



**LIBERTY INSURANCE BERHAD
BOARD OF DIRECTORS' CHARTER**

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1. Introduction

- 1.1. The board of directors of Liberty Insurance Berhad ("**Board**") is committed to maintaining a high standard of corporate governance within Liberty Insurance Berhad ("**Company**") with the view of ensuring a sustainable business growth in the long term, whilst protecting shareholder value and having regard to the interests of policy owners of the Company.
- 1.2. This charter of the Board ("**Board Charter**") sets out the standards and principles governing the role, responsibilities and functions of the Board, the Company's board committees ("**Board Committees**") and delineation of the role and responsibilities between the Board and senior management ("**Senior Management**"). The Board Charter incorporates the requirements under the Financial Services Act 2013 ("**FSA**"), the Companies Act 2016 and applicable policy documents issued by Bank Negara Malaysia ("**BNM**").
- 1.3. The Board Charter was adopted by the Board on 23 March 2017. The Board has resolved that it will from time to time review and amend, as appropriate, the Board Charter.

2. Roles and Responsibilities

2.1. Board

- 2.1.1. The Board shall oversee and ensure that the business and affairs of the Company are managed under its direction.
- 2.1.2. The Board shall assume, among others, the following responsibilities:
 - (a) setting and overseeing the implementation of Company's business and risk objectives and strategies, while having regard to the long term viability of the Company;
 - (b) ensuring and overseeing the effective design and implementation of sound internal controls, compliance and risk management systems commensurate with the nature, scale and complexity of the Company's business and structure, and carrying out periodical reviews of such controls and systems in light of material changes to the size, nature and complexity of the Company's operations;
 - (c) ensuring that there is a reliable and transparent financial reporting process within the institution;
 - (d) promoting the sustainable growth and financial soundness of the Company, and promoting sustainability generally through appropriate environmental, social and governance considerations in the Company's business strategies;
 - (e) ensuring reasonable standards of fair dealing, without undue influence from any party;
 - (f) approving the risk appetite, business plans and other initiatives which would have a material impact on the Company's risk profile, financial soundness, reputation or other key operational controls;

- (g) overseeing the selection, performance, remuneration and succession plans of the Chief Executive Officer, control function heads and other Senior Management members to ensure that the collective competence of the Senior Management in order to effectively lead the Company's operations, and includes overseeing the appointed actuary;
- (h) promoting (with Senior Management) a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (i) overseeing and approving the recovery and resolution as well as business continuity plans for the Company in order to restore the Company's financial strength, maintain or preserve critical operations and critical services when it comes under stress;
- (j) promoting the timely and effective communication with BNM on matters affecting or that may affect the Company's financial safety and soundness; and
- (k) promoting (with Senior Management) a consistent culture of risk awareness and risk management within the Company.

2.2. Matters Reserved for the Board

2.2.1. Unless otherwise determined by the Board, matters reserved for the Board's approval include among others:

- (a) annual business plan and budget;
- (b) material acquisition and disposal of assets not in the ordinary course of business of the Company;
- (c) investments requiring significant capital expenditure;
- (d) financial results and financial statements;
- (e) dividend recommendation;
- (f) changes to the composition of the Board and Board Committees;
- (g) appointment and remuneration of external auditor;
- (h) appointment and remuneration of the company secretary;
- (i) the reports and matters raised for the attention of the Board by the appointed actuary; and
- (j) banking facilities.

2.3. Chairman

2.3.1. The Chairman shall be responsible for the effective running of, and managing the meetings of, the Board.

2.3.2. The Chairman shall, among others:

- (a) ensure that appropriate procedures are in place to govern the Board's operation;
- (b) ensure that Board decisions are being taken on a sound and well-informed basis;
- (c) ensure that all strategic and critical issues are considered by the Board and that directors receive the relevant information in a timely manner;

- (d) encourage discussions among the Board members and ensure that dissenting views of directors are permitted to be freely expressed and discussed by the Board;
- (e) spearhead efforts to address the Board's developmental needs;
- (f) ensure that all relevant issues are on the agenda for the Board meeting; and
- (g) lead the Board in the oversight of Senior Management.

2.4. Director

2.4.1 A director shall, among other responsibilities, at all times:

- (a) act in good faith in the best interests of the Company;
- (b) exercise reasonable care, skill and diligence with:
 - (i) the knowledge, skill and experience which may reasonably be expected of a director having the same responsibilities; and
 - (ii) any additional knowledge, skill and experience which the director has;
- (c) only exercise powers conferred on the director for the purposes for which such powers are conferred;
- (d) exercise sound and independent judgment;
- (e) when making any decision on whether or not to take action in respect of a matter relevant to the business of the Company:
 - (i) makes the business judgment in good faith for a proper purpose;
 - (ii) does not have a material personal interest in the subject matter of business judgment;
 - (iii) is informed about the subject matter of the business judgment to the extent the director reasonably believes to be appropriate under the circumstances; and
 - (iv) reasonably believes that the business judgement is in the best interest of the Company;
- (f) be responsible for the exercise of powers by delegates as if such power has been exercised by the directors themselves;
- (g) adhere to its general duty to disclose among others, its shareholdings, rights or options in the Company or a related Company (save for a wholly owned subsidiary of the Company);
- (h) not misuse information gained in the course of duties for personal gain or for political purpose, nor seek to use the opportunity of the service as directors to promote their private interests or those of connected persons, firms, businesses or other organizations; and
- (i) ensure that the Company's accounts laid before the Company at its Annual General Meeting ("**AGM**") are made out in accordance with the applicable approved accounting standards and that the accounts give a true and fair view of the matters or of the results of the business and the state of affairs of the Company.

3. Board Composition

3.1. Board Size

- 3.1.1. The size of the Board shall be a size that promotes effective deliberation and encourages active director participation from all the directors. The Board size shall also allow the work of the various Board Committees to be discharged without giving rise to an over-extension of the directors that are required to serve on multiple Board Committees. In this regard, the Articles of Association of the Company ("**Company's AOA**") provides for a minimum of 2 directors and a maximum of 11 directors.
- 3.1.2. The Chairman of the Board shall be a non-executive director and must not have served as the Chief Executive Officer of the Company in the past 5 years.
- 3.1.3. The Board shall have a majority of independent directors at all times. The Board shall achieve a balanced representation of non-independent non-executive directors and independent non-executive directors to ensure that no small group of individuals dominates the Board decision-making process in respect of the Company. Directors who are on both the Board and the board of the Company's affiliates shall remain in the minority of the Board in the following circumstances:
 - (a) one entity is a licensed insurer and the other is a licensed takaful operator;
 - (b) the affiliate is a holding company or subsidiary of the Company that is itself a financial institution; or
 - (c) where there are strong operational dependencies between the Company and the affiliate.

3.2. Board Committee

- 3.3.1. Each prescribed Board Committee by BNM (with specific details set out in Paragraph 8.2.3 of the Board Charter) shall:
 - (a) have at least 3 directors;
 - (b) have a majority of independent directors;
 - (c) be chaired by an independent director who is not the chairman of the Board;
 - (d) consist of directors who have the relevant skills, knowledge and experience required for the assigned Board Committee; and
 - (e) not have any executive director in its membership, save for the Nominations Committee.

3.3. Board Diversity

- 3.3.1. The Board develops and documents the criteria and skill sets required of its members both individually and collectively. The criteria and skill sets reflect the fit and proper requirements and specific market or business knowledge required by the Board, which are reviewed regularly by the Board to ensure alignment with the strategic direction and emerging challenges faced by the Company and take into account supervisory concerns highlighted by BNM that require specific expertise on the Board.
- 3.3.2. The Board recognises the importance of maintaining a diverse Board in terms of skills, ethnicity, experience, gender, culture and age to widen the Board's perspective in the

decision-making process, and in turn assist the Board to effectively carry out its role and responsibilities. The appointment of a director to the Board shall also take into account whether the director has the necessary skills set, experience and knowledge that is required of a director of the Company.

4. Board Appointment, Retirement and Removal

- 4.1. Potential candidates for the director role shall be evaluated by the Nominations Committee to ensure that the candidate complies with the fit and proper requirements stipulated by BNM. The Board shall be wholly satisfied by way of an objective assessment that the candidate meets the minimum requirements set out below, understands the expectations of the role, is able to meaningfully contribute to the Board, and also takes the matters set out in Paragraph 3.3 of the Board Charter into account, before approving the submission of an application to BNM for its written approval of the appointment.
- 4.2. The minimum requirements that directors have to fulfil at the time of the director's appointment and maintain on a continuing basis are as follows:
 - (a) the director is not disqualified under Section 59 of the FSA (details of which are set out in Schedule 1 of the Board Charter);
 - (b) the director meets the fit and proper requirements set out in Section 55 and Section 60 of the FSA, as well as Part C of the policy document on the fit and proper criteria issued by BNM (details of which are set out in the Schedule 1 of the Board Charter).
 - (c) the director must not have competing time commitments that hinders his/her ability to discharge his/her duties effectively;
 - (d) the director must not be active politician; and
 - (e) where a firm has been appointed as the external auditor of the Company, any of its officers directly involved in the engagement and any partner of the firm must not serve or be appointed as a director of the Company until at least 2 years after he ceases to be an officer or partner of the firm or the firm last served as an auditor of the Company.
- 4.3. In the event that the Board becomes aware of information that may materially affect a director's fitness and propriety, or in the event that there is any circumstance that suggests that the director is unsuitable and/or ineffective in carrying out his/her responsibilities, the Board shall request and the director shall be obligated to render a disclosure to the Board of any circumstance that may affect his/her ability to meet the minimum requirements.
- 4.4. The Company's AOA provides that at the yearly AGM, one-third of the total number of directors (or the number nearest one-third) shall retire from office. A retiring director shall however, be eligible for re-election. The directors who are to retire every year shall be those who have been longest in office since their last election. Where there is more than one director who becomes a director on the same day, the directors who are to retire shall be determined by lot, unless agreed among themselves.

- 4.5. The tenure for independent directors should not exceed 9 years, except in exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the Company.
- 4.6. Written approval of BNM shall be obtained before:
 - (a) the Board removes an independent director (excluding terminations in accordance with statutory requirements under the FSA); or
 - (b) an independent director resigns from the position.

5. Board Evaluation

- 5.1. The Board shall carry out evaluations on the Board on an annual basis to objectively assess the performance and effectiveness of the Board, Board Committees and the individual directors. The evaluation shall also include an assessment against the minimum criteria set out in Paragraph 4.2 of the Board Charter. From time to time, the Board may engage external consultants to assist in and objectively lead the annual board evaluations. Pursuant to the evaluations undertaken by the Board, the Board shall seek to identify areas that require professional development and process improvements by the Board, Board Committees or the individual directors.

6. Directors' Training and Development

- 6.1. The Board shall dedicate sufficient resources towards the continuous development of its directors, including dedicating a reasonable annual budget, which is proportional to the Company's financial resources, provided always that such resources shall be subject to the Company's business plan. Such training and development can be implemented through the observance of the development plans that are currently in place, subject to review from time to time to determine the continued relevance of the plan; and if changes are necessary, the Board shall, among others, introduce new or revised development plans.
- 6.2. The directors shall maintain a sound understanding of the Company's business, in addition to keeping up with the relevant market and regulatory developments.

7. Board Meetings and Quorum

- 7.1. Board meetings shall be scheduled in advance at the end of the prior calendar year to enable the Board members to plan their schedules accordingly. Directors are to therefore devote sufficient time in preparing for and attending Board meetings.
- 7.2. A minimum of 6 meetings a year shall be planned and additional meetings will be convened from time to time, as and when required. Directors shall attend at least 75% of the Board meetings held during each financial year. No director shall appoint another person, i.e., an alternate or a proxy, to attend or participate in a Board meeting on the director's behalf.
- 7.3. The notice containing the agenda of the meeting shall be circulated by the company secretary to every member of the Board prior to the meeting.

- 7.4. All Board meetings shall be chaired by the Chairman. The Company's AOA provides that where the Chairman is absent, the Deputy Chairman (if any), or in the event that there is more than one Deputy Chairman, the senior in appointment among them, shall chair the Board meeting. If such officers (i.e., the Deputy Chairman) have not been appointed, or if no such officer is present, the directors present may choose one of their numbers to be the chairman of the meeting.
- 7.5. Attendance at Board meetings, other than by physical presence, shall be the exception and is subject to necessary and appropriate safeguards to ensure that the confidentiality of Board deliberations remain confidential. The Company's AOA provides that a director shall be deemed to be present at the Board meeting if he participates by telephone, video conferencing or other electronic means.
- 7.6. The Company's AOA provides that a resolution in writing, signed by all the directors entitled to receive notice of the Board meeting shall be valid and effectual as if it has been passed at a Board meeting duly convened and held, and such resolutions may consist of several documents in like form, each signed by one or more directors. The quorum for each Board meeting shall be at least half of the Board members.
- 7.7. During Board meetings, clear and accurate minutes of the Board meetings shall be documented and maintained by the directors (through the company secretary), so that the Board decisions, including key deliberations, rationale for each decision and any significant concerns or dissenting views are recorded. Board minutes shall also indicate conflicts of interest involving the directors and indicate whether any director abstained from voting or excused himself from deliberating on a particular matter.
- 7.8. The Board shall also have access to advice from third party experts where the matter deliberated by the Board necessitates this. The cost of advice from such third party experts shall be borne by the Company. The appropriate Senior Management personnel of the Company shall attend such Board meetings on the invitation of the Chairman or the executive director where their presence is considered appropriate.

8. Delegation of Responsibilities

8.1. Delegation by the Directors

- 8.1.1. Directors may delegate any powers of the Board to any committee, officer, employee, expert or any other person. The powers of the Board which have been delegated are set out below.

8.2. Board Committees

- 8.2.1. The Board shall remain fully accountable for any delegated authority to the Board Committees, and accordingly, the Board Committees shall report to the Board, in detail on their work, key deliberations, findings, recommendations and its decisions on delegated matters during the Board meetings. The Board Committees shall operate within clearly defined roles and responsibilities as set out in further detail in the terms of reference of each Board Committee.
- 8.2.2. Board Committee meetings are scheduled in advance at the end of the prior calendar year to enable the Board Committee members to plan their schedules accordingly.
- 8.2.3. An outline of the areas of authority delegated by the Board to the Board Committees, each of which is a committee prescribed by BNM, are as follows:

(a) Nomination Committee

The Nominations Committee shall support the Board in carrying out its functions in the matters involving the appointments and removals, composition, performance evaluation and development and fit and proper assessments of the Board, Chief Executive Officer, Senior Management and company secretary. The terms of reference of the Nomination Committee is attached in Schedule 2 of the Board Charter.

(b) Remuneration Committee

The Remuneration Committee shall actively oversee the design and operation of the Company's remuneration system and periodically review the remuneration of directors on the Board in order to determine the appropriateness of the remuneration according to each director's contribution, whilst taking into account the directors' level of expertise, commitment and responsibilities. The terms of reference of the Remuneration Committee is attached in Schedule 3 of the Board Charter.

(c) Risk Management Committee

The Risk Management Committee shall support the Board in meeting the risk management standards set out in the policy document on risk governance issued by BNM, assist in the implementation of a sound remuneration system and examine whether the incentives that are made available by the Company's remuneration system takes into account risks, capital, liquidity and the likelihood and timing of earnings. The terms of reference of the Risk Management Committee is attached in Schedule 4 of the Board Charter.

