



# ALLIANCE BANK

**Alliance Bank Malaysia Berhad** (88103-W)

## **CORPORATE GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2017**





# ALLIANCE BANK

**Alliance Bank Malaysia Berhad (88103-W)**

## **CORPORATE GOVERNANCE STATEMENT**

The Board of Directors of Alliance Bank Malaysia Berhad (“ABMB” or “the Bank”) considers good corporate governance to be the foundation of a well-managed institution. The Board is fully committed to integrity and fair dealing in all its activities, and has adopted the best practice of corporate governance in all areas of its business towards enhancing business prosperity and corporate accountability with the ultimate objective of safeguarding the interests of all stakeholders and enhancing shareholders’ value.

The Bank’s approach to corporate governance practices is in conformity with Bank Negara Malaysia’s (“BNM”) Policy Document on Corporate Governance (“BNM CG Policy Document”) and is guided by the principles and recommendations set out in the Malaysian Code on Corporate Governance 2012 (“the Code”).

## **BOARD OF DIRECTORS**

### **1. Responsibilities**

The Board is principally responsible for the overall performance of the Bank. It provides stewardship to the Bank’s strategic vision, direction, operations and long-term goals in order to maximize shareholders’ value.

The principal functions of the Board are as follows:

- Reviews and approves the Management’s proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management’s performance in the implementation process;
- Approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management’s business strategies and action plans;
- Sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank, and promote, together with Senior Management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behavior;
- Ensures there is a managed and effective process to select and appoint key Senior Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Senior Management’s performance on an ongoing basis;

- Ensures the implementation of effective internal controls and processes to measure and manage business risks, including but not limited to reviewing the adequacy and integrity of internal control systems and operations; establishing relevant policies on the management of business risks covering inter alia operational, credit, market and liquidity risks and other key areas of the Bank's operations, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations;
- Sets up an effective internal audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial and management audit;
- Establishes procedures to avoid self-serving practices and conflicts of interests including dealings of any form with related entities;
- Establishes and ensures the effective functioning of various Board Committees;
- Ensures that the operations of the Bank are conducted within the framework of all relevant regulations, laws and policies;
- Ensures that the Bank has a beneficial influence on the economic well-being of its community, and promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- Oversee and approve the recovery and resolution as well as business continuity plans for the Bank to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress; and
- Promote timely and effective communication between ABMB and BNM on matters affecting or that may affect the safety and soundness of the Bank.

Every Director has the right to resources, whenever necessary and reasonable, for the performance of his duties at the cost of the Bank. Directors may seek external independent professional advice at the expense of the Bank, to assist them in making well-informed decisions whether as a full Board or in their individual capacity.

In respect of potential conflict of interest, the Board has on 8 December 2016 established a Conflict of Interest Policy for Directors to address Directors' actual and potential conflicts of interest. The Board is satisfied that there is no undue influence involved in all connected party transactions.

Directors are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their capacity as Directors and officers of the Alliance Financial Group, provided that such Director or officer has not acted negligently, fraudulently or dishonestly, or is in breach of his duty of trust.

## **2. Board Charter**

The Board has adopted a charter which sets out the mandate, responsibilities and procedures of the Board and the Board committees, including the matters reserved for the Board's decision. The charter will be reviewed from time to time and updated in accordance with the needs of the Bank and any new regulations that may have an impact on the roles and responsibilities of the Board. The Board Charter is available on the Bank's corporate website at [www.alliancebank.com.my](http://www.alliancebank.com.my).

### **3. Code of Conduct**

The Alliance Bank Group (“the Group”) is guided by the Code of Conduct established by the Alliance Financial Group Berhad which outlines the conduct required of the Board members individually and employees in order for them to discharge their duties in a professional, honest and ethical manner. The Code of Conduct is available on the holding company, Alliance Financial Group Berhad’s corporate website [www.alliancefg.com](http://www.alliancefg.com).

### **4. Board Composition**

The Board consists of individuals of calibre and diverse experience with the necessary skills and qualification. The Board comprises Directors who, as a group, provides a mixture of core competencies, including finance, accounting, legal, business management, banking, information technology and investment management for the effective functioning and discharging of the responsibilities of the Board.

