

CONFIDENTIAL



KUWAIT FINANCE HOUSE (MALAYSIA) BERHAD (672174-T)

BOARD CHARTER

Approved by Board of Directors on: 28 March 2017
(Date)

Chairman: 
(Signature)
Muad AlOsaimi

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1. Introduction

- 1.1 The Board acknowledges that good corporate governance practices form the cornerstone of an effective and responsible organisation. Hence, the Board is committed to a corporate governance framework and structure which ensures protection of shareholder's rights as well as recognition of the rights of all other stakeholders ranging from customers, creditors, suppliers, employees, regulators and the community as part of its effort to achieve long-term sustainable value for all its stakeholders.
- 1.2 The Board of Directors' Charter ("Board Charter") of Kuwait Finance House (Malaysia) Berhad ("KFHMB" or "the Bank") sets out high level principles, roles, responsibilities and authorities of the Board in setting the direction, the management and the control of the organisation. Each director has a legal duty to act in the best interest of the Company and stakeholders.
- 1.3 The Board's structure, composition and conduct shall be governed by the Bank's constitution, applicable laws and regulatory policies in Malaysia.

2. Board Manual

- 2.1 The Board has in place a Board Manual ("Manual") which defines and clarifies the Board's roles and responsibilities in discharging its duties and responsibilities. The Manual reflects rules and procedures as well as current best practices on the Board's structure, powers, conduct and proceedings.

3. Board Composition and Size

- 3.1 The Board must have an appropriate number of Directors that commensurate with the complexity, the size, the scope and operations of the Bank to enable effective and objective decision making. The Board should determine the appropriate size of the Board wherein consideration should be given to enable an efficient and effective Board deliberation. At minimum the Board should consist of five (5) members.
- 3.2 The Board must comprise a majority of independent directors at all times. Qualified independent directors can help to provide the necessary checks and balances in ensuring the Bank operates in a safe and sound manner.
- 3.3 The Chairman of the Board must not be an executive, and must not have served as a Chief Executive Officer ("CEO") of the financial institution in the past five (5) years. Meanwhile, the number of executive director¹ shall not be more than one (1) unless Bank Negara Malaysia ("BNM") approves otherwise in writing having ensured that the Bank meets the criteria set by BNM in having more than one (1) executive director.

¹ The definition of an 'executive director' shall refer to the definition as provided in the BNM Corporate Governance Policy dated 3 August 2016.

4. Board Appointments

- 4.1 A formal and transparent procedure is in place to govern the appointment and removal of Directors. At a minimum, the selection of Directors must take into consideration the requirements under the Islamic Financial Services Act 2013 and BNM's Corporate Governance ("CG") Policy.
- 4.2 The tenure of appointment for each Director shall be for a period of three (3) years or shall be based on the approval granted by BNM and re-appointment shall also be based on the result of the annual Board Effectiveness Assessment. Upon expiry of the term and until BNM grants the approval for the renewal of the term of the Director, the Director is not deemed as Director and thus is not allowed to perform his role as a Director for the Bank.
- 4.3 The tenure of appointment for Independent Directors shall follow the Bank's Policy on Tenure Of Appointment / Re-Appointment Of Independent Non-Executive Directors For KFHM Group Of Companies. Generally, the tenure of appointment or re-appointment of Directors shall be for a three (3)-year term with a maximum service tenure of nine (9) years.

5. Roles and Responsibilities of the Board

- 5.1 The appointed Board Members shall undertake their responsibilities towards safeguarding the rights of shareholder, depositors, creditors, employees and other stakeholders. The Board should assume among others the following responsibilities:-
 - (a) Review and approve strategies, business plans and significant policies and monitor management's performance in implementing them, taking into account long term financial interest of the organization, the exposures to risk and protection of shareholder's interests with the goal of maximizing returns.
 - (b) Set the appropriate governance process and corporate values with clear lines of responsibility and accountability that are communicated throughout the organisation.
 - (c) Promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies.
 - (d) Ensure competent senior management are appointed and oversee their conduct and performance.
 - (e) Ensure that the operations of the Bank are conducted prudently and within the framework of relevant laws and policies and maintain reasonable due diligence on KFHM's subsidiaries.
 - (f) Ensure that the Bank establishes comprehensive risk management and compliance policies, processes and infrastructure, to manage (assess, measure, control, monitor, and report) the various types of risks and compliance issues in line with the risk

appetite and tolerance of the Bank.