(d) Audit Committee

The Audit Committee shall:

- (i) support the Board in ensuring that the financial reporting process within the Company is reliable, efficient and transparent;
- (ii) supervise the effectiveness of the Company's internal audit function by:
 - (A) reviewing and approving the audit scope, procedures and frequency;
 - (B) reviewing key audit reports and ensuring that necessary corrective actions are being taken in a timely manner by Senior Management;
 - (C) considering significant disagreements arising between the Chief Internal Auditor and the Senior Management, in order to identify whether these disagreements may have impacted the audit process or findings; and
 - (D) establishing a mechanism to assess the performance and effectiveness of the internal audit function;
- (iii) foster quality audits of the Company by exercising oversight over the external auditor in accordance with the standards set out in policy document on external auditor issued by BNM;
- (iv) review and report to the Board on all related party transactions;

- (v) review the accuracy and adequacy of the Chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements;
- (vi) ensure compliance with the Board's conflicts of interest policy; and
- (vii) review third-party opinions on the design and effectiveness of the Company's internal control framework.

The terms of reference of the Audit Committee is attached in Schedule 5 of the Board Charter.

8.2.4. Investment Committee

The Investment Committee, which comprises of directors and Senior Management (defined further in Paragraph 8.4.1 of the Board Charter), shall oversee and take actions, with respect to the purchase, disposal, exchange and management of the invested assets of the Company, review the investment performance of products and accounts managed by the Company; and develop and review general investment strategies, objectives and standards applicable to the investments made by the Company. The terms of reference of the Investment Committee is attached in Schedule 6 of the Board Charter.

8.3. Chief Executive Officer

8.3.1. The Chief Executive Officer, shall lead the Senior Management and bear the primary responsibility of the day-to-day management of the Company.

8.3.2. The responsibilities of the Chief Executive Officer, in addition to the responsibilities of the Senior Management set out in Paragraph 8.4.2 of the Board Charter, include:

- (a) driving the performance of the Company in accordance to the Company's commercial objectives and strategic plans;
- (b) ensuring and overseeing that the Board's decisions are implemented timely and effectively and Board's directions are responded to;
- (c) ensuring the day-to-day business affairs of the Company are effectively run and managed;
- (d) ensuring strategies and corporate policies are effectively implemented;
- (e) implementing the Company's short term and long term business plans;
- (f) providing strong leadership to the Senior Management and ensuring that the Company's business objectives, strategies and plans are communicated to all levels of employees in the Company;
- (g) ensuring that the Company's internal control systems are in place; and
- (h) keeping the Board well informed of salient aspects and issues concerning the Company's operations and ensuring that adequate management reports are submitted to Board members.

8.4. Senior Management

8.4.1. Senior Management refers to:

- (a) any person whose primary or significant responsibility is for the management and performance of significant business activities of the Company, including a person who has the authority over, makes or has substantial influence in making decisions that affect the whole or substantial part of the Company's business, and is principally accountable or responsible, whether solely or jointly with other persons, for (i) implementing and enforcing policies and strategies approved by the Board; or (ii) developing and implementing systems, internal controls and processes that identify, measure, monitor or control the Company's risks; and
- (b) any person who assumes primary or significant responsibility for key control functions, including a person who is principally accountable or responsible, whether solely or jointly with other persons, for monitoring the appropriateness, adequacy and effectiveness of the Company's internal controls, risk management and compliance systems and processes.

8.4.2. The responsibilities of the Senior Management include:

- (a) implementing business and risk strategies, remuneration and other policies according to the Board's directions and the guidance provided by the Chief Executive Officer;
- (b) establishing an accountable and transparent management structure throughout the Company's operations that preserves the effectiveness and independence of control functions, and the effective oversight of delegated authority and responsibilities for risk-taking decisions;
- (c) promoting a sound corporate culture within the Company intended to reinforce ethical, prudent and professional behaviour;
- (d) appropriately addressing actual or suspected breaches of regulatory requirements or internal policies in a timely manner;
- (e) providing material information to the Board or the Chief Executive Officer (as the case may be) regularly in order for the Board to carry out its oversight responsibilities, specifically in relation to the following matters:
 - (i) the Company's performance, financial condition and operating environment;
 - (ii) internal control failures, including breaches of risk limits; and
 - (iii) legal and regulatory obligations, including supervisory concerns and the remedial actions that were taken;
- (f) establishing clear guidance regarding the business and risk strategy, including risk limits, for individual operating units to ensure that the risk-taking activities remain within the risk appetite of the Company;
- (g) ensuring that key risks associated with the new business strategies or activities that are being pursued, have been identified and assessed to determine whether the risks are within the Company's risk appetite;
- (h) contributing towards promoting a sound risk culture through a clear focus on risk in the activities of the Company and timely and proportionate responses to inappropriate risk-taking behaviour; and

- (i) establishing and implementing appropriate organisation structures and systems for managing financial and non-financial risks that the Company is exposed to (including the establishment of an effective risk management function that is independent from the business units and an effective system of internal controls).

9. Access to Information and Advice

- 9.1. The directors shall have right of access to information relating to the business, operations and governance of the Company, whether as a full Board or in their individual capacity, in furtherance of their duties.
- 9.2. The directors may, collectively or individually, seek independent professional advice from the relevant experts in furtherance of their duties at the expense of the Company.

10. Succession Planning

- 10.1. The Board shall adopt succession plans that are regularly reviewed, for the Board to promote Board renewal and address any vacancies. The Board shall also consider and develop robust succession plans for the Senior Management.

11. Board Policies

11.1. Conflicts of Interest Policy

11.1.1. Directors shall disclose to the Board:

- (a) any direct or indirect material interest in a contract or proposed contract, or where the director holds any office or possesses any property where the duties or interests may be created in conflict with his duties or interests as director. The interested director may make the quorum of the Board meeting, but the director is not permitted to participate in any discussion while the matter in question is being considered and shall not vote on the matter; and
- (b) the nature and extent of his interest in a material transaction or material arrangement, and if such material transaction or material arrangement is being deliberated during a Board meeting, the director is required to be absent from the meeting during such deliberations. Where there are any changes in the nature and extent of a director's interest in a material transaction or material arrangement subsequent to the relevant disclosure, the director is required to make a further disclosure of the changes.

- 11.1.2. An existing or proposed transaction or arrangement will be considered "material" if it is one which a director is required to declare under Section 221 of 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.

11.1.3. An interested director shall make the disclosure by way of a written notice to all the Board members and the company secretary setting out the fact, nature, character and extent of the conflict:

- (a) as soon as practicable after being aware of his 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.

11.1.4. The company secretary shall record every conflicts of interest disclosure made by the directors in the minutes of the Board meeting at which the disclosure is made.

11.1.5. Each director shall, on an annual basis, certify that he/she has disclosed all conflicts of interest to the Board in accordance with Paragraph 11.1.3 of the Board Charter.

11.1.6. Non-compliance with this Conflicts of Interest Policy by any directors may lead to sanction or such other actions as may be approved by the Board. The directors shall also have regard to the consequences of a breach of the provisions of the FSA arising from the non-compliance with the conflicts of interest requirement set out in the FSA and any corresponding policy document issued by BNM.

11.2. Code of Ethics of the Board

11.2.1. The Board had adopted the Liberty Mutual Insurance Code of Business Ethics and Conduct ("**Code of Ethics**"). The Code of Ethics applies to all directors and employees of the Company, and serves as the commitment to act with honesty and integrity wherever and whenever the Company does any business, or by any director or employee when acting on behalf of the Company. Pursuant to the Code of Ethics, all directors and employees of the Company have a responsibility to:

- (a) act with integrity;
- (b) avoid conflicts of interest;
- (c) protect information;
- (d) comply with the law; and
- (e) raise compliance concerns.

11.2.2. In addition, the Board also observes the following:

- (a) the Companies Act 2016;
- (b) the Financial Services Act 2013 and the policy documents issued by BNM from time to time; and
- (c) the Code of Ethics for Company Directors issued by the Companies Commission of Malaysia.

11.3. Whistleblowing Policy

The Board had approved the Company's Whistleblowing Policy. The policy outlines the Company's commitment to protecting the integrity of the Company and displays its seriousness in promoting a culture of honesty, ethical behaviour and good governance. The policy is also aimed at encouraging a culture of openness and transparency.

11.3.1. The policy sets out the mechanisms and framework by which all employees and the relevant stakeholders of the Company (i.e., directors, shareholders, consultants, vendors, contractors or any other parties in a business relationship with the Company) are able to raise concerns regarding any illegal conduct or malpractice without being subject to victimization, harassment or discriminatory treatment and to have such concerns properly investigated.

SCHEDULE 1

Legislation / Policy Document	Relevant Provisions
Section 55 of the FSA	<p>(1) An institution shall not appoint or elect, reappoint or re-elect any person as a chairman, director, chief executive officer or senior officer of the institution, unless such person:</p> <ul style="list-style-type: none"> (a) is an individual; (b) is not disqualified under subsection 59(1); and (c) has complied with the fit and proper requirements as may be specified by BNM under section 60. <p>(2) No person shall accept any appointment or election, reappointment or re-election as a chairman, director, chief executive officer or senior officer of an institution, unless such person:</p> <ul style="list-style-type: none"> (a) is not disqualified under subsection 59(1); and (b) has complied with the fit and proper requirements as may be specified by BNM under section 60. <p>(3) Unless BNM otherwise approves, a chief executive officer of an institution shall have his principal or only place of residence within Malaysia and devote the whole of his professional time to the service of the institution.</p>
Section 59 of the FSA	<p>(1) A person is disqualified from being appointed or elected, reappointed or re-elected, accepting any appointment or election, or holding office, as a chairman, director, chief executive officer or senior officer of an institution if:</p> <ul style="list-style-type: none"> (a) he is an undischarged bankrupt, has suspended payments or has compounded with his creditors whether in or outside Malaysia; (b) a charge for a criminal offence relating to dishonesty or fraud under any written law or the law of any country, territory or place outside Malaysia, has been proven against him; (c) he is prohibited from being a director of a company or in any way, whether directly or indirectly, be concerned or take part in the management of a company in Malaysia pursuant to a court order made under section 130A of the Companies Act 1965 and has not obtained any leave of the court under the same section (equivalent to Section 199 of

Legislation / Policy Document	Relevant Provisions
	<p>the Companies Act 2016 and Section 198(1)(e) and 198(4) of the Companies Act 2016); or</p> <p>(d) under any law relating to prevention of crime, drug trafficking or immigration:</p> <p>(i) an order of detention, supervision, or deportation has been made against that person; or</p> <p>(ii) any form of restriction or supervision by bond or otherwise, has been imposed on him.</p> <p>(2) Where any criminal proceeding is pending in any court for any offence referred to in paragraph (1)(b) against a chairman, director, chief executive officer or senior officer of an institution, such person shall not:</p> <p>(a) act in such capacity, hold any other office or act in any other capacity, in that institution; or</p> <p>(b) be concerned with, take part or engage in any manner, whether directly or indirectly, in any activity, affairs or business of, or in relation to, that institution,</p> <p>except as may be permitted by the board of directors of the institution subject to such conditions as may be specified by BNM.</p> <p>(3) For the purposes of subsection (2), “criminal proceedings” shall be deemed to be pending from the date that the accused person is first charged in court for the offence until the date of the final conclusion of the proceedings, whether in the court of original jurisdiction or, in the event of any appeal by any party, in the court of final appellate jurisdiction.</p>
Section 60 of the FSA	<p>(1) Without limiting the generality of section 47 and for the purposes of paragraphs 55(1)(c) and 55(2)(b), BNM may specify fit and proper requirements to be complied with by a chairman, director, chief executive officer or senior officer of an institution or a financial adviser’s representative, which may include minimum criteria relating to:</p> <p>(a) probity, personal integrity and reputation;</p> <p>(b) competency and capability; and</p> <p>(c) financial integrity.</p> <p>(2) Where an issue arises as to whether a chairman, director, chief executive officer, senior officer or financial adviser’s representative has complied with the fit and</p>

Legislation / Policy Document	Relevant Provisions
	proper requirements as specified under subsection (1), BNM shall have full discretion to determine the issue.
Paragraph 11, Part C of the policy document on fit and proper criteria issued by BNM (BNM/RH/GL 018-5)	<p><u>Minimum Assessment Factors - Probity, Personal Integrity and Reputation</u></p> <p>11.1. Probity, personal integrity and reputation are values that can be demonstrated through personal qualities such as honesty, integrity, diligence, independence of mind and fairness. These qualities are demonstrated over time and demand a disciplined and on-going commitment to high ethical standards.</p> <p>11.2. In assessing a person's level of probity, integrity and reputation, the board and Nominations Committee shall consider factors which include, but are not limited to the following:</p> <ul style="list-style-type: none"> (a) whether the person is or has been the subject of any proceedings of a disciplinary or criminal nature, or has been notified of any impending proceedings or of any investigations, which might lead to such proceedings; (b) whether the person has contravened any provision made by or under any written law designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice; (c) whether the person has contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies; (d) whether the person, or any business in which he has a controlling interest or exercises significant influence, has been investigated, disciplined, suspended or reprimanded by a regulatory or professional body, a court or tribunal, whether publicly or privately; (e) whether the person has engaged in any business practices which are deceitful, oppressive or otherwise improper (whether unlawful or not), or which otherwise reflect discredit on his professional conduct; (f) whether the person has been dismissed, asked to resign or has resigned from employment or from a position of trust, fiduciary appointment or similar position because of questions about his honesty and integrity;

Legislation / Policy Document	Relevant Provisions
	<ul style="list-style-type: none"> (g) whether the person has been associated, in ownership or management capacity, with a company, partnership or other business association that has been refused registration, authorisation, membership or a license to conduct any trade, business or profession, or has had that registration, authorisation, membership or license revoked, withdrawn or terminated; (h) whether the person has held a position of responsibility in the management of a business that has gone into receivership, insolvency, or involuntary liquidation while the person was connected with that business; (i) whether the person has been a director of, or directly concerned in the management of, any corporation which is being or has been wound up by a court or other authority competent to do so within or outside Malaysia; (j) whether the person has been a director of, or directly concerned in the management of any financial institution, the license of which has been revoked; (k) whether, in the past, the person has acted unfairly or dishonestly in his dealings with his customers, employer, auditors and regulatory authorities; (l) whether the person has at any time shown a strong objection or lack of willingness to cooperate with regulatory authorities resulting in a failure or potential failure to comply with legal, regulatory and professional requirements and standards, including compliance with tax requirements and obligations; (m) whether a person has contributed significantly to the failure of an organisation or a business unit; (n) whether the person has at any time shown strong objection or a lack of willingness to maintain effective internal control systems and risk management practices; and (o) whether the person is involved in any business or other relationship which could materially pose a conflict of interest or interfere with the exercise of his judgement when acting in the capacity of a key responsible person which would be disadvantageous to the financial institution or the financial institution's interests.

Legislation / Policy Document	Relevant Provisions
<p>Paragraph 12, Part C of the policy document on fit and proper criteria issued by BNM (BNM/RH/GL 018-5)</p>	<p><u>Minimum Assessment Factors - Competency and Capability</u></p> <p>12.1. Competency and capability are demonstrated by a person who possesses the relevant knowledge, experience and ability to understand the technical requirements of the business, the inherent risks and the management process required to perform his role in a key function in the relevant capacity effectively.</p> <p>12.2. In assessing a person's competency and capability, the board and Nominations Committee shall consider factors which include, but are not limited to the following:</p> <ul style="list-style-type: none"> (a) whether the person has the appropriate qualification, training, skills, practical experience and commitment to effectively fulfil the role and responsibilities of the position and in the case of directors, having regard to their other commitments; and (b) whether the person has satisfactory past performance or expertise in the nature of the business being conducted.
<p>Paragraph 13, Part C of the policy document on fit and proper criteria issued by BNM (BNM/RH/GL 018-5)</p>	<p><u>Minimum Assessment Factors - Financial Integrity</u></p> <p>13.1. Financial integrity is demonstrated by a person who manages his own financial affairs properly and prudently.</p> <p>13.2. In assessing a person's financial integrity, the board and Nominations Committee shall consider all relevant factors which include, but are not limited to the following:</p> <ul style="list-style-type: none"> (a) whether the person has been and will be able to fulfil his financial obligations, whether in Malaysia or elsewhere, as and when they fall due; and (b) whether the person has been the subject of a judgement debt which is unsatisfied, either in whole or in part, whether in Malaysia or elsewhere. <p>13.3. The fact that a person may be of limited financial means does not in itself, affect the person's ability to satisfy the financial integrity criteria.</p>

SCHEDULE 2

TERMS OF REFERENCE FOR NOMINATION COMMITTEE

A. CONSTITUTION

The Board of Directors has established a Committee to be known as the Nomination Committee.

