
- 12.3 Attendance at a Board meeting, by way other than physical presence, shall remain the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations.
- 12.4 At least half of the number of the Board members shall form a quorum.
- 12.5 A director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.
- 12.6 The Board must ensure that clear and accurate minutes of Board meetings are maintained to record the decisions of the Board, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must indicate whether any director abstained from voting or excused himself from deliberating on a particular matter.

13. Conflict of Interest

The Bank has established a Directors' Conflict of Interest Policy.

14. Director's External Commitments

Directors shall devote sufficient time to carry out their responsibilities. All Directors are expected to commit time as and when required to discharge his/her duties and responsibilities, besides attending meetings of the Board and Board Committees.

Directors shall notify the Board Chairman before accepting any new directorships.

A Director of the Bank shall not hold more than five directorships in public listed companies.

15. Director's Access to Advice

The Board may seek advice from third party experts on any matter deliberated by the Board, where necessary, at the Bank's expense, in consultation with the Chairman of the Board or the CEO of the Bank.

16. Director's Development

- 16.1 Directors must maintain a sound understanding of the businesses of the Bank within the Group as well as relevant market and regulatory developments. This must include a commitment to on-going education.
- 16.2 Newly appointed Directors are required to attend the Induction Program of the Bank, which is designed, inter alia, to assist them to familiarise and to get acquainted with the Bank's business, governance process, roles and responsibilities of Directors.
- 16.3 Directors shall attend and complete the mandatory training programme(s) prescribed by regulators upon their appointment to the Board.
- 16.4 Directors are encouraged to undertake continuing professional development ("CPD") programme(s) to keep abreast of the development in the market and to discharge their duties effectively. The CPD may encompass areas related to the industry or businesses of the Bank, governance, risk management and regulations through a combination of courses and conferences.
- 16.5 The Board, assisted by the Nomination and Remuneration Committee, shall evaluate and determine the training needs of each Director as well as dedicate sufficient resources toward the on-going development of its Directors. This must include dedicating an adequate budget, having in place development plans for Directors and regularly updating such plans to ensure that each Director possesses the knowledge and skills necessary to fulfil his/ her responsibilities.

17. Review of Board Charter

This Board Charter is subject to periodic review by the Board or at least once annually.