As at 31 March 2017, the Board comprises seven (9) Non-Executive Directors, six (6) of whom are Independent Non-Executive Directors and that has provided effective check and balance in the functioning of the Board.

The six (6) Independent Non-Executive Directors are free from any association or circumstances that may impair their exercise of independent judgement. They ensure a strong element of independence on the board, both in thought and actions.

The members of the Board as at 31 March 2017 are as follows:

- (i) Tan Sri Dato’ Ahmad Bin Mohd Don  
(Independent Non-Executive Director/ Chairman)  
(Appointed on 1 February 2017)
- (ii) Kung Beng Hong  
(Non-Independent Non-Executive Director)
- (iii) Lee Ah Boon  
(Non-Independent Non-Executive Director)
- (iv) Ou Shian Waei  
(Independent Non-Executive Director)
- (v) Kuah Hun Liang  
(Independent Non-Executive Director)
- (vi) Datuk Wan Azhar Bin Wan Ahmad  
(Independent Non-Executive Director)
- (vii) Lee Boon Huat  
(Independent Non-Executive Director)
- (viii) Ho Hon Cheong  
(Non-Independent Non-Executive Director)
- (ix) Thayaparan A/L S. Sangarapillai  
(Independent Non-Executive Director)  
(Appointed on 10 May 2016)
- (x) Dato’ Thomas Mun Lung Lee  
(Independent Non-Executive Director/Chairman)  
(Retired on 19 July 2016)

- (xi) Tan Yuen Fah  
(Independent Non-Executive Director)  
(Retired on 18 September 2016)

The profiles of each of the members of the Board are available on the Bank's corporate website at [www.alliancebank.com.my](http://www.alliancebank.com.my).

## **5. Boardroom Diversity Policy**

While the Bank does not have a formal boardroom diversity policy, the Board takes cognizance of the boardroom diversity policy published in the Code. In identifying suitable candidates for appointment to the Board, Group Nomination and Remuneration Committee ("Group NRC") and the Board will consider candidates on merit and with due regard for the benefits of diversity on the Board. The Board is of the view that, while it is important to promote boardroom diversity, the normal selection criteria based on an effective blend of competencies, skills, extensive experience and knowledge to strengthen the Board should remain a priority.

## **6. Appointments and Re-election of Directors**

Any proposed appointment of new Directors to the Board or proposed re-appointment of existing Directors will be assessed by the Group NRC. In evaluating the appointment of new Directors, the Group NRC looks for diversity of skills and experience of the candidates. To ensure the candidate has the character, experience, integrity and competency to effectively discharge his role as a Director, the Group NRC will assess the fitness & propriety of the candidates in accordance with the Group's Policy on Fit and Proper. The following criteria are considered by the Group NRC:

- Probity, personal integrity and reputation
- Competence and capability
- Financial integrity

The Group NRC will, upon its assessment, submit its recommendation to the Board for approval. The final decision on the appointment of a candidate recommended by the Group NRC rests with the whole Board before the application is submitted to BNM for approval.

Upon appointment, a new Director will be arranged to attend an in-house orientation program within three months of the appointment where he will be briefed on the operations and business strategies by the Senior Management to familiarize him/her with the industry, the Bank and the Group. All Directors are also regularly being updated on new requirements affecting their responsibility and are constantly reminded of their obligations.

In accordance with the Articles of Association of the Bank, newly appointed Directors shall hold office only until the next Annual General Meeting ("AGM"), and shall then be eligible for re-election. Additionally, one-third (1/3) of the Directors shall retire by rotation at each AGM. A retiring Director is eligible for re-election at the AGM.

Further, the Board has on 8 December 2016 formalized the Board Succession Plan which entails the guiding principles for effective succession planning, as well as the detailed procedure in ensuring a smooth transition in the Board's process and functioning as existing Directors leave the Board and new ones come on board.

## **7. Directors' Independence and Tenure**

The Group NRC considers a strong element of independence on the Board vital for good corporate governance and it performs annual reviews of the independence of the Directors.

An Independent Non-Executive Director is defined as a Director who is independent of management and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank.