B. OBJECTIVE

1. The primary objective of the Committee is to establish a documented, formal and transparent procedure for the appointment of New Directors, Chief Executive Officer and Key Senior Officers. It is also a process of reviewing the balance and assesses the effectiveness of each of the individual Directors, the Board as a whole and the various Committees of the Board and the Chief Executive Officer and the Key Senior Officers.
2. The company shall be seen to practice good corporate governance in a fair and thorough manner as required by:

No.	Reference Number	Title
a.	BNM/RH/GL 018-5	Fit and Proper Criteria
b.	BNM/RH/PD 029-9	Corporate Governance

C. MEMBERSHIP

1. The Board of Directors shall appoint a Committee of Directors to perform the role of Nomination Committee and it must consist of at least **THREE** members and majority of whom shall be Independent Non-Executive Directors. The membership can also consist of an Executive Director.
2. The Committee Chairman shall be an Independent Non-Executive Director.
3. The Committee must comprise Directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.

4. Care should be taken to avoid the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.

D. SECRETARY

The Company Secretary shall act as the Secretary of the Committee.

E. QUORUM

The quorum necessary for the transaction of business shall be at least **TWO THIRDS** of the members with Non-Executive Directors forming the majority. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretions vested in or exercisable by the Committee.

F. FREQUENCY OF MEETINGS

1. The full Committee shall meet at least once a year to review the required mix skills and experience and other qualities of the Board, assess the effectiveness of the Board as a whole and various Committees of the Board as well as the contribution and effectiveness of individual Directors, Chief Executive Officer and the Senior Management staff.
2. At such other times as the Chairman of the Committee shall require.
3. The activities and assessments of the Committee under the heading "Corporate Governance" shall be disclosed in the Directors' Report of the Company's annual report.

G. NOTICE OF MEETING

Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee to all its members.

H. MINUTES OF MEETINGS

1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
2. Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman of the Board and made available on request to other members of the Board.

I. AUTHORITY

1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
2. The Committee is not delegated with decision-making powers by the Board and shall oblige to report its recommendations back to the full Board for decision. The procedures for appointment and assessment must be approved by the full Board and disclosed to the shareholders of the Company.

J. DUTIES AND RESPONSIBILITIES

1. Support the Board in carrying out its functions in the following matters concerning the Board, Senior Management¹ and Company Secretary:-
 - i. Appointments and removals;
 - ii. Composition;
 - iii. Performance evaluation and development; and
 - iv. Fit and proper assessments.

as set out in following paragraphs of BNM policy document on Corporate Governance:-

- i. Paragraph 10 - Board Appointments and Removal;
- ii. Paragraph 11 - Composition of the Board;
- iii. Paragraph 13 - Board Evaluations and Development; and

¹ Refers to Chief Executive Officers and Senior Officers

iv. Paragraph 17 - Senior Management Appointments and Removals.

2. Establish minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required, through annual reviews.
3. Nomination Committee primarily responsible for ensuring that all key responsible persons fulfil fit and proper requirements and for conducting assessments of the fitness and propriety of Directors, and the Chief Executive Officer. For other key responsible persons, decisions on the appointments and assessments of fit and proper may be made by the Chief Executive Officer or a designated committee under the delegated authority of the Board and Nomination Committee.
4. Nomination Committee to conduct the fit and proper assessments on each key responsible person both prior to initial appointments and at regular intervals of at least annually or whenever the Nomination Committee become aware of information that may materially compromise a key responsible person's fitness and propriety to ensure that the key responsible persons fulfil the fit and proper criteria at all times. In addition, the Nomination is expected to review the list of key responsible persons for the Company and be satisfied that the list is comprehensive and has taken into account all key position within the Company.
5. Where the Nomination Committee has assessed that a person:
 - i. Is not fit and proper for a position, the Board shall not appoint the person to the said position; and
 - ii. Is no longer fit and proper for a position, the Board shall take reasonable steps to remove the person from such position as soon as practicable and in the interim, institute necessary measures to mitigate risks associated with the person continuing to hold the position. Under these circumstances, the Board shall notify the Bank Negara Malaysia/Central Bank of Malaysia (BNM) immediately of such a fact.

6. Recommend and assess the nominees for Directorship, the various Board Committees' memberships as well as nominees for the Chief Executive Officer position. This includes assessing Directors and Chief Executive Officer proposed for reappointment, before an application for approval is submitted to BNM.
7. Establish a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's Committees and the performance of the Chief Executive Officer.
8. Recommend to the Board on removal of a Directorship / Chief Executive Officer from the Board / management if it is clearly proven that the Director / Chief Executive Officer are ineffective, errant or negligent in discharging his / her responsibilities.
9. Ensure all Board of Directors undergo appropriate induction programmes and receive continuous training.
10. Oversee appointment, management succession planning and performance evaluation of key Senior Officers and recommending to the Board the removal of Key Senior Officers if they are ineffective, errant and negligent in discharging their responsibilities.
11. Detailed out items to be published in the Company's Annual Report relating to the activities of the Committee.

K. MAINTENANCE, UPDATES AND CHANGES

It is the Board's prerogative, after the adoption of the Terms of Reference, to request the Company's Secretary or any assigned staff to amend, delete or expand as and when it is deemed necessary, any parts or provisions outlined in the Terms of Reference or specific parts thereof.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Fit and Proper Criteria

BNM/RH/GL 018-5	Prudential Financial Policy Department Islamic Banking and Takaful Department	Fit and Proper Criteria
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PART A OVERVIEW

1. Introduction

- 1.1. Members of the board and senior management of financial institutions (FIs) provide strategic leadership that influences the financial position and future direction of an FI. As such, persons in these positions must have the necessary qualities, competencies and experience that will allow them to perform the duties and carry out the responsibilities required of the position in the most effective manner.
- 1.2. The performance of the board is in turn substantially influenced by the effectiveness of the company secretary in facilitating the efficient conduct of board processes and meaningful interaction of the board with senior management. As such, it is important that the board is assisted by a qualified and competent company secretary.

Policy objective

- 1.3. The expectations on the suitability of key responsible persons and the company secretary are an extension of the corporate governance framework and are aimed at ensuring that these persons have the integrity and competence required to perform their roles.

Scope of policy

- 1.4. This policy document specifies:
 - (i) the definition of key responsible persons within an FI;
 - (ii) the conditions to be observed in the assessment and appointment of key responsible persons and the company secretary;
 - (iii) the responsibilities of the board, Nominating Committee (NC) and FIs in establishing and applying fit and proper policies and procedures; and
 - (iv) the minimum factors that need to be considered in assessing whether or not the fit and proper criteria for key responsible persons and the company secretary have been met.

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2. Applicability

- 2.1. This policy document shall be applicable to all licensed persons and financial holding companies (FHCs).
- 2.2. This policy document shall be read together with:
- (i) the Guidelines on Corporate Governance for Licensed Institutions;
 - (ii) the Guidelines on Corporate Governance for Licensed Islamic Banks;
 - (iii) the Guidelines on Minimum Standards for Prudential Management of Insurers (Consolidated);
 - (iv) the Guidelines on Directorship for Takaful Operators; and
 - (v) the Shariah Governance Framework for Islamic Financial Institutions.

3. Legal provision

- 3.1. This policy document is issued pursuant to:
- (i) section 47(1), 60(1), 143(2) and 266 of the Financial Services Act 2013 (FSA); and
 - (ii) section 29(2)(a)(ii), 57(1), 69(1), 155(2) and 277 of the Islamic Financial Services Act 2013 (IFSA).

4. Effective date

- 4.1. This policy document comes into effect on 30 June 2013.

5. Interpretation

- 5.1. The terms and expressions used in this policy document shall have the same meanings assigned to it in the FSA or IFSA, as the case may be, unless otherwise defined in this policy document.

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5.2. For the purpose of this policy document –

“S” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“G” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

“Financial institution” means a licensed person and a FHC.

“Key responsible persons” refer to persons that are accountable or responsible for the management or oversight of the FI. These comprise:

- (i) directors;
- (ii) members of the Shariah Committee¹;
- (iii) the chief executive officer (CEO); and
- (iv) senior officers².

“Senior officers” refer to:

- (i) any person performing a senior management function whose primary or significant responsibility is for the management and performance of significant business activities of the FI, including a person who:
 - a. has the authority over, makes or has substantial influence in making, decisions that affect the whole or a substantial part of the FI’s business;
 - b. is principally accountable or responsible, whether solely or jointly with other persons, for implementing and enforcing policies and strategies approved by the board; or
 - c. is principally accountable or responsible, whether solely or jointly with other persons, for developing and implementing systems,

¹ Definition (ii) applies to FHCs if there is a single Shariah Committee established within the financial group at the FHC level pursuant to section 30(2) of the IFSA.

² For the avoidance of doubt, senior officers do not include the company secretary.

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internal controls and processes that identify, measure, monitor or control the FI's risks.

- (ii) any person who assumes primary or significant responsibility for key control functions, including a person who is principally accountable or responsible, whether solely or jointly with other persons, for monitoring the appropriateness, adequacy and effectiveness of the FI's internal controls, risk management and compliance systems and processes. This includes the chief internal auditor, chief risk officer/head of risk management, chief compliance officer/head of compliance, chief financial officer and the appointed actuary. It also includes any person who is mainly accountable or responsible for key functions of the institution under a centralised group function or shared services arrangement.

6. Policies superseded

- 6.1. This policy document supersedes the fit and proper policies specified in **Appendix 1**.

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PART B FIT AND PROPER CRITERIA, POLICIES AND PROCEDURES

7. Conditions for assessment and appointment

- S** 7.1. Any person to be appointed as a key responsible person must not be disqualified³ and have been assessed to have met all the fit and proper criteria based on, at minimum, the factors set out in **Part C** of this policy document relating to:
- (i) probity, personal integrity and reputation;
 - (ii) competency and capability; and
 - (iii) financial integrity.
- S** 7.2. Any person to be appointed as a company secretary must not be disqualified⁴ and must be fit and proper for the role of a company secretary based on the factors specified in **Part C** of this policy document relating to:
- (i) probity, personal integrity and reputation; and
 - (ii) competency and capability.

8. Responsibilities of the board and NC

- S** 8.1. The board and NC shall be directly responsible for conducting assessments on the fitness and propriety of directors, members of the Shariah Committee, the CEO and the company secretary and making decisions on their appointments.
- G** 8.2. For senior officers, the board and NC may delegate the responsibility for fit and proper assessments and decision on appointments to the CEO or a designated committee.
- S** 8.3. Where the board and NC delegates to the CEO or a designated committee as specified in paragraph 8.2, the board shall remain accountable for such

³ Pursuant to section 59(1) of the FSA or section 68(1) of the IFSA.

⁴ Pursuant to section 139C of the Companies Act 1965.

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assessments and decisions.

- G** 8.4. Section 61 and 62 of the FSA, and section 70 and 71 of the IFSA sets out the obligations to be observed by the FI in the event that a key responsible person is disqualified or is no longer fit and proper.
- S** 8.5. Where the board or NC has assessed that the company secretary no longer demonstrate the qualities specified in paragraph 7.2, the board must take immediate steps to reduce the risks associated with the person continuing to hold the position and remove the person from such position as soon as practicable. The FI must inform Bank Negara Malaysia (the Bank) in writing of the removal of such person within seven days.

9. Policies and procedures

- S** 9.1. FIs must develop detailed internal policies to be approved by the board on fit and proper procedures and assessment processes relating to key responsible persons and the company secretary. The policies must, at a minimum, address the following:
- (i) governance and operational arrangements for conducting fit and proper assessments, including any delegation of assessment or decision-making authority by the board and NC to the CEO or designated committee for the appointment of senior officers;
 - (ii) specific factors to be considered in assessing whether a person is fit and proper for the position of a key responsible person or company secretary;
 - (iii) steps to be taken to ensure that all persons to be appointed or that has been appointed as a key responsible person or the company secretary understands the FI's internal policies on fit and proper requirements and their obligation to continue to meet the fit and proper criteria set by the Bank on an on-going basis;
 - (iv) avenues to allow any person within the FI to disclose information that

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would be relevant for the assessment of key responsible persons and the company secretary while providing the necessary protection to such person from any discriminatory actions for providing such information;

- (v) procedures to be undertaken to deal with key responsible persons or the company secretary that no longer meets the fit and proper criteria set by the Bank;
- (vi) procedures to ensure all documentation on fit and proper assessments and supporting information are kept confidential, and the period for which the documentation of fit and proper assessments conducted on each person will be retained by the FI; and
- (vii) procedures for maintaining a current list of key responsible persons that are subjected to fit and proper policies and assessment processes.

- S** 9.2. The internal fit and proper policies and procedures shall be periodically reviewed by the board to ensure their relevance and alignment with the organisational needs and structure as well as material changes in the business and risk profile and strategies of the FI.
- S** 9.3. The list of key responsible persons for the FI shall be reviewed by the NC to confirm that the list has included all key positions within the FI.
- S** 9.4. Where the Bank determines that a person fulfils the definition of senior officers as specified by the Bank in this policy document but has not been identified by the FI as a key responsible person, the FI shall include the said person in the list of key responsible persons required under paragraph 9.1(vii) and subject such person to fit and proper assessments and requirements.
- S** 9.5. FIs shall provide all relevant information, as may be required by the Bank, including the list of senior officers within the FI and the records relating to the fit and proper assessment for each person who is subject to the requirements specified in this policy document and the FI's internal policies.

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10. Assessment of fitness and propriety

- S** 10.1. The fit and proper assessments on each person within the scope of this policy document shall be conducted both prior to initial appointments and at regular intervals of at least annually or whenever the FI becomes aware of information that may materially compromise a person's fitness and propriety.
- S** 10.2. The fit and proper assessments must be supported by relevant information in relation to the person being assessed. Where significant reliance is placed on information that is obtained from the person being assessed, and that information is material to the determination of the person's fitness and propriety, the FI shall take reasonable steps to verify the information against independent sources.
- S** 10.3. FIs shall have regard to the factors set out in **Part C** in assessing a person's fitness and propriety. The factors shall be assessed individually, as well as collectively, taking into account their relative importance.
- G** 10.4. Failure to meet one factor on its own does not necessarily mean failure to meet the fit and proper criteria. FIs should consider the specific circumstances surrounding a person's failure to meet specific factors, including the lapse of time since the occurrence of events, other contributing factors and the significance of the event from the perspective of potential risks posed to the FI.
- G** 10.5. The assessment process will involve a good measure of judgement, which should be exercised objectively and always in the best interests of the FI and the sound conduct of the FI's business. Information relevant to the assessment of the fitness and propriety of persons within the scope of this policy document may also vary depending on the degree of their influence and responsibilities in the affairs of the FI. For example, the FI may consider whether there have been material changes in the nature or scope of the responsibilities assumed by an individual which would call for higher standards of competence or judgement in

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order to properly perform the duties associated with the said position, or which may give rise to new conflicts that could impair the individual's performance in the position. Similarly, circumstances which warrant an individual to be considered as fit and proper may differ between positions and institutions.