- (g) Ensure the adequacy and effectiveness of the Bank's compliance policies, framework and plan and evaluate the effectiveness of the overall management of compliance risk at least annually.
- (h) Foster a strong risk awareness and compliance culture and encourage ethical conduct within the Bank.
- (i) Establish a sound and robust Shariah governance framework with emphasis on compliance with Shariah principles through an independent Shariah Committee. The framework includes instituting comprehensive policies, processes and infrastructure to ensure Shariah compliance in all aspects of the Islamic bank's operations, products and activities.
- (j) Set up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial, management and Shariah audit.
- (k) Establish procedure to avoid self-serving practices and conflicts of interest including dealings of any form with related entities.
- (l) Ensure protection of interests of the depositors, particularly investment account holders as well as other stakeholders.
- (m) Develop and implement succession planning for the Bank, including appointing, training, fixing the compensation of and where appropriate, replacing senior executive officers. This programme shall incorporate the following elements:
 - i) identification of key positions within the Bank;
 - ii) identification of potential successors for key positions within the Bank;
 - iii) involvement of the identified personnel in relevant key decision making meetings; and
 - iv) provision of relevant training for the identified personnel.
- (n) Supervise the affairs of the Bank and be regularly informed of the Bank's condition and management policies in ensuring that the business is properly managed;
- (o) Review the adequacy and integrity of the Bank's internal control system and management information system, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. In maintaining a sound system of internal controls, the Board shall carry out the following:

- i) provide a control environment and framework that shall be conducive to achieving a sound system of internal control;
 - ii) set appropriate policies on internal control and seek regular assurance that shall enable the Board to satisfy itself that the system is functioning adequately and that its integrity is maintained; and
 - iii) ensure that the system of internal control is adequate in managing risks in the manner in which the Board has approved;
 - (p) Ensuring proper and diligent oversight on Shariah governance structure and Shariah compliance, approving all policies on Shariah matters and ensuring the same are effectively implemented;
 - (q) Foster a culture of ethics and integrity in the organization to be governed by the Code of Ethics and Conduct as a safeguard to the Bank's reputation;
 - (r) 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;
 - (s) Promote timely and effective communications between the Bank and BNM on matters affecting or that may affect the safety and soundness of the financial institution;
 - (t) Ensure that the Bank has a beneficial influence on the economic well-being of its community by providing banking services and facilities which will be conducive to well-balanced economic growth;
 - (u) Observe all banking laws, related regulations, interpretative rulings and notices, and exercise due diligence to see that these are not violated; and
 - (v) Appoint Board Nominating and Remuneration Committee members, consisting of wholly or mainly of Non-Executive Directors, to recommend to the Board the remuneration of the Executive Directors in all its forms, drawing from outside advice as necessary. Executive Directors should play no part in decisions on their own remuneration. The determination of remuneration packages of Non-Executive Directors, including Non-Executive Chairman, should be a matter for the Board as a whole. The individuals concerned should abstain from discussing their own remuneration.
- 5.2 Members of the Board shall jointly and severally be held accountable towards the shareholder.

6. Board Meetings

- 6.1 The Board should meet regularly to dispatch business, at least six (6) times a year with one (1) meeting every quarter. Meetings are to be scheduled sufficiently in advance to enable maximum attendance at each meeting. Preferably meetings should be scheduled seven (7) days in advance. Ad-hoc / special meetings may be called as and when required on the request of Chairman or other Board members. Majority of the Board members has to be present for a board meeting to be convened.
- 6.2 Only by exception, participation at the Board/Board Committee meetings can be facilitated by means of video or telephone conferencing.
- 6.3 The Board has to be given sufficient and reasonable timeframe prior to the relevant meeting to enable them to familiarise and review the meeting papers so as to allow them to participate in an informed manner.
- 6.4 Directors must attend at least 75% of Board meetings during the year.
- 6.5 The matters reserved for the Board's decision in its entirety are including but not limited to the following:-
- i) overseeing the conduct and performance of the Bank's businesses;
 - ii) approving strategies and business plan including its financial results;
 - iii) approving changes to capital structure;
 - iv) approving changes to organisation structure;
 - v) approving new investments, divestments, mergers and acquisitions, corporate restructuring, including the establishment of subsidiaries, joint ventures or strategic alliances both locally and abroad;
 - vi) approving acquisition and disposal of significant assets of the Bank;
 - vii) approving the appointment, removal and remuneration for the CEO and other senior officers of the Bank;
 - viii) approving the appointment and removal of the Company Secretary;
 - ix) approving all matters relating to the Board (individually and collectively) including but not limited to appointments, removals and remuneration;
 - x) approving related party transactions;
 - xi) approving the Bank's remuneration structure and policy and benefits policy;
 - xii) approving all unbudgeted expenses;
 - xiii) approving significant policies relating to the operations and businesses of the Bank;
 - xiv) ensuring there is clear communication policy for the stakeholders;
 - xv) ensuring effective and efficient system of internal control and risk infrastructure;
 - xvi) ensuring proper delegation of authority between the Board and the Management which should be clearly set out in writing; and
 - xvii) ensuring the effectiveness of the Board and its Committees via an annual Board Effectiveness Assessment exercise.