Independent Non-Executive Directors of the Bank exercise independent judgement and participated in the deliberations of the Board objectively with no individual or small group of individuals dominate the Board's decision making process. The number of Independent Non-Executive Directors on the Board of ABMB is in line with the requirement laid down in BNM CG Policy Document that the board must have a majority of independent directors at all times.

The Board through the Group NRC will assess Directors' independence annually. In the annual assessment of the Independent Directors of ABMB in respect of financial year ended 31 March 2017, the Board was satisfied that each of the Independent Directors of ABMB continue to be independent and free from any business or other relationship, which could interfere with the exercise of independent judgement or the ability to act in the best interest of the Bank, and that each of them continues to fulfill the definition of independence as set out in Paragraph 11.7 of BNM CG Policy Document.

The Bank has adopted a 9-year policy for tenure of Independent Directors.

As at the date of this Statement, none of the Bank's Directors have served for a cumulative period of more than 9 years.

#### **8. Separation of the Role of the Chairman and the Chief Executive Officer ("CEO")**

The roles of the Chairman and CEO are separated, which is consistent with the principles of corporate governance as set out in BNM CG Policy Document to institute an appropriate balance of power and authority. The Chairman, in leading the Board, is responsible for the effective overall functioning of the Board.

In fulfilling this role, the Chairman:-

- (i) ensures that appropriate procedures are in place to govern the Board's operation;
- (ii) ensures 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;
- (iii) encourages healthy discussion and ensure that dissenting views can be freely expressed and discussed; and
- (iv) leads efforts to address the Board's development needs.

The CEO, in leading the Senior Management, bears primary responsibility over the development and execution of the Bank's corporate and business strategy, and is ultimately responsible for managing the Bank's day-to-day operations.

#### **9. Company Secretary**

The Directors have ready and unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively.

The role of the Company Secretary is defined. He attends all Board meetings and ensures that all applicable rules and regulations regarding the conduct of the Board are complied with. Under the direction of the Chairman, he ensures good information flows within the Board and its committees and between Senior Management and Non-Executive Directors, as well as facilitates orientation of new Directors and professional development of Directors, as required.

The Board assesses the fitness and propriety of the Company Secretary annually in accordance with the Group's Policy on Fit and Proper, and that the Board is satisfied with the performance and support rendered by the Company Secretary.

#### 10. Board Meetings and Supply of Information

The Board meets on a scheduled basis at least eight (8) times a year to review progress reports on the Bank's financial performance, approve strategies, business plans and significant policies as well as to consider business and other proposals which require the Board's approval. Ad-hoc Board meetings may also be called to deliberate and assess corporate proposals or business issues that require the Board's immediate consideration/decision.

The attendance of Directors 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 deliberation.

Board's approval for urgent matters may be obtained through written resolutions approved by circulation.

All Directors are supplied with information on a timely manner. The agenda for each Board meeting, together with detailed reports and proposal papers to be tabled, are circulated to the Directors for their perusal well in advance of the date of the Board meeting. The Directors may request to be furnished with additional information or clarification. Relevant Senior Management Officers are invited to attend Board meetings to provide the Board with detailed explanations and clarifications on proposals tabled to enable the Board to make an informed decision.

The Group has implemented paperless meetings where board materials are uploaded to a secured board portal for the Directors to download to their tablets or laptops. This initiative has made the process of creating, distributing and reviewing confidential board materials more efficient and secure. It speeds up the process of board pack dissemination and removes the need for hard copy papers. The initiative also enhances the Group's corporate responsibility in line with environmental initiatives by reducing its paper consumption.