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PART C MINIMUM ASSESSMENT FACTORS

11. Probity, personal integrity and reputation

- G** 11.1. Probity, personal integrity and reputation are values that can be demonstrated through personal qualities such as honesty, integrity, diligence, independence of mind and fairness. These qualities are demonstrated over time and demand a disciplined and on-going commitment to high ethical standards.
- S** 11.2. In assessing a person's level of probity, integrity and reputation, the board and NC shall consider factors which include, but are not limited to the following:
- (i) whether the person is or has been the subject of any proceedings of a disciplinary or criminal nature, or has been notified of any impending proceedings or of any investigations, which might lead to such proceedings;
 - (ii) whether the person has contravened any provision made by or under any written law designed to protect members of the public against financial loss due to dishonesty, incompetence or malpractice;
 - (iii) whether the person has contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies;
 - (iv) whether the person, or any business in which he has a controlling interest or exercises significant influence, has been investigated, disciplined, suspended or reprimanded by a regulatory or professional body, a court or tribunal, whether publicly or privately;
 - (v) whether the person has engaged in any business practices which are deceitful, oppressive or otherwise improper (whether unlawful or not), or which otherwise reflect discredit on his professional conduct;
 - (vi) whether the person has been dismissed, asked to resign or has resigned from employment or from a position of trust, fiduciary appointment or similar position because of questions about his honesty and integrity;
 - (vii) whether the person has been associated, in ownership or management capacity, with a company, partnership or other business association that

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- has been refused registration, authorisation, membership or a license to conduct any trade, business or profession, or has had that registration, authorisation, membership or license revoked, withdrawn or terminated;
- (viii) whether the person has held a position of responsibility in the management of a business that has gone into receivership, insolvency, or involuntary liquidation while the person was connected with that business;
 - (ix) whether the person has been a director of, or directly concerned in the management of, any corporation which is being or has been wound up by a court or other authority competent to do so within or outside Malaysia;
 - (x) whether the person has been a director of, or directly concerned in the management of any FI, the license of which has been revoked;
 - (xi) whether, in the past, the person has acted unfairly or dishonestly in his dealings with his customers, employer, auditors and regulatory authorities;
 - (xii) whether the person has at any time shown a strong objection or lack of willingness to cooperate with regulatory authorities resulting in a failure or potential failure to comply with legal, regulatory and professional requirements and standards, including compliance with tax requirements and obligations;
 - (xiii) whether a person has contributed significantly to the failure of an organisation or a business unit;
 - (xiv) whether the person has at any time shown strong objection or a lack of willingness to maintain effective internal control systems and risk management practices; and
 - (xv) whether the person is involved in any business or other relationship which could materially pose a conflict of interest or interfere with the exercise of his judgement when acting in the capacity of a key responsible person which would be disadvantageous to the FI or the FI's interests.

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12. Competency and capability

- G** 12.1. Competency and capability are demonstrated by a person who possesses the relevant knowledge, experience and ability to understand the technical requirements of the business, the inherent risks and the management process required to perform his role in a key function in the relevant capacity effectively.
- S** 12.2. In assessing a person's competency and capability, the board and NC shall consider factors which include, but are not limited to the following:
- (i) whether the person has the appropriate qualification, training, skills, practical experience and commitment to effectively fulfil the role and responsibilities of the position and in the case of directors, having regard to their other commitments; and
 - (ii) whether the person has satisfactory past performance or expertise in the nature of the business being conducted.

13. Financial integrity

- G** 13.1. Financial integrity is demonstrated by a person who manages his own financial affairs properly and prudently.
- S** 13.2. In assessing a person's financial integrity, the board and NC shall consider all relevant factors which include, but are not limited to the following:
- (i) whether the person has been and will be able to fulfil his financial obligations, whether in Malaysia or elsewhere, as and when they fall due; and
 - (ii) whether the person has been the subject of a judgement debt which is unsatisfied, either in whole or in part, whether in Malaysia or elsewhere.
- G** 13.3. The fact that a person may be of limited financial means does not in itself, affect the person's ability to satisfy the financial integrity criteria.

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PART D APPENDICES

Appendix 1 List of policies superseded

1. *Guidelines on Fit and Proper for Key Responsible Persons* issued on 10 March 2011.
2. Paragraph 2.49 and 2.50 of the *Guidelines on Corporate Governance for Licensed Institutions* issued on 19 June 2013.
3. Paragraph 2.50 and 2.51 of the *Guidelines on Corporate Governance for Licensed Islamic Banks* issued on 19 June 2013.
4. Paragraph 5.1, 5.2(a) and 5.2(b)(ii) of the *Minimum Standards for Prudential Management of Insurers (Consolidated)* issued on 24 December 2010.
5. Paragraph 2.1, 7.2 and 9.6(b)(iii) of the *Guidelines on Directorship for Takaful Operators* issued on 8 June 2011.
6. Paragraph 1 and 2 of the Disqualification section in Appendix 2 of the *Shariah Governance Framework for Islamic Financial Institutions* issued on 22 October 2010.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Corporate Governance

Applicable to:

1. Licensed banks
2. Licensed investment banks
3. Licensed Islamic banks
4. Licensed insurers
5. Licensed takaful operators
6. Financial holding companies

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PART A OVERVIEW

1 Introduction

- 1.1 The adoption of sound corporate governance standards and practices by financial institutions serves to protect the critical role of financial institutions in intermediating funds to support the real economy. It ensures that financial institutions are managed in a sound and prudent manner, with due regard to the interests of depositors, policy owners and participants. This policy document sets out the Bank's expectations for financial institutions to have in place effective corporate governance arrangements consistent with the long-term viability of a financial institution.
- 1.2 A financial institution's corporate governance arrangements represent a fundamental component of the Bank's supervisory assessments and are a key factor in determining the level of supervisory intensity applied to a financial institution. The board should have the competence, confidence and objectivity to challenge senior management and hold it to account. Accordingly, this policy document sets out strengthened expectations on directors' oversight responsibilities and the composition of the board. The Bank will expect to see evidence of effective challenge by the board, particularly in relation to key strategic decisions. In turn, senior management is responsible and accountable for the sound and prudent day-to-day management of the financial institution in accordance with the direction of the board.
- 1.3 Good corporate governance also needs to be rooted in a corporate culture that reinforces ethical, prudent and professional behaviour. This begins with the right "tone from the top", where the example set by the board and senior management shapes the core values for the financial institution.
- 1.4 The Bank expects financial institutions to implement the minimum standards set out in this policy document and demonstrate that their governance arrangements are operating effectively and remain appropriate given their size, nature of business, complexity of activities, structure and systemic importance. Financial institutions should also strive to continuously enhance these arrangements to reflect changing conditions and emerging sound practices, as appropriate. The Bank expects each financial institution to discharge its own legal and governance responsibilities as a separate entity, notwithstanding any group-wide arrangements that the financial institution may be relying on.

2 Applicability

- 2.1 This policy document is applicable to financial institutions as defined in paragraph 5.2.
- 2.2 For financial institutions operating as a foreign branch in Malaysia, the requirements in this policy document shall apply in respect of the Malaysian operations of the branch with the following modifications:
 - (a) Parts B, E and F shall not apply;

- (b) any reference to the board in this policy document shall refer to the governing body of the foreign branch or any of its committees; and
- (c) any reference to senior management in this policy document shall include a reference to the chief executive officer (CEO) of the branch and officers performing a senior management function in respect of the branch operations.

3 Legal provisions

- 3.1 This policy document is issued pursuant to–
- (a) sections 47(1) and 58(4) of the Financial Services Act 2013 (FSA); and
 - (b) sections 29(2), 57(1) and 67(4) of the Islamic Financial Services Act 2013 (IFSA).

4 Effective date

- 4.1 This policy document comes into effect on 3 August 2016, subject to the transitional arrangements set out in Part G.

5 Interpretation

- 5.1 The terms and expressions used in this policy document shall have the same meanings assigned to them in the FSA or IFSA, as the case may be, unless otherwise defined in this policy document.

- 5.2 For purposes of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**active politician**” refers to an individual who is a member of any national or state legislative body, or who is an officer bearer of, or holds any similar office or position in a political party;

“**affiliate**”, in relation to an entity, refers to any corporation that controls, is controlled by, or is under common control with, the entity;

“**apex entity**” refers to a financial institution that–

- (a) is not a subsidiary of another financial institution; or
- (b) is a subsidiary of a financial institution, and has one or more subsidiaries that is a licensed insurer or licensed takaful operator¹;

¹ This will be the entity heading an insurance/takaful sub-group.

“appointment” includes a reference to election, reappointment and re-election;

“board” refers to the board of directors of a financial institution;

“board committee” refers to any committee of the board that is required to be established under paragraph 12.1;

“control function” refers to a function that has a responsibility independent from business lines to provide objective assessment, reporting and assurance on the effectiveness of a financial institution’s policies and operations, and its compliance with legal and regulatory obligations. This includes the risk management function, the compliance function, and the internal audit function;

“executive” refers to any individual who has management responsibilities in the financial institution or any of its affiliates (whether or not he is an officer of the financial institution or any of its affiliates);

“executive director” refers to a director of a financial institution who has management responsibilities in the financial institution or any of its affiliates;

“external auditor” refers to an auditor of a financial institution that has been appointed pursuant to section 67 or 68 of the FSA, or section 76 or 77 of the IFSA;

“financial institution” refers to—

- (a) a licensed person; and
- (b) a financial holding company;

“fit and proper requirements” refer to the requirements set out in the policy document on *Fit and Proper Criteria*;

“foreign branch” refers to the Malaysian operations of a licensed person that is established as a branch in Malaysia;

“independent director” refers to a director who is described as being independent in accordance with paragraph 11.7;

“internal control framework” refers to the set of rules and controls governing a financial institution’s organisational and operational structure, including reporting processes and control functions;

a person is **“linked”** to another person where—

- (a) one person is accustomed to represent, or take instructions from, the other person;
- (b) they are relatives; or
- (c) one person is an entity, and the other person is a partner, shareholder, director or officer of that entity or its affiliate;

“other material risk taker” refers to an officer who is not a member of senior management of a financial institution and who—

- (a) can materially commit or control significant amounts of the financial institution’s resources or whose actions are likely to have a significant impact on its risk profile; or
- (b) is among the most highly remunerated officers in the financial institution;

“reappointment” includes a reference to re-election;

“remuneration” includes salary and benefits of any kind;

“risk appetite” is the aggregate level and types of risk a financial institution is willing to assume, decided in advance and within its risk capacity, to achieve its business objectives and strategies;

“senior management” refers to the CEO and senior officers;

“substantial shareholder” refers to a person that holds an aggregate interest of 5% or more in the shares of a financial institution.

6 Related legal instruments and policy documents

- 6.1 This policy document must be read together with other relevant legal instruments and policy documents that have been issued by the Bank, in particular—
- (a) *Fit and Proper Criteria*;
 - (b) *Risk Governance*;
 - (c) *External Auditor*; and
 - (d) *Shariah Governance Framework for Islamic Financial Institutions*.

7 Policy documents superseded

- 7.1 This policy document supersedes the guidelines and circulars listed in Appendix 2.

PART B THE BOARD

8 Key responsibilities

- G** 8.1 The board responsibilities outlined in this policy document should be read together with section 56 of the FSA and section 65 of the IFSA.
- S** 8.2 The board must have a board charter that sets out the mandate, responsibilities and procedures of the board and the board committees, including the matters reserved for the board's decision.
- S** 8.3 The board has the overall responsibility for promoting the sustainable growth and financial soundness of a financial institution, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of the long-term implications of the board's decisions on the financial institution and its customers, officers and the general public. In fulfilling this role, the board must—
- (a) approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the financial institution's risk profile²;
 - (b) 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 financial institution;
 - (c) oversee the implementation of the financial institution's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the financial institution's operations;
 - (d) promote, together with senior management, a sound corporate culture within the financial institution which reinforces ethical, prudent and professional behaviour;
 - (e) promote sustainability through appropriate environmental, social and governance considerations in the financial institution's business strategies;
 - (f) oversee and approve the recovery and resolution as well as business continuity plans for the financial institution to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress; and
 - (g) promote timely and effective communication between the financial institution and the Bank on matters affecting or that may affect the safety and soundness of the financial institution.
- S** 8.4 For the board of a financial institution that carries on any Islamic financial business, the overall responsibility outlined in paragraph 8.3 includes the responsibility to promote Shariah compliance in accordance with expectations

² This would include initiatives which affect the financial soundness, reputation or key operational controls of the financial institution.

set out in the policy document on *Shariah Governance Framework for Islamic Financial Institutions* and ensure its integration with the financial institution's business and risk strategies. In this respect, the board must clearly define its relationship with the financial institution's Shariah Committee. While the Shariah Committee has distinct responsibilities in relation to Shariah matters, the board remains responsible for the direction and control of the financial institution's business and risk strategies.

9 Board meetings

- S** 9.1 The chairman, in leading the board, is responsible for the effective overall functioning of the board. In fulfilling this role, the chairman must—
- (a) ensure that appropriate procedures are in place to govern the board's operation;
 - (b) 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;
 - (c) encourage healthy discussion and ensure that dissenting views can be freely expressed and discussed; and
 - (d) lead efforts to address the board's developmental needs.
- S** 9.2 A director must devote sufficient time to prepare for and attend board meetings, and maintain a sound understanding of the business of the financial institution as well as relevant market and regulatory developments. This must include a commitment to on-going education.
- S** 9.3 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.
- S** 9.4 A financial institution must ensure that attendance at a board meeting, by way other than physical presence, remains the exception rather than the norm, and is subject to appropriate safeguards to preserve the confidentiality of deliberations.
- S** 9.5 In respect of the quorum for board meetings, a financial institution must require at least half of the board members to be present.
- S** 9.6 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.
- S** 9.7 The financial institution must provide the board with access to advice from third party experts on any matter deliberated by the board as and when required, and the cost of such advice shall be borne by the financial institution.

10 Board appointments and removals

- S** 10.1 A director must fulfil the minimum requirements set out in paragraphs 10.2 to 10.5 at the time of his appointment and on a continuing basis.
- S** 10.2 A director must not be disqualified under section 59(1) of the FSA or section 68(1) of the IFSA, and must have been assessed by the board nominations committee to have complied with the fit and proper requirements.
- S** 10.3 A director must not have competing time commitments that impair his ability to discharge his duties effectively. The board must maintain a policy on the maximum number of external professional commitments that a director may have, commensurate with the responsibilities placed on the director, as well as the nature, scale and complexity of the financial institution's operations.
- S** 10.4 A director of a financial institution must not be an active politician.
- S** 10.5 Where a firm has been appointed as the external auditor of a financial institution, any of its officers directly involved in the engagement and any partner of the firm must not serve or be appointed as a director of the financial institution until at least two years after—
(a) he ceases to be an officer or partner of that firm; or
(b) the firm last served as an auditor of the financial institution.
- S** 10.6 The board must establish and regularly review succession plans for the board to promote board renewal and address any vacancies.
- S** 10.7 The board must establish a rigorous process for the appointment and removal of directors. Such a process must involve the assessment of candidates against the minimum requirements set out in paragraphs 10.2 to 10.5. Direct engagements between a candidate and the board nominations committee are an important way to ascertain the suitability of each candidate for the board.
- S** 10.8 Each director must be assessed against the minimum requirements set out in paragraphs 10.2 to 10.5 at least annually, and as and when the board becomes aware of information that may materially compromise the director's fitness and propriety, or any circumstance that suggests that the director is ineffective, errant or otherwise unsuited to carry out his responsibilities. A director must immediately disclose to the board any circumstance that may affect his ability to meet the minimum requirements.
- S** 10.9 The board must ensure that each director acknowledges the terms of his appointment, which must include—
(a) the roles and responsibilities of the director, including those arising from his membership in any board committee;
(b) the tenure of the appointment; and
(c) provisions for the director's removal in the event that he no longer meets the minimum requirements set out in paragraphs 10.2 to 10.5, or has been assessed to be ineffective, errant or otherwise unsuited to carry out his responsibilities.