7. Board Committees

- 7.1 The Board may set up various Board Committees to assist in discharging its duties. It should spell out the authorities of each of the committee, in particular whether the committee has the authority to act on behalf of the Board or just examine a particular issue and report back to the Board with a recommendation. Notwithstanding, the Board remains fully accountable for any authority delegated to the Board Committees.
- 7.2 The Board shall approve the establishment of any Board Committees. Such Board Committee shall have a Terms of Reference (including any revision thereof) which shall be approved by the Board.
- 7.3 A brief description of the existing Board Committees are as follows:
- (a) Board Audit Committee
 - To provide independent oversight of the Bank's (including its subsidiaries) financial reporting, audit process, internal controls and ensuring checks and balances within the Bank.
 - (b) Board Nominating and Remuneration Committee
 - To provide a formal and transparent procedure for the appointment of Directors, CEO, key senior officers and members of the Shariah Committee; and
 - To provide a formal and transparent procedure for developing remuneration policy for Directors, Shariah Committee members, CEO and key senior management officers and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.
 - (c) Board Risk Management Committee
 - To oversee the Bank's activities in managing credit, market, operational, legal and other emerging risks and to ensure that the risk identification and mitigation is in place and functioning.
 - (d) Board Credit Committee
 - To review/veto financing approved by management level credit committee and review relevant financing/asset recovery policies for the Board's approval.
 - (e) Board Corporate Governance Committee
 - To assist the Board in maintaining effective corporate governance principles for the Bank and its subsidiaries to achieve the highest standards of business integrity, ethics and professionalism across all of the Group's activities.

- 7.4 The Terms of Reference of each committee shall be reviewed on a periodic basis.
- 7.5 The Chairman of each committee submits a Chairman's Report to Board at each Board meeting to ensure the Board is aware of the activities of the committees.

8. Access to Information and Advice

- 8.1 Every Director shall have the right to the following resources, whenever necessary and reasonable for the performance of his duties:
- i) be provided with complete, adequate and timely information prior to Board meetings and on an ongoing basis. The Bank should set up broad parameters of information to be supplied to the Board. The Management has an obligation to supply the Board with complete, well-focused and adequate information in a timely manner;
 - ii) obtain independent external professional consultants / adviser or other advice at the cost of the Bank. This shall be carried out as follows:
 - a) Director shall submit request for independent external professional consultants / adviser or other advice to the Company Secretary; and
 - b) the request shall be tabled to the Board for their deliberation and approval.

9. Directors' Education

- 9.1 The Bank should ensure that there is sufficient resources toward the on-going development of its Directors in order to ensure they would be able to fulfill their responsibilities effectively. The Board Nominating And Remuneration Committee should ensure that all Directors receive continuous training in order to keep abreast with latest developments in the industry, particularly on relevant new laws, regulations and the changing risk factors from time to time.

10. Company Secretary

- 10.1 The Company Secretary is responsible for supporting the effective functioning of the Board. The Company Secretary is responsible, amongst others, for the following:-
- i) Plan, coordinate and organize for Board and Shareholder meetings in consultation with the Chairman/CEO and ensuring minutes of meeting are prepared and confirmed by the Board;



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- ii) Ensure the Board's procedures are followed and reviewed regularly, and that the applicable rules and regulations and associated updates, for the conduct of the affairs of the Board are complied and provide advise particularly on board governance matters; and
 - iii) Carrying out any instructions of the Board and/or communicate those instructions to relevant stakeholders.
- 10.2 All Directors, particularly the Chairman, have access to the advice and services of the Company Secretary for the purposes of the Board's affairs and the business.
- 10.3 All minutes of the Board, Board Committees and Shareholder meetings and circular resolutions are confidential and shall be kept by the Company Secretary.

11 Review of the Board Charter

- 11.1 This Board Charter shall be reviewed on an annual basis and any changes therein requires approval from the Board.