All Directors have demonstrated that they are able to allocate sufficient time to the Bank to discharge their duties and responsibilities, and their commitment is affirmed by their full attendance at the Board meetings held during the financial year ended 31 March 2017, as reflected below:

	<b>Board Members</b>	<b>Meetings attended/ held</b>
1.	Tan Sri Dato' Ahmad bin Mohd Don (Independent Non-Executive Director/Chairman) (Appointed on 1 February 2017)	2/2
2.	Kung Beng Hong (Non-Independent Non-Executive Director)	17/17
3.	Lee Ah Boon (Non-Independent Non-Executive Director)	16/17
4.	Ou Shian Waei (Independent Non-Executive Director)	17/17
5.	Kuah Hun Liang (Independent Non-Executive Director)	17/17
6.	Datuk Wan Azhar Bin Wan Ahmad (Independent Non-Executive Director)	17/17
7.	Lee Boon Huat (Independent Non-Executive Director)	15/17

	<b>Board Members</b>	<b>Meetings attended/ held</b>
8.	Ho Hon Cheong (Independent Non-Executive Director)	17/17
9.	Thayaparan A/L S. Sangarapillai (Independent Non-Executive Director) (Appointed on 10 May 2016)	15/15
10.	Dato' Thomas Mun Lung Lee (Independent Non-Executive Director/Chairman) (Retired on 19 July 2016)	5/5
11.	Tan Yuen Fah (Independent Non-Executive Director) (Retired on 18 September 2016)	8/8

## **11. Board Performance**

The Board has implemented an annual performance evaluation process, carried out by the Group NRC, to assess the effectiveness of the Board as a whole, the Committees of the Board and the contribution of each individual Director.

Each Director evaluates the performance of the Board as a whole by way of a Self-Assessment Questionnaire by Individual Board Members. The assessments are made against the pre-established criteria as follows:

- A. Board Composition/Structure
- B. Board Process
- C. Board Governance
- D. Major Responsibilities of the Board

For individual Directors' assessments, Self-Assessment Forms by Individual Director are completed individually by every Director. In addition, the performance of each Board Member is assessed by the Board Chairman based on similar criteria of the Self-Assessment Form. The results are compiled for Group NRC's deliberation.

The results of the performance evaluation are reviewed and discussed for improvements among Board Members.

In the annual assessment of the Board for the financial year ended 31 March 2017, the Board was satisfied with its current size and composition as well as its mix of skills which is made up of individuals of high caliber, credibility and with the necessary skills and qualifications to enable the Board to discharge its responsibility effectively. The Board, through the Group NRC, has also assessed the fitness and propriety of the Directors in accordance with the Group's Policy on Fit and Proper and was satisfied with the fitness and propriety of the Directors.

## **12. Board Training**

Continuous training is vital for the Directors to gain insight and keep abreast with the development in the industry to further enhance their skills and knowledge in discharging their responsibilities effectively. All Directors are encouraged to attend at least one training course/seminar relating to the relevant areas within a financial year.

The Bank has put in place a Directors' Orientation Programme for newly appointed Directors to familiarize themselves with the Bank's operations. Directors also received comprehensive guidance from the Group Company Secretary on the Group's governance framework and associated policies, as well as their duties as Directors on the Board.



The Directors are provided with the opportunity for relevant training programmes on an on-going basis in areas relating to banking including Islamic banking and financial industry for them to keep abreast with the latest developments in the industry including the Financial Institutions Directors' Education ("FIDE") Core Programme which promotes high-impact Boards by strengthening Board competencies in dealing with corporate governance, risk management and strategic issues faced by the financial services industry.

During the financial year, the Directors attended conferences, seminars, briefings and training programmes organized by professional bodies and regulatory authorities as well as those conducted in-house, included the following:

- Bursa Malaysia: Complimentary Cybersecurity Workshop
- AIF Distinguished Speaker Series: Riding the Leadership Rollercoaster : An Observer's Guide
- FIDE Forum : 2nd Distinguished Board Leadership Series - "Avoiding Financial Myopia"
- FIDE Forum: Strategy to Leverage Technology for Business Solutions
- FIDE Forum : Dialogue with Deputy Governor on the Corporate Governance Concept Paper
- FIDE Forum : 3rd Distinguished Board Leadership Series - "Effective Board Evaluation"
- FIDE Forum : Fin Tech : Business Opportunity or Disruptor
- Understanding the Evolving Cybersecurity Landscape
- Breakfast Talk with ACGA - Ecosystems Matter
- FIDE Forum : Annual Dialogue with Deputy Governor of BNM - Summary of Key Matters and Logistics Arrangements
- FIDE Forum : Dialogue with Deputy Governor on the Corporate Governance Concept Paper
- FIDE: Internal Capital Adequacy Assessment Process (ICAAP) Banks
- FIDE: Financial Institutions Directors' Education Programme
- Securities Commission-FIDE FORUM : FinTech's Impact on Financial Institutions
- FIDE Forum : Technology-based Innovation that Counts
- MIA: Companies Act 2016: Key Changes Affecting Accountants & Auditors

The Directors also receive briefings on relevant new laws, rules and regulations, risk management updates and changes in accounting standards at Board/Board Committee meetings.