- S** 10.10 A financial institution must not make an application to the Bank to appoint a director unless the board is wholly satisfied, based on its objective assessment, that the candidate meets the minimum requirements set out in paragraphs 10.2 to 10.5, understands the expectations of the role and is able to meaningfully contribute to the board.
- S** 10.11 Unless the written approval of the Bank has been obtained—
- (a) a financial institution must not publicly announce the proposed appointment of a director; and
 - (b) a director whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such capacity, including by participating in board meetings or holding himself out as a director.
- S** 10.12 A financial institution must comply with the application procedures set out in Appendix 3 for the appointment of a director.
- S** 10.13 The written approval of the Bank must be obtained before—
- (a) a financial institution removes an independent director³; and
 - (b) an independent director resigns from his position.

11 Composition of the board

- S** 11.1 The board and the board committees must be of a size that promotes effective deliberation, encourages the active participation of all directors and allows the work of the various board committees to be discharged without giving rise to an over-extension of directors that are required to serve on multiple board committees.
- S** 11.2 The board must develop and document the criteria and skill sets required of its members, both individually and collectively. The criteria and skill sets must reflect the fit and proper requirements and specific market or business knowledge required on the board. It is important that the criteria and skill sets be reviewed regularly by the board to ensure alignment with the strategic direction and emerging challenges faced by the financial institution. This must also take into account supervisory concerns highlighted by the Bank that require specific expertise on the board.
- S** 11.3 The chairman of the board must not be an executive, and must not have served as a CEO of the financial institution in the past five years.
- S** 11.4 The board of a financial institution must not have more than one executive director, unless the Bank approves otherwise in writing. The Bank may allow more than one executive director on the board of a financial institution if the chairman is an independent director and the Bank is satisfied that the

³ This excludes terminations in accordance with statutory requirements, such as under section 61(2)(a) of the FSA and section 70(2)(a) of the IFSA.

additional appointment will not compromise board effectiveness, having regard to—

- (a) the extent of his involvement in making or implementing management decisions that are subject to the board's oversight;
- (b) the degree to which his incentives are influenced by the performance of the financial institution;
- (c) the effectiveness of the non-executive directors in providing a counterbalance to the collective influence of executives on the board; and
- (d) the significance and uniqueness of the contribution that the candidate is expected to bring to the board.

- G** 11.5 Executive directors bring to the board technical expertise and useful insights about the financial institution's operations. However, it is important that their representation on the board does not reduce the board's ability to objectively scrutinise the proposals and performance of senior management.
- S** 11.6 The board must have a majority of independent directors at all times.
- S** 11.7 The board must determine whether an individual to be appointed as an independent director is independent in character and judgement, and free from associations or circumstances that may impair the exercise of his independent judgement. An individual must not be considered to be an independent director if he or any person linked to him—
- (a) has been an executive in the last two years;
 - (b) is a substantial shareholder of the financial institution or any of its affiliates; or
 - (c) has had a significant business or other contractual relationship with the financial institution or any of its affiliates within the last two years.
- S** 11.8 For the purpose of paragraph 11.7, the board must clearly define what constitutes a "significant business or other contractual relationship", taking into account the nature, size and complexity of the financial institution's operations.
- S** 11.9 The board must set and disclose in its corporate governance disclosures a policy on the tenure for which an individual can serve as an independent director, to promote independent oversight by the board. The Bank expects that tenure limits for independent directors should generally not exceed nine years, except under exceptional circumstances or as part of transitional arrangements towards full implementation of the succession plans of the financial institution.
- S** 11.10 An independent director must immediately disclose to the board any change in his circumstances that may affect his status as an independent director. In such a case, the board must review his designation as an independent director and notify the Bank in writing of its decision to affirm or change his designation.
- S** 11.11 While common directors on the board of a financial institution and its affiliates can contribute to group oversight and alignment, inordinate overlaps in board membership can raise conflicts, particularly where issues affect the financial

institution and its affiliates in different ways. To ensure that group interests are appropriately balanced against the fiduciary and statutory duties that directors owe towards each legal entity they serve, directors who are board members of a financial institution and its affiliates must remain in the minority of the financial institution's board if–

- (a) one entity is a licensed insurer and the other is a licensed takaful operator;
- (b) one entity is a licensed bank or licensed investment bank, and the other is a licensed Islamic bank;
- (c) the affiliate is a holding company or subsidiary of the financial institution that is itself a financial institution; or
- (d) there are strong operational dependencies⁴ between the financial institution and the affiliate.

12 Board committees

- S** 12.1 A financial institution must establish the following board committees:
- (a) board nominations committee;
 - (b) board remuneration committee;
 - (c) board risk management committee; and
 - (d) board audit committee.
- G** 12.2 A financial institution may combine its board nominations committee and board remuneration committee.
- S** 12.3 Each board committee must–
- (a) have at least three directors;
 - (b) have a majority of independent directors;
 - (c) be chaired by an independent director; and
 - (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the board committee.
- S** 12.4 To promote robust and open deliberations by the board on matters referred by the board committees, the chairman of the board must not chair any of the board committees.
- S** 12.5 With the exception of the board nominations committee⁵, board committees must not have any executive director in its membership.
- S** 12.6 Each board committee must assume the specific responsibilities enumerated for it in Appendix 1.
- S** 12.7 The board remains fully accountable for any authority delegated to the board committees.

⁴ Operational dependencies are heightened where the relevant institutions operate under centralised or shared services arrangements, particularly in respect of control functions.

⁵ For the avoidance of doubt, a combined board nominations and remuneration committee must not have any executive director in its membership.

- S** 12.8 The board must ensure that the mandate and operating procedures for each board committee are set out in the board charter and clearly–
- (a) delineate the areas of authority delegated to the board committee; and
 - (b) define reporting arrangements for keeping the board informed of the board committee's work, key deliberations and decisions on delegated matters.
- S** 12.9 The financial institution must provide the board committees with sufficient support and resources required to investigate any matter within their mandates.

13 Board evaluations and development

- S** 13.1 The board must carry out annual board evaluations to objectively assess the performance and effectiveness of the board, board committees and individual directors. This is important to enable the board to identify areas for professional development and process improvements, having regard to the changing needs of the financial institution.
- G** 13.2 The board should periodically engage external consultants or experts to assist in and lend objectivity to the annual board evaluations.
- S** 13.3 The board must 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 responsibilities.

14 Conflicts of interest

- S** 14.1 The board must establish a written policy to address directors' actual and potential conflicts of interest. At a minimum, the policy must–
- (a) identify circumstances which constitute or may give rise to conflicts of interests;
 - (b) clearly define the process for directors to keep the board informed on any change in his circumstances that may give rise to a conflict of interest;
 - (c) identify those responsible for maintaining updated records on each director's conflicts of interest; and
 - (d) articulate how any non-compliance with the policy will be addressed.
- 14.2 Section 58 of the FSA and section 67 of the IFSA require a director to disclose to the board the nature and extent of his 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.
- S** 14.3 For the purpose of section 58(4) of the FSA and section 67(4) of the IFSA, the Bank specifies the following:
- (a) an existing or proposed transaction or arrangement will be considered

- “material” if it is one which a director is required to declare under section 131 of the Companies Act 19656, 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
- (b) an interested director must make the disclosure by way of a written notice to all members of the board and the company secretary–
 - (i) as soon as practicable after being aware of his interest in the material transaction or arrangement; and
 - (ii) if the material transaction or arrangement is being deliberated at a board meeting, before the commencement of that deliberation.

15 Company secretary

- S** 15.1 The company secretary is responsible for supporting the effective functioning of the board. In discharging this role, the company secretary provides counsel to the board on governance matters and facilitates effective information flows between the board, the board committees and senior management.
- S** 15.2 The company secretary shall keep confidential the affairs of the financial institution and its officers at all times. Accordingly, where the company secretary also serves as company secretary for a financial institution’s affiliates, he shall not disclose the affairs of the financial institution or its officers to the affiliates except with the knowledge and consent of the financial institution.
- S** 15.3 The company secretary must not have competing time commitments that may impair his ability to discharge his duties effectively. Unless the Bank approves otherwise in writing, the company secretary of a financial institution must devote the whole of his professional time to the affairs of the financial institution and its affiliates⁷.
- S** 15.4 The appointment and removal of the financial institution’s company secretary must be approved by the board.

⁶ For the avoidance of doubt, this would include instances where the other directors are already aware of the interest.

⁷ This does not preclude the company secretary from carrying out other responsibilities for the financial institution or its affiliates, where these responsibilities do not conflict with his responsibilities to the board.

PART C SENIOR MANAGEMENT

16 Key responsibilities

- S** 16.1 The CEO, in leading senior management, bears primary responsibility over the day-to-day management of the financial institution. The responsibilities of senior management include—
- (a) implementing the business and risk strategies, remuneration and other policies in accordance with the direction given by the board;
 - (b) establishing a management structure that promotes accountability and transparency throughout the financial institution's operations, and preserves the effectiveness and independence of control functions;
 - (c) promoting, together with the board, a sound corporate culture within the financial institution which reinforces ethical, prudent and professional behaviour;
 - (d) addressing actual or suspected breaches of regulatory requirements or internal policies in a timely and appropriate manner; and
 - (e) 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 financial institution;
 - (ii) internal control failures, including breaches of risk limits; and
 - (iii) legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.

17 Senior management appointments and removals

- S** 17.1 A member of senior management must fulfil the minimum requirements set out in paragraphs 17.2 to 17.4 at the time of his appointment and on a continuing basis.
- S** 17.2 A member of senior management must not be disqualified under section 59(1) of the FSA or section 68(1) of the IFSA, and must have been assessed to have complied with the fit and proper requirements.
- S** 17.3 A substantial shareholder must not hold a senior management position. This serves to preserve an appropriate separation between ownership and management of financial institutions in line with the broader responsibilities of a financial institution towards its depositors, investment account holders, policy holders and participants.
- S** 17.4 A CEO must devote the whole of his professional time to the service of the financial institution unless the Bank approves otherwise in writing⁸. The Bank

⁸ Pursuant to section 55(3) of the FSA and section 64(3) of the IFSA. The Bank's approval is not required for a CEO to hold a non-executive position in a professional body, industry association, statutory body, charitable body or other non-commercial public-interest entity, unless the Bank specifies otherwise.

may allow a CEO to assume a position of responsibility outside the financial institution if the Bank is satisfied that the proposed position does not–

- (a) create substantial conflicts of interest or demands on the CEO's professional time; and
- (b) result in the CEO holding directorships in more than five entities other than the financial institution.

- S** 17.5 A financial institution must have a robust succession plan for senior management and clearly defined processes for–
- (a) the appointment and removal of the CEO and senior officers; and
 - (b) assessment of the candidates against the minimum requirements set out in paragraphs 17.2 to 17.4.
- S** 17.6 Each member of senior management must be assessed against the relevant minimum requirements set out in paragraphs 17.2 to 17.4 at least annually, and as and when the board becomes aware of information that may materially compromise the individual's fitness and propriety, or any circumstance that suggests that the individual is ineffective, errant or otherwise unsuited to carry out his responsibilities. It is the responsibility of each member of senior management to immediately disclose to the board any circumstance that may affect his ability to meet the minimum requirements.
- S** 17.7 A financial institution must not make an application to the Bank to appoint or reappoint the CEO unless the board is wholly satisfied, based on its objective assessment, that the candidate meets the minimum requirements set out in paragraphs 17.2 to 17.4.
- S** 17.8 Unless the written approval of the Bank has been obtained–
- (a) a financial institution must not publicly announce the proposed appointment of the CEO; and
 - (b) a CEO whose tenure has expired and is being proposed for reappointment must immediately cease to hold office and act in such a capacity, including by holding himself out as the CEO.
- S** 17.9 A financial institution must comply with the application procedures set out in Appendix 3 for the appointment of the CEO.

PART D CULTURE AND REMUNERATION

18 Culture

- S** 18.1 A financial institution must adopt a code of ethics⁹ which provides guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity in reporting, and the fair treatment of customers. A financial institution must maintain a record of breaches of the code of ethics and address such breaches in a manner that upholds high standards of integrity.
- S** 18.2 A financial institution must establish a whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Individuals must be able to raise concerns about illegal, unethical or questionable practices in confidence and without the risk of reprisal. To this end, a financial institution must—
- (a) clearly indicate the parties to whom concerns can be escalated within the financial institution;
 - (b) ensure that individuals are made aware of other avenues for whistleblowing to regulators or law enforcement agencies;
 - (c) communicate the whistleblowing policy to third parties such as contractors, consultants and interns and allow them to report their concerns; and
 - (d) designate a non-executive director to be responsible for the effective implementation of the policy¹⁰.

⁹ In establishing the code of ethics, a financial institution should consider established professional and ethical standards recommended by standard-setting bodies such as that issued by the Financial Services Professional Board.

¹⁰ This includes evaluating periodic reports that monitor and assess how concerns are escalated and dealt with, and overseeing periodic reviews of the effectiveness of the whistleblowing policy.

19 Remuneration

- G** 19.1 Remuneration systems form a key component of the governance and incentive structure through which the board and senior management drive performance, convey acceptable risk taking behaviour and reinforce the financial institution's corporate and risk culture. The provisions in this paragraph are not intended to prescribe particular system designs or levels of individual remuneration as financial institutions differ in goals, activities and culture, as do jobs within an institution. However, any remuneration system must work together with other management tools in pursuit of prudent risk taking.
- S** 19.2 The remuneration policy of the financial institution must be approved by the board, and be subject to periodic board review, including when material changes are made to the policy.
- S** 19.3 The remuneration for each director, member of senior management and other material risk taker must be approved by the board annually. A financial institution must maintain and regularly review a list of officers who fall within the definition of "other material risk takers".
- S** 19.4 The overall remuneration system for the financial institution must—
- (a) be subject to board's active oversight to ensure that the system operates as intended;
 - (b) be in line with the business and risk strategies, corporate values and long-term interests of the financial institution;
 - (c) promote prudent risk-taking behaviour and encourage individuals to act in the interests of the financial institution as a whole, taking into account the interests of its customers; and
 - (d) be designed and implemented with input from the control functions and the board risk management committee to ensure that risk exposures and risk outcomes are adequately considered.
- G** 19.5 Without sustained board attention, the operation of well-designed remuneration systems may change in ways that are inconsistent with the spirit of the system design. To achieve effective governance of remuneration systems, the most-involved board members will require relevant and adequate expertise. Such individuals should be independent directors. Because sensitivity of remuneration to risk will be essential, the board should have enough risk-measurement expertise to understand the interaction between remuneration practices and risk taking. The board should also be sufficiently aware of historical risk realisation trends to mediate disputes about how remuneration should change during periods of high losses.
- S** 19.6 Remuneration for individuals within the financial institution must be aligned with prudent risk-taking. Hence, remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that—
- (a) remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;
 - (b) the size of the bonus pool is linked to the overall performance of the financial institution;

- (c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the financial institution;
- (d) bonuses are not guaranteed, except in the context of sign-on bonuses;
- (e) for members of senior management and other material risk takers–
 - (i) a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
 - (ii) the variable portion of remuneration increases along with the individual's level of accountability.

S 19.7 Remuneration payout schedules must reflect the time horizon of risks and take account of the potential for financial risks to crystallise over a longer period of time. As such, a financial institution must adopt a multi-year framework to measure the performance of members of senior management and other material risk takers. Such a framework must provide for–

- (a) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
- (b) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
- (c) adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit or institution attributable to the individual or if he commits serious legal, regulatory or internal policy breaches.

S 19.8 To promote behaviours that are aligned to the intended effects of incentive structures, the financial institution must ensure that–

- (a) variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
- (b) the determination of performance measures and variable remuneration considers that certain indicators (such as share prices) may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to the financial institution's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
- (c) members of senior management and other material risk takers commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

S 19.9 To safeguard the independence and authority of individuals engaged in control functions, the financial institution must 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.

PART E GROUP GOVERNANCE

20 Responsibilities as a holding company

- S** 20.1 A financial institution is responsible for exercising adequate oversight over its subsidiaries while respecting the independent legal and governance responsibilities that apply to them.
- S** 20.2 An apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure appropriate to the nature, size and complexity of the group and its entities. In promoting the adoption of the sound corporate governance principles set out in this policy document throughout the group, the board and senior management of an apex entity must–
- (a) ensure that the group governance framework clearly defines roles and responsibilities for the oversight and implementation of group-wide policies;
 - (b) ensure that the differences in the operating environment, including the legal and regulatory regime for each jurisdiction in which the group has a presence, are properly understood and reflected in the group governance framework;
 - (c) have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the apex entity and its subsidiaries;
 - (d) assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and
 - (e) ensure that there are adequate resources to effectively monitor compliance of the apex entity and its subsidiaries with all applicable legal and regulatory requirements.
- G** 20.3 Group structures can substantially increase the complexity of the organisation of a financial group. Complex structures involving a large number of legal entities can exacerbate group-wide risks, including risks arising from operational interdependencies, intra-group exposures, trapped collateral, counterparty concentrations and reputational associations.
- S** 20.4 An apex entity must ensure that the group structure does not undermine its ability to exercise effective oversight. The board and senior management must know and understand the group structure, including its changes over time, and assess the implications for the capacity to identify and manage all material risks across the group. This must be supported by a sound understanding of risks associated with the group structure and an evaluation of whether group controls and policies are adequate to address those risks.
- S** 20.5 An apex entity must establish a clearly defined process for approving the creation of new legal entities and other structures. This should serve to ensure that the proposed structure fulfils a legitimate business purpose and its associated risks are understood and managed.

21 Responsibilities as a subsidiary

- S** 21.1 A financial institution must discharge its own legal and governance responsibilities as a separate entity, even if it is a subsidiary of another financial institution or of a foreign entity which is subject to prudential regulation. Accordingly, the board and senior management of a financial institution must–
- (a) validate that the objectives, strategies, plans, governance framework and other policies set at the group level are fully consistent with the regulatory obligations and the prudential management of the financial institution and ensure that entity-specific risks are adequately addressed in the implementation of group-wide policies; and
 - (b) in the case of locally-incorporated foreign financial institutions, ensure timely engagement with the Bank on strategic and regulatory developments at the group level that may significantly impact the Malaysian operations of the financial institution.

PART F TRANSPARENCY

22 Corporate governance disclosures

- S** 22.1 A financial institution must disclose information on its corporate governance policies and practices. Such disclosures must include—
- (a) the information set out in Appendix 4;
 - (b) the particulars of, and the reasons for, any gaps in relation to the requirements set out in this policy document; and
 - (c) a description of the measures taken, or that will be taken, to address the gaps.
- G** 22.2 In respect of paragraph 22.1, a financial institution may leverage on disclosures relating to the centralised group-wide framework made by an apex entity, where relevant.
- S** 22.3 In addition to paragraph 22.1, an apex entity must make disclosures on senior management and other material risk takers from a group-wide perspective¹¹ in accordance with paragraph 5 of Appendix 4.
- G** 22.4 A financial institution will be deemed to have complied with paragraph 22.1 to the extent that it has disclosed the information required in that paragraph in accordance with other laws or legal requirements.
- S** 22.5 The board must ensure that the corporate governance disclosures are accurate, clear and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders.
- S** 22.6 A financial institution must ensure that the corporate governance disclosures are—
- (a) laid before its annual general meetings as an appendix to the directors' report;
 - (b) published on its website; and
 - (c) in the case of a financial institution that is publicly listed, published in its annual report.
- S** 22.7 A financial institution must publish on its website the articles of association, board charter¹² and updated details on board composition¹³.

¹¹ "Senior management" refers to individuals who have group-wide management responsibilities, while "material risk taker" includes individuals who can materially commit or control significant amounts of the group's resources or whose actions are likely to have a significant impact on the group-wide risk profile. This may include an individual who is employed by the apex entity's subsidiary that is itself not a financial institution. Given that the relevant individuals may receive remuneration from more than one entity, the remuneration disclosed for purposes of this paragraph must also include remuneration from all subsidiaries.

¹² Paragraphs 8.2, 9.5, and 12.8 set out minimum expectations on what should be included in the board charter.

¹³ In accordance with paragraph 1 of Appendix 4.

PART G TRANSITIONAL ARRANGEMENTS

- S** 23.1 Financial institutions have until the following dates to comply with the specific requirements set out below:

Requirement	Effective date
Limit on executive directors ¹⁴	3 August 2019
Limit on common directors ¹⁵	3 August 2019
Independent directors to make up at least half of the board membership	3 August 2019
Independent directors to make up a majority of the board membership	3 August 2021
Detailed requirements for remuneration ¹⁶	3 August 2019

- S** 23.2 Financial institutions must take measures to gradually meet the board composition requirements during the transition period. As such, the Bank expects all appointments of directors during the transition period to facilitate the financial institution's full compliance with these requirements by the effective dates set out above.

¹⁴ As required under paragraphs 11.4 and 12.5, based on the definition of "executive director" set out in paragraph 5.2.

¹⁵ As required under paragraph 11.11.

¹⁶ As required under paragraphs 19.6(a), 19.6(e), 19.7 and 19.8(c).

APPENDIX 1 BOARD COMMITTEE RESPONSIBILITIES

Board nominations committee

1. Support the board in carrying out its functions in the following matters concerning the board, senior management and company secretary:
 - (a) appointments and removals;
 - (b) composition;
 - (c) performance evaluation and development; and
 - (d) fit and proper assessments;as set out in paragraphs 10, 11, 13 and 17.

Board remuneration committee

2. Support the board in actively overseeing the design and operation of the financial institution's remuneration system as set out in paragraph 19.
3. Periodically review the remuneration of directors on the board, particularly on whether remuneration remains appropriate to each director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.

Board risk management committee

4. Support the board in meeting the expectations on risk management as set out in the policy document on *Risk Governance*.
5. In assisting the implementation of a sound remuneration system, examine whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the board remuneration committee.

Board audit committee

6. Support the board in ensuring that there is a reliable and transparent financial reporting process within the financial institution.
7. Oversee the effectiveness of the internal audit function of the financial institution. At a minimum, this must include—
 - (a) reviewing and approving the audit scope, procedures and frequency;
 - (b) reviewing key audit reports and ensuring that senior management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions;
 - (c) noting significant disagreements between the chief internal auditor and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings; and
 - (d) establishing a mechanism to assess the performance and effectiveness of the internal audit function.
8. Foster a quality audit of the financial institution by exercising oversight over the external auditor, in accordance with the expectations set out in the policy

document on *External Auditor*. At a minimum, this must include–

- (a) making recommendations to the board on the appointment, removal and remuneration of the external auditor;
- (b) monitoring and assessing the independence of the external auditor including by approving the provision of non-audit services by the external auditor;
- (c) monitoring and assessing the effectiveness of the external audit, including by meeting with the external auditor without the presence of senior management at least annually;
- (d) maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the board audit committee on significant matters; and
- (e) ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.

- 9. Review and update the board on all related party transactions.
- 10. Review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements.
- 11. Monitor compliance with the board's conflicts of interest policy described in paragraph 14.1.
- 12. Review third-party opinions on the design and effectiveness of the financial institution's internal control framework.

APPENDIX 2 LIST OF GUIDELINES AND CIRCULARS SUPERSEDED

1. *Guidelines on Corporate Governance for Licensed Institutions* issued on 19 June 2013
2. *Minimum Standards for Prudential Management of Insurers (Consolidated)* issued on 24 December 2010
3. *Prudential Framework of Corporate Governance for Insurers* issued on 19 June 2013
4. *Guidelines on Corporate Governance for Licensed Islamic Banks* issued on 19 June 2013
5. *Guidelines on Directorship for Takaful Operators* issued on 8 June 2011
6. *Guidelines for Audit Committees and Internal Audit Department (Part A)* issued on 4 July 2007
7. *Code of Ethics: Guidelines on Code of Ethics and Conduct for Directors, Officers and Officers in the Banking Industry (Part I only)* issued on 31 October 1988
8. Circular on *Termination Benefits* issued on 8 November 1993

APPENDIX 3 APPLICATION PROCEDURES FOR DIRECTOR AND CEO APPOINTMENTS

1. Section 54(3) of the FSA and section 63(3) of the IFSA require financial institutions to submit a written application to the Bank when seeking to appoint or reappoint a director or CEO.

The role of the board nominations committee

2. The board nominations committee will be the Bank's main point of contact for the application process.

Elaboration on assessment

3. A financial institution must provide in its application for a director an elaboration of the board's assessment of the candidate, including–
 - (a) a description of how the candidate is expected to address any gaps in the specific skills, knowledge or experience of the existing board members, if any;
 - (b) in the case of a candidate who lacks specific skills, knowledge or experience, a description of the gaps and steps that will be taken to support the candidate in addressing the gaps; and
 - (c) in the case of a reappointment, objective assessments of the candidate's past performance on the board.
4. A financial institution must include in its application for a CEO an elaboration of the board's assessment of the candidate and the contribution expected from him, having regard to the strategies, objectives and business plans of the financial institution.

Electronic or physical submission

5. A financial institution may submit an application either electronically or physically, as follows:
 - (a) electronic submissions may be made through the FI@KijangNet portal; and
 - (b) physical submissions may be made by completing the Director and CEO application forms and sending them to the director of the relevant supervisory department of the Bank.

Additional submission for investment banks

6. When submitting an application to the Bank, a licensed investment bank is expected to concurrently inform the Securities Commission of the proposed appointment via the Electronic Licensing Application (ELA).

Timeline

7. A financial institution must submit an application to the Bank at least three months before it expects the individual to assume his proposed responsibilities. In the case of a reappointment, applications must be submitted three months prior to the expiry of the individual's existing term.

APPENDIX 4 CORPORATE GOVERNANCE DISCLOSURES

Board of directors

1. <i>Composition</i>	<ul style="list-style-type: none"> • Name and designation (i.e. independent, non-independent non-executive, executive, chairman) of each director • Key personal details and background of each director including relevant experience, any shareholding in the financial institution and external professional commitments • Chairman and members of each board committee • Appointments, resignations and removals of directors during the financial year • Description of training and education provided to the board • Number of meetings convened by the board and each board committee
2. <i>Function and conduct</i>	<ul style="list-style-type: none"> • Roles and responsibilities of the board and the board committees • Attendance of each director at board and board committee meetings during the financial year

Internal control framework

3. <i>Overview</i>	<ul style="list-style-type: none"> • Main features of the internal control framework, and the nature and frequency of any review and assessment conducted on the internal control framework • Key policies and procedures of the internal control framework, including any changes made to these policies and procedures during the financial year
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Remuneration

4. <i>Qualitative disclosures</i>	<p>Information relating to the design and structure of the remuneration system, including–</p> <ul style="list-style-type: none"> • an overview of the key features and objectives of the remuneration policy • a description of the scope of the remuneration policy (such as by regions or business lines), including the extent to which it is applicable to foreign subsidiaries and branches • a description of the types of officers considered as senior officers and as other material risk takers, including the number of officers in each group • an overview of the findings, recommendations and actions taken with respect to any review and assessment conducted on the remuneration system during the financial year • a discussion of measures taken to ensure that officers in control functions are compensated independently of the businesses they oversee
	<p>Description of the ways in which current and future risks are taken into account in the remuneration system, including–</p> <ul style="list-style-type: none"> • an overview of the key risks that the financial institution takes into account when implementing remuneration measures

	<ul style="list-style-type: none"> • an overview of the nature and type of the key measures used to take account of these risks, including risks that are difficult to measure (values need not be disclosed) • a discussion of the ways in which these measures affect remuneration • a discussion of how the nature and type of these measures have changed over the financial year, reasons for the changes, and the impact of these changes on remuneration <p>Description of the ways in which the financial institution seeks to link performance during a performance measurement period with levels of remuneration, including–</p> <ul style="list-style-type: none"> • an overview of the main performance metrics for the financial institution, top-level business lines and officers • a discussion of how amounts of individual remuneration are linked to institution-wide and individual performance • a discussion of the measures that will be taken to adjust remuneration in the event that performance metrics are weak, including the financial institution’s criteria for determining “weak” performance metrics <p>Description of the ways in which the financial institution seeks to adjust remuneration to take account of longer-term performance, including–</p> <ul style="list-style-type: none"> • a discussion of the financial institution’s policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across officers or groups of officers, a description of the factors that determine the fraction and their relative importance • a discussion of the financial institution’s policy and criteria for adjusting deferred remuneration before vesting and after vesting through clawback arrangements <p>Description of the different forms of variable remuneration that the financial institution utilises and the rationale for using these different forms, including–</p> <ul style="list-style-type: none"> • an overview of the forms of variable remuneration offered (such as cash, shares and share-linked instruments¹⁷) • a discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across officers or groups of officers), a description the factors that determine the mix and their relative importance
5. Quantitative disclosures	<p>Breakdown of the total amount of remuneration awards for the CEO and directors for the financial year, disclosed individually for the CEO and each director, to show–</p> <ul style="list-style-type: none"> • fixed and variable remuneration • deferred and non-deferred remuneration • the different forms of remuneration used (such as cash, shares and share-linked instruments)

¹⁷ A description of other forms of variable remuneration, if any, must be provided.

	<p>Remuneration information in two broad categories, namely in respect of senior management and other material risk takers, as follows:</p> <ul style="list-style-type: none"> • breakdown of the total amount of remuneration awards for the financial year as exemplified in Table A, to show– <ul style="list-style-type: none"> - fixed and variable remuneration - deferred and non-deferred remuneration - the different forms of remuneration used (such as cash, shares and share-linked instruments) • number of officers having received a variable remuneration during the financial year • number and total amount of guaranteed bonuses awarded during the financial year • number and total amount of sign-on awards made during the financial year • number and total amount of severance payments made during the financial year • total amount of outstanding deferred remuneration, split into cash, shares, share-linked instruments and other forms • total amount of deferred remuneration paid out during the financial year • the officers' exposure to implicit (such as fluctuations in the value of shares or performance units) and explicit adjustments (such as malus, clawbacks or similar reversals or downward revaluations of awards) of deferred remuneration and retained remuneration, including– <ul style="list-style-type: none"> - total amount of outstanding deferred remuneration and retained remuneration exposed to ex-post explicit and implicit adjustments - total amount of reductions during the financial year due to ex-post explicit adjustments - total amount of reductions during the financial year due to ex-post implicit adjustments
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Table A		
Total value of remuneration awards for the financial year	Unrestricted	Deferred
Fixed remuneration		
• Cash-based	X	X
• Shares and share-linked instruments	X	X
• Other	X	X
Variable remuneration		
• Cash-based	X	X
• Shares and share-linked instruments	X	X
• Other	X	X

SCHEDULE 3

TERMS OF REFERENCE FOR REMUNERATION COMMITTEE

A. CONSTITUTION

The Board of Directors has established a Committee to be known as the Remuneration Committee.

B. OBJECTIVE

1. To include the Remuneration Policy as adopted by the Board on 26 May 2016 and which become effective 1 June 2016 as part of the Terms of Reference of Remuneration Committee.
2. The Company shall be seen to practice good corporate governance in a fair and thorough manner as required by Bank Negara Malaysia/Central Bank of Malaysia (BNM) policy document on Corporate Governance (BNM/RH/PD 029-9).

C. MEMBERSHIP

1. The Board of Directors shall appoint a Committee of Non-Executive Directors to perform the role of Remuneration Committee and it must consist of at least **THREE** members and majority of whom shall be Independent Non-Executive Directors.
2. The Committee Chairman shall be an Independent Non-Executive Director.
3. The Committee must comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.
4. Care should be taken to avoid the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. No Director shall be involved in deciding his or her own remuneration.

D. SECRETARY

The Company Secretary shall act as the Secretary of the Committee.

E. QUORUM

The quorum necessary for the transaction of business shall be at least **TWO THIRDS** of the members with Non-Executive Directors forming the majority. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretions vested in or exercisable by the Committee.

F. FREQUENCY OF MEETINGS

1. The full Committee shall meet at least **once a year** to review the remuneration packages of the Directors, Chief Executive Officer and Key Senior Officers.
2. At such other times as the Chairman of the Committee shall require.
3. The activities and assessments of the Committee under the heading "Corporate Governance" shall be disclosed in the Directors' Report of the Company's annual report.

G. NOTICE OF MEETING

Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee to all its members.

H. MINUTES OF MEETINGS

1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
2. Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman of the Board and made available on request to other members of the Board.

I. AUTHORITY

1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
2. The Committee is not delegated with decision-making powers by the Board and shall oblige to report its recommendations back to the full Board for decision. The procedures for appointment and assessment must be approved by the full Board and disclosed to the shareholders of the Company.

J. DUTIES AND RESPONSIBILITIES

1. Support the Board in actively overseeing the design and operation of the Company's remuneration system as set out in Paragraph 19 "Remuneration" of BNM policy document, Corporate Governance.
2. Periodically review the remuneration of Directors on the Board, particularly whether the remuneration remains appropriate to each Director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.
3. Periodically review the Remuneration Policy and recommend to the Board for approval.
4. To recommend a remuneration system for the Company. The overall remuneration system must:-
 - a) Be subject to Board's active oversight to ensure that the system operates as intended;
 - b) Be in line with the business and risk strategies, corporate values and long-term interests of the Company;
 - c) Promote prudent risk-taking behaviour and encourage individuals to act in the interests of the Company as a whole, taking into account the interests of its customers;

- d) Be designed and implemented with input from the control functions and the Board Risk Management Committee to ensure that the risk exposures and risk outcomes are adequately considered.
5. Recommend specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers. The remuneration packages shall:-
 - a) Be based on an objective consideration and approved by the full Board;
 - b) Take due consideration of the assessments of the Nomination Committee of the effectiveness and contribution of the Director, Chief Executive Officer or Key Senior Officer concerned;
 - c) Not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - d) Be competitive and is consistent with the Company's culture, objective and strategy.
 6. Ensure the remuneration packages for Executive Directors shall be structured to link rewards to corporate and individual performances to encourage high performance standards. The rewards-to-performance linkages shall not create incentives for irresponsible behaviour and insider excesses.
 7. Ensure the remuneration packages for Non-Executive Directors and Independent Directors shall be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
 8. Detailed out items to be published in the Company's Annual Report relating to the activities of the Committee.
 9. To review and recommend for approval by the Board on company's human resource policies and guidelines including compensation and benefit structure.

K. OTHERS

1. When a committee member involves matters in which he or she has a personal interest, or when their presence may inhibit full discussion, the relevant member should excuse from the meeting.
2. Any such committee member shall abstain from voting on resolutions of the Remuneration Committee in relation to which his or her interest exists and from participating in the discussions concerning such resolutions.

L. MAINTENANCE, UPDATES AND CHANGES

It is the Board's prerogative, after the adoption of the Terms of Reference, to request the Company's Secretary or any assigned staff to amend, delete or expand as and when it is deemed necessary, any parts or provisions outlined in the Terms of Reference or specific parts thereof.

**LIBERTY INSURANCE BERHAD
REMUNERATION POLICY**

Liberty Insurance Berhad

Remuneration Policy

Effective June 1, 2016

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

1. Introduction

The Liberty Insurance Berhad (“LIB”) remuneration policy applies to employees of the Company.

LIB’s remuneration policy is based on the Liberty Mutual Insurance Group (“LMIG”) compensation philosophy outlined below.

- Be competitive to market
- Pay for performance
 - Pay above market for people who perform well
 - Pay significantly above market for exceptional performance
- Provide pay growth through promotional opportunities

2. Goals

The goals of this policy are to describe the various components of fixed and variable pay delivered to these employees and to demonstrate how good corporate governance, compliance with all relevant local legislation and minimizing risky behavior.

3. Background

LIB is committed to attracting, developing and retaining the best talent and motivating these employees to succeed. Through robust remuneration program design and assessment and performance management practices, LIB commits to this aim by ensuring that:

- Employees are paid fairly and competitively against the local market with respect to total compensation, with the potential for increased total compensation in return for exceeding performance expectations.
- Base salaries offer a significant proportion of compensation to make sure that employees live well.

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

- Incentive schemes are designed in such a way as to reward short and long term performance and ensure that employees are not incentivized to engage in inappropriate risk taking.

Recognizing its independent responsibility with respect to ensuring the above commitments are kept, LIB aims to ensure that:

- Performance goals are clearly designed and communicated to employees of the organization through a robust, but transparent, performance management process.
- Performance goals are aligned with the long term strategy of the business and the requirements of each individual employee.
- Customers and the insurance markets are protected from any negative impact associated with mismanagement of remuneration at any level of the organization.

4. Governance

This policy is overseen by the Board of Directors of LIB. The Policy has been approved by the Board of Directors of LIB, and will be reviewed. Any change in this Policy, requires the prior approval of the Board before it can be considered final.

The LIB Board of Directors reviews the elements of remuneration set out in this policy to ensure that strong risk management practices are in place. It does this to ensure:

- Impartiality when it comes to executive pay.
- That final decisions regarding remuneration are taken in such a way as to protect the long-term interests of the company's stakeholders.

The Board may consult with external consultant and key LMIG or Liberty International Consumer Markets ("LICM") corporate functions (Human Resources, Compensation & Benefits, Risk Management, Global Compliance & Ethics, Internal Audit, Finance,

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

Strategic Planning etc.) to ensure that incentive schemes do not expose LIB to undue risk taking or endanger its capital or liquidity.

5. Remuneration Components

The remuneration elements typically consist of the following categories:

- Fixed Remuneration (base salary and any allowances)
- Variable Pay (short-term and long-term)
- Retirement Benefits
- Benefits
- Perquisites

Fixed Remuneration is predominantly base salary, although it may also include fixed allowances which are typical market practice. Fixed remuneration is aligned to the local market and is reviewed for all employees on an annual basis during the Salary Review process. It may also be assessed due to a promotion, transfer or other change of role throughout the year.

In keeping with our compensation philosophy, we aim to pay at market median.

Variable Pay aims to reward high performance based on achievement of individual and business objectives which are aligned to growth of the organization over the short and long term.

Employees are eligible for a Short-Term Incentive scheme with a performance period of one year. Senior employees, whose performance can be measured once the impact of their strategic decisions has been assessed, may also be eligible to participate in Long-Term Incentive schemes. Note: Variable pay is explained in more detail later in this policy document.

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

Pension plans should provide security to employees in their retirement. At LIB, pensions are designed to be appropriate for the Company's operations, legally compliant, and also sustainable for the business. They aim to be generous enough to provide long-term stability for employees without acting as a barrier for exit.

Benefits at LIB are designed to offer a competitive package to employees. All benefits provisions shall be reviewed regularly to ensure that a legally compliant, as well as competitive position is maintained at all times.

Perquisites at LIB are part of a competitive package to some employees. All perquisites shall be reviewed regularly to ensure that a legally compliant, as well as competitive position is maintained at all times.

Variable Pay

Variable pay plans offered to LIB employees are designed to reward both short and long term performance. Rewards are calculated by reference to individual targets, usually a percentage of salary, which differs depending on level of seniority and market norms. However, awards from variable pay schemes are discretionary. Based on the plan rules, payments can be restricted or not paid at all.

Short term performance is measured by achievement of individual (personal) objectives and business objectives measured over a one year timeframe.

Individual performance is measured against targets that are established every year and can be financial or non-financial. In addition, employees' behavior can also increase or decrease their performance rating. In each calendar year, both the 'what' and the 'how' of individual performance achievement are measured and rated.

Employees with superior individual performance and in an operation that significantly exceeds profit and growth targets can earn a maximum two times their target bonus.

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

Employees that only "Partially met Expectations" may receive a reduced bonus regardless of the business performance. If an employee is deemed to have been performing below expectations and in an operation that fails to meet threshold profit and growth targets, she/he will not receive a bonus.

Business unit and overall business performance is measured against annually established targets which take account of the prior year performance, business plans and the operating environment. Typical measures of performance include, but are not limited to, Return on Equity (ROE), Pre-Tax Operating Income (PTOI), Gross Written Premium (GWP) and Net Written Premium (NWP).

These targets are reviewed by the head of each division/department and the Chief Executive Officer of LIB and the Executive Director. They are also reviewed by the Remuneration Committee to the LIB Board of Directors.

Long term performance is generally measured by reference to profit against the business plan and growth against a defined peer group over a two year period with a one year waiting period prior to payment (total cycle is three years). Long term performance for eligible employees is paid at the beginning of the fourth year following the cycle.

Typical measures include Pre-Tax Operating Income (PTOI), Accumulated Other Comprehensive Income (AOCI) and Return on Equity (ROE).

LIBERTY INSURANCE BERHAD REMUNERATION POLICY

6. Role of Remuneration Committee

The Remuneration Committee shall recommend the following to the Board of Directors for approval :

- Remuneration package for the Chief Executive Officer & key Senior Officers (i.e. General Manager Rank & above);
- All Employee Benefits;
- Variable Pay (short-term & long-term incentive);
- Annual Salary Increments;
- Salary Adjustments;

SCHEDULE 4

TERMS OF REFERENCE FOR RISK MANAGEMENT COMMITTEE

A. CONSTITUTION

1. The Board of Directors has established a Committee to be known as the Risk Management Committee.

B. OBJECTIVE

1. The primary objective of the Committee is to establish a documented, formal and transparent procedure to ensure that the company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities.
2. The company shall be seen to practice good corporate governance in a fair and thorough manner as required by:

No.	Ref. No.	BNM Guidelines	Effective Date
2.1	BNM/RH/GL 013-5	Risk Governance	01/03/2013
2.2	BNM/RH/PD 029-9	Corporate Governance	03/08/2016

C. MEMBERSHIP

1. The Board of Directors shall appoint a Committee of Directors to perform the role of Risk Management Committee and it must consist of at least THREE members and majority of whom shall be Independent Non-Executive Directors.
2. The Committee must not have any Executive Director in its membership.
3. The Committee Chairman shall be an Independent Non-Executive Director.
4. The Committee must comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.

D. SECRETARY

1. The Company Secretary shall act as the Secretary of the Committee.

E. QUORUM

1. The quorum necessary for the transaction of business shall be at least two thirds of the members with Non-Executive Directors forming the majority. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, power and discretions vested in or exercisable by the Committee.

F. FREQUENCY OF MEETINGS

1. The full Committee shall hold regular meetings, at a minimum **once every quarter** to co-ordinate the risk management activity throughout the Company and report regularly to the full Board.
2. At such other times as the Chairman of the Committee shall require.
3. The activities and assessments of the Committee under the heading "Corporate Governance" shall be disclosed in the Directors' Report of the Company's annual report.

G. NOTICE OF MEETING

1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee to all its members.

H. MINUTES OF MEETINGS

1. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.
2. Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman of the Board and made available on request to other members of the Board.

I. AUTHORITY

1. The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties.
2. The Committee is not delegated with decision-making powers by the Board and shall oblige to report regularly the assessment on governance and risk management of the Company back to the full Board.
3. The Committee is empowered by the Board to assess and select the enterprise risk management service provider and to oversee the implementation of enterprise risk management by the management.

J. DUTIES AND RESPONSIBILITIES

1. Oversee the design and development of the risk management framework and ensure that the framework is effective for controlling risk-taking activities of the institution in line with the company's risk appetite and has taken into account changes in the business environment. In doing so, the Committee should provide constructive challenge to management on the credibility and robustness of the framework to ensure that there are no material gaps or weaknesses.
2. Review and assess the risk appetite regularly to ensure that it continues to be relevant and reflects any changes in LIB capacity to take on risk, its inherent risk profile, as well as market and macroeconomic conditions.
3. Ensure the culture of risk awareness and risk management within LIB is consistent and actively promoted by the board and senior management. A healthy risk culture should provide and reinforce appropriate norms and incentives for prudent risk-taking.
4. Regularly obtain information from senior management on adherence to LIB's risk appetite and the implementation of risk management policies, processes, and controls within the institution in managing the key risks to the institution as well as emerging risks. This should be supported by independent assessments by the risk management and control functions or independent third party views or information on risk implications as appropriate before coming to any conclusion or making any significant policy decisions.
5. The risk committee and audit committee must also periodically meet to ensure effective exchange of information so as to enable effective coverage of all risks, including emerging risk issues that could have an impact on the institution's risk appetite and business plans.

6. Ensure adequate infrastructure, resources and systems are in place for an effective risk management.
7. Ensure the risk management induction, training and education programmes, targeted appropriately for all levels of staff, are established and implemented.
8. Review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
9. Support the board in meeting the expectations on risk management as set out in the policy document on Risk Governance.
10. In assisting the implementation of a sound remuneration system, examine whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the board remuneration committee.

K. REPORTING

1. The RMC Chairman shall provide written report to the board on the deliberations of the RMC on a regular basis.
2. The RMC Chairman shall present to the Board the summary of all significant matters that highlighting key risks and implications that resolved in the RMC meeting.

L. MAINTENANCE, UPDATES AND CHANGES

1. It is the Board's prerogative, after the adoption of the TOR, to request the Company's Secretary or any assigned staff to amend, delete or expand as and when it is deemed necessary, any parts or provisions outlined in the TOR or specific parts thereof.

SCHEDULE 5

TERMS OF REFERENCE FOR AUDIT COMMITTEE

A. CONSTITUTION

The Board of Directors (board) has established a committee of the board to be known as the Audit Committee (AC).

B. OBJECTIVE

1. The primary objective of the committee is to assist the board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, the corporate governance process and the company's process for monitoring compliance with relevant laws and regulations.
2. It is a prerequisite that the committee undertakes to comply with:-

No.	Reference Number	Title
a.	BNM/RH/GL 013-4	Guidelines on Internal Audit Function of Licensed Institutions
b.	BNM/RH/GL 013-5	Risk Governance
c.	BNM/RH/PD 029-9	Corporate Governance
d.	Financial Services Act (FSA) 2013	<ol style="list-style-type: none">i. Section 62 – Notice of Cessation from Office.ii. Section 143 – Submission of Document or Information to Bank.

C. MEMBERSHIP

1. The committee shall be appointed by the Board from amongst the directors of the company and shall consist a minimum of THREE members and majority of whom shall be Independent Non-Executive Directors.
2. The committee's Chairman shall be an Independent Non-Executive Director.
3. As best practice, all AC members to be Independent Non-Executive Director.

4. The Committee must comprise Directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.
5. An Independent Non-Executive Directors or any person linked to him should not:-
 - a) Been an executive in the last TWO years.
 - b) Be a substantial shareholder of the financial institutions or any of its affiliates, or
 - c) Had significant business or other contractual relationship with the financial institution or any of its affiliates within the last TWO years.
6. If for any reason the number of AC members at any point of time is reduced to below THREE, notification should be provided within SEVEN days to Pengarah, Jabatan Penyeliaan Insurans dan Takaful, Bank Negara Malaysia (BNM)/ Director of Insurance and Takaful Supervision, Central Bank of Malaysia. Notification should also be provided to Jabatan Penyeliaan Insurans and Takaful where any Director ceases to be an AC member within SEVEN days of the cessation and it should include reasons for the cessation.

D. SECRETARY

The Company Secretary shall act as the secretary of the Committee.

E. QUORUM

The quorum for AC meeting should be at least TWO THIRD of the members with Independent Non-Executive Directors forming the majority.

F. FREQUENCY OF MEETINGS

1. The AC should hold REGULAR meetings.
2. In addition, the Chairman shall call a meeting of the Committee if requested to do so by any Committee member, the Management or the Internal or External Auditors. The Committee may invite any person to be in attendance to assist it in its deliberations.

3. The AC should meet at least ANNUALLY with the external auditors without the presence of management in order to allow external auditors to express concerns, problems and reservations effectively arising from financial audits.
4. BNM/RH/GL 013-5 Risk Governance, Part b: Principles of Risk Governance, Principles 2, item 20 requires the Risk Management Committee and Audit Committee must hold periodically meeting to ensure the following:-
 - a) Effective exchange information.
 - b) Effective coverage of all risk.

G. NOTICE OF MEETING

The Company Secretary shall be responsible for the drawing up of the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to AC members within a reasonable timeframe prior to each meeting.

H. MINUTES OF MEETINGS

The Company Secretary shall be responsible for keeping the minutes of meeting of the AC, their timely circulation to the AC members and other member of the board, and following up on outstanding matters in relation to the meeting.

I. AUTHORITY

1. The AC should have the authority to investigate any matters within its terms of reference and should have unlimited access to all information and documents relevant to its activities, to the Internal and External Auditors, and to employees and agents of the Company.
2. The AC should be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by management or the Internal Audit Department (IAD). Fraud and irregularities discovered by the management should be referred to the IAD for investigation.

3. The AC should have access to copies of audit reports (including interim financial audits) on a timely basis and should be kept regularly informed of corrective actions arising from internal and external audit findings.
4. The AC should have adequate resources to perform its duties and discharge its responsibilities and should be authorised to obtain independent professional advice as considered necessary.

J. DUTIES AND RESPONSIBILITIES

The duties and responsibilities of the AC should include the following:-

1. Support the Board in ensuring that there is a reliable and transparent reporting process within Liberty Insurance Berhad (LIB).
2. Oversee the effectiveness of the internal and external audit functions which include:-

2.1 Internal Audit: Governance

- i. The AC should:-
 - Ensure the IAD is distinct and has appropriate status within the Company for the Internal Auditors to effectively accomplish the audit objectives.
 - Ensure the effective organisation of the internal audit function; with due regard to the professionalism, capacity and competence of the internal audit personnel.
 - Review and approve the audit plan, audit charter and budget.
 - Review and approve the audit scope, procedures and frequency.
 - Ensure that reporting relationship of the internal audit staff do not impede the exercise of independent judgement.
 - Establish a mechanism to assess the performance and effectiveness of the internal audit function.
- ii. The AC should review the scope of internal audit procedures, in particular:-
 - Any access restrictions to any of the auditees' records, assets, personnel or processes which are relevant to the conduct of audits.

- Appropriateness of risk management methodology employed by the IAD to determine the frequency and scope of audit, having regard to the nature, size and complexity of the auditees' operations.
 - Compliance with internal auditing standards.
 - Coordination between internal and external auditors.
- iii. AC member should ensure that they are adequately informed and understand the risks and implications of internal audit findings and recommendations and should pay particular attention to internal audit assessment of:-
- Compliance with internal and external rules and regulations.
 - Effectiveness of internal control in critical areas of operations.
 - Management's responsiveness to and corrective actions taken on internal audit findings and recommendations.
- iv. The AC should review key audit reports and ensuring the Management is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by IAD and other control functions.
- v. The AC should note any significant disagreement between the Chief Internal Auditor and the rest of Senior Management irrespective of whether these have been resolved in order to identify any impact the disagreements may have on the audit process or findings.

2.2 Internal Audit: Resources and staffing

- i. The AC should ensure on an on-going basis that the IAD has adequate and competent resources, in this respect the AC should:
- Approve the appointment, remuneration, performance evaluation, removal and redeployment of Chief Internal Auditor and Senior Officers of the internal audit functions.
 - Be informed of any resignation of the internal audit staff and reasons.

- BNM/RH/GL 013-5 Risk Governance, Part B – Principles of Risk Governance, Principle 1, Para 14 stipulates that “The board must ensure that all control functions and internal audit have the proper authority and are adequately staffed and resourced to carry out their responsibilities independently and effectively.”
- ii. The AC should ensure the internal audit staffs receives necessary training to perform audit works and ensure that there is a programme of continuing education and training.

2.3 External Auditor: Appointment of External Auditor

- i. The AC is responsible for the appointment, removal and remuneration of the external auditor having regard to the External Auditor’s objectivity, performance and independence.
- ii. The AC should:
- Review and assess various relationships between the external auditor and the company or any entity that may impair or appear to impair the external auditor’s judgement or independence in respect of the company.
 - Review and assess fees paid to the External Auditor considering the following and that the fees paid should not impair or appear to impair the External Auditor’s judgement or independence:
 - a) The economic importance of the company (in terms of total fees paid) to the External Auditor.
 - b) Fees paid for non-audit services as a proportion of total fees.
 - c) Whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fee paid.
 - Investigate reasons for any request made by the management to dismiss the External Auditor, or any resignation by the External Auditor.

- iii. The AC should maintain regular, timely, open and honest communication with the External Auditor, and require the External Auditor to report to the AC on significant matters.

2.4 External Auditor: Provision of non-audit services by the External Auditor

- i. Any provision of non-audit services by the Company's External Auditor should be approved by the AC before the commencement of the service, or whenever there is a significant change in the level of services provided.
- ii. The AC's decisions should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the External Auditor is compatible with maintaining auditor independence (together with supporting reasons).

2.5 External Auditor: Audit plan, findings and recommendations

- i. The AC should review with External Auditors:
 - Audit plan prior to the commencement of the annual audit.
 - Financial statements (before the audited financial statements are presented to the board):
 - ❖ Whether the auditors' report contained any qualifications.
 - ❖ Significant changes and adjustments in the presentation of financial statement.
 - ❖ Major changes in accounting policies and principles.
 - ❖ Alternative accounting treatment discussed with management and the ramifications of the alternatives.
 - ❖ Compliance with relevant laws and accounting standards.
 - ❖ Material fluctuations in the statements.
 - ❖ Significant variations in audit scope.
 - ❖ Significant commitments or contingent liabilities.
 - ❖ The validity of going concern assumptions.

- Audit reports including obligatory reports to BNM on matters covered under Section 72 of FSA 2013 – Reporting Obligations of Auditors i.e.:
 - a) There has been a breach or contravention of any provision of this Act or a non-compliance of any standards as may be specified by the Bank under this Act which may have a material effect on the financial position of the institution;
 - b) An offence involving fraud or dishonesty under any written law has been committed by the institution or by any director or officer of the institution;
 - c) Any irregularity which may have a material effect on the financial position of the institution, including any irregularity which jeopardizes or may jeopardize the interests of the depositors, policy owners, creditors of the institution, participants or users, or any other serious irregularity, has occurred;
 - d) Unable to confirm that claims of depositors, policy owners, creditors of the institution, participants or users, as the case may be, are covered by the assets of the institution or insurance fund, as the case may be;
 - e) There is any weakness in the internal controls which is relevant to the financial reporting process undertaken by the institution; or
 - f) The financial position of the institution is likely to be or has been materially affected by any event, conduct of activity by the institution or any weakness in the internal controls of the institution.
 - Any significant disagreement between the External Auditor and Management irrespective of whether they have been resolved.
 - Any other findings, issues or reservation faced by the External Auditor arising from interim and financial audits.
- ii. The AC should review and monitor management's responsiveness to and action taken on external audit findings and recommendations and that it is resolved effectively and in a timely manner.

The AC and Risk Management Committee must also periodically meet to ensure effective exchange of information and effective coverage of all risks.

2.7 Other Responsibilities

i. The AC should:

- Review the accuracy and adequacy of Chairman's statement in the Directors' report, corporate governance disclosures, interim financial report and preliminary announcements in relation to the preparation of financial statements.
- Review all representation letters signed by the management, and be satisfied that the information provided is complete and appropriate.
- Review and update any related-party transactions and conflict of interest situations that may arise within the company including any transactions, procedure or conduct that arises questions of management integrity.
- Monitor compliance with the Board's conflicts of interest policy.
- Review third-party opinions on the design and effectiveness of the Company's internal control framework.
- Ensure that the company complies with Section 66 of FSA 2013 – Publication of Financial Statement i.e.:-
 - ❖ An institution shall publish its financial statements prepared under section 65 from time to time subject to any standards as may be specified by the Bank under subsection 47(1).
 - ❖ Notwithstanding subsection (1), the Bank may require that the financial statements shall be audited before any publication under subsection (1).
- Ensure that the Company's accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provision made.
- Ensure that supervisory issued raised by BNM are resolved in a timely manner.

- ii. To review, evaluate, endorse disposal and write-off of fixed assets. Any write off / disposal of fixed assets which exceed RM10,000 approved by CEO require a notification to AC (based on net book value).
- iii. To review, evaluate and endorse bad debts written-off. Any bad debts written-off which exceed RM10, 000 approved by CEO require a notification to AC (based on net book value).
- iv. The AC shall be responsible for any other functions as may be determined by the Board.

K. REPORTING

1. The AC Chairman shall provide written reports to the board on the deliberations of the AC on a REGULAR basis.
2. The AC Chairman shall present a summary of all significant matters (highlighting the risks and implications) and resolution made by the AC at board meetings.
3. The AC shall submit to BNM, a summary of material concerns / weaknesses in the internal control environment of the Company noted during the year and the corresponding measures taken to address these weaknesses. This should be submitted together with the annual report on the AC and its activities which is submitted to BNM pursuant to Section 143 of FSA 2013.
4. The AC should disclose to full board on the result of investigation and recommendation on proposed actions to be taken on dismissal or resignation of external auditor, and the board's decision thereafter should be documented in the board minutes, with a copy of the relevant minutes extended to Pengarah, Jabatan Penyeliaan Insurans dan Takaful, BNM within SEVEN days from the date of such cessation pursuant to the requirement of Section 62 of FSA 2013.

L. MAINTENANCE, UPDATES AND CHANGES

It is the Board's prerogative, after the adoption of the AC TOR, to request the Company's Secretary or any assigned staff to amend, delete or expand as and when it is deemed necessary, any parts or provisions outlined in the TOR or specific parts thereof.

SCHEDULE 6

TERMS OF REFERENCE FOR INVESTMENT COMMITTEE

1.0 Constitution

- 1.1 The Board of Directors has established a Committee to be known as the Investment Committee.

2.0 Objective

- 2.1 The primary objective of the Committee is to assist the Board of Directors and management in the effective discharge of their strategic responsibilities and accountabilities in the area of investments of the company.

3.0 Membership

- 3.1 The Board of Directors shall appoint the members of the Committee and it shall have the sole discretionary authority as to the appointment and termination of the members of the Committee as it deems fit.
- 3.2 The Committee shall be made up of no less than TWO and maximum of FIVE members. The members of the Committee may be, but are not required to be, members of the Board of Directors or management of the company. The Committee may co-opt advisor(s) and or other temporary members on an ad-hoc basis to assist in the deliberations and decision-making.
- 3.3 The Board of Directors on an annual basis shall review the terms of office of the members of the Committee.
- 3.4 The Board of directors shall name the Chairman of the Committee.

4.0 Secretary

- 4.1 The Company Secretary shall be Secretary to the Committee.

5.0 Quorum

- 5.1 Quorum for the Committee meeting will be at least two thirds of the members present.

6.0 Frequency of Meetings

- 6.1 The Committee shall meet quarterly (once in every 3 months)

7.0 Notice of Meeting

- 7.1 The Secretary shall be responsible for drawing up the agenda prior to each meeting of the Committee with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to members of the Committee and invites.

8.0 Minutes of Meetings

- 8.1 The Secretary shall be responsible for keeping the minutes of the meetings and circulating them within 2 weeks of each meeting and following up on outstanding matters.

9.0 Authority

- 9.1 The Committee is authorized to adopt the approval mandate as per the Board of Directors investment limits / sub-limits by class of investment assets as per regulatory requirements for acquisition purposes.
- 9.2 The approval mandate for disposal and cut loss strategy on various class of investment is primarily guided by investment strategies, financial market outlook and general economic condition for the purpose of profit taking, risk mitigation and capital protection.

10.0 COMMITTEE DUTIES AND RESPONSILITIES

- 10.1 To report to the Board of Directors the results, observations and recommendation every quarter for deliberation and formalization by the Board of Directors.
- 10.2 To review and recommend for approval of the Administrative Guideline on investment to the Board of Directors.
- 10.3 To establish investment strategy and obtain approval from the Board of Directors and regularly review the changing market and economic conditions.
- 10.4 Assisting and advising the Board of Directors in the setting of Investment objectives and targets.
- 10.5 Assisting and advising the Board of Directors on overall asset allocation.
- 10.6 Setting short-term variation from the long-term targets set by the Board of directors and communicating there to the Head of Investment.
- 10.7 Review sector allocation as recommended by the Head of Investment.
- 10.8 Review approved securities and money market instruments recommended by the Head of Investment and setting investment criteria.
- 10.9 To review and decide on critical investment issues and when the need arises.
- 10.10 All investments risks must be recognized, systematically identified, prioritized according to their significance and implications, and managed as best as possible.
- 10.11 To set authorization limits.
- 10.12 To draw up reporting requirements.
- 10.13 To review and approve dealers, fund managers and custodian accounts when the need arises.

11.0 MANAGEMENT DUTIES AND RESPONSIBILITIES

11.1 In addition to such other duties and responsibilities as may be assigned by the Committee from time to time, management of the Company shall be responsible:

- a. To implement management control procedures and monitor these procedures, and report to the Committee regarding these procedures and management's assessment of their effectiveness.
- b. To monitor the investment portfolio to ensure conformity with overall objectives and statutory requirements, as well as reporting to the Committee regarding the performance of the portfolio as measured against those objectives and statutory requirements.
- c. To nominate dealers, fund managers and custodian accounts when the need arises.
- d. To provide reports to the Committee on investment-related matters as may be requested by the Committee from time to time.

12.0 MAINTENANCE, UPDATES AND CHANGES

12.1 It is the Board's prerogative, after the adoption of the TOR, to request the Company's Secretary or any assigned staff to amend, delete, or expand as and when it is deemed necessary, and parts or provisions outlined in the TOR or specific parts thereof.