### **13. Board Committees**

To enhance its effectiveness and in discharging its fiduciary duties, the Board has established Board Committees which operate within specific delegated authority and functions at the Group level to complement the Board in the execution of its responsibilities. The Board Committees operate on a Group basis. Each Board Committee has its Terms of Reference which set forth the responsibilities of that Committee, in line with BNM CG Policy Document.

The broad functions of the Board Committees are as follows:-

#### **(i) Executive Committee ("EXCO")**

The EXCO reviews and recommends strategies and policies for the Board's approval and oversees their implementation. It also reviews loan applications and other operational matters recommended by the Management which are within its financial limits set by the Board. The EXCO meets as often as required.

During the financial year ended 31 March 2017, fourteen (14) EXCO meetings were held. The attendance of members of EXCO is as reflected below:

	<b>Members</b>	<b>Meetings attended/ held</b>
1.	Lee Ah Boon (Chairman)	14/14
2.	Kung Beng Hong	14/14
3.	Datuk Wan Azhar Bin Wan Ahmad	14/14
4.	Lee Boon Huat	14/14

**(ii) Group Nominating Committee (“Group NC”), Group Management Development & Remuneration Committee (“Group MDRC”) and the merged Group NRC**

In October 2016, the Group NC and Group MDRC were merged to form a new Board Committee, known as Group NRC to take on the specific responsibilities of the Group NC and Group MDRC. This is consistent with paragraph 12.2 of BNM CG Policy Document which states that a financial institution may combine its board nominations committee and board remuneration committee. The Board is satisfied that the Group NRC, in its current form, effectively and efficiently discharges its functions in respect of nomination and remuneration matters provided for in the BNM CG Policy Document and that set out in its Terms of Reference. As such, there is no need to separate the nomination and remuneration functions into discrete nomination and remuneration committees.

The Group NC (now merged into Group NRC) was established to provide a formal and transparent procedure for the appointment of Directors, Group CEO, CEO and members of Shariah Committee as well as assessment of effectiveness of individual Directors, Board as a whole and Shariah Committee Members.

The Group MDRC (now merged into Group NRC) was established to provide a formal and transparent procedure for developing remuneration policy for Directors, Group CEO and Senior Management of the Group as well as developing disciplinary and recruitment policies and assessing the performances of the Group CEO and Senior Management and ensuring that compensation stays competitive and consistent with the Group’s culture, objectives and strategy.

The merged Group NRC is responsible to support the Boards in carrying out their functions in the following matters concerning the Boards, Shariah Committee, Senior Management and company secretary:-

- Appointment and removals;
- Composition of the Boards;
- Performance evaluation and development; and
- Fit and proper assessments

and actively overseeing the design and operation of the Islamic Bank’s remuneration system, as prescribed in its Terms of Reference. Further, Group NRC is also to 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.

As at 31 March 2017, the Group NRC comprises six (6) members, all of whom are Non-Executive Directors with four (4) members being independent. The Group NRC is chaired by an Independent Director.

The attendance of members of Group NC, Group MDRC and Group NRC for the financial year ended 31 March 2017 are as reflected below:

	Members	Meetings attended/held		
		Group NC	Group MDRC	Group NRC
1.	Ou Shian Waei (Chairman) <sup>1</sup>	1/1	7/7	8/8
2.	Tan Sri Dato' Ahmad Bin Mohd Don <sup>1</sup> (Appointed on 1 February 2017)	N/A	N/A	3/3
3.	Datuk Wan Azhar Bin Wan Ahmad <sup>1</sup>	8/8	N/A	8/8
4.	Lee Ah Boon <sup>2</sup>	8/8	7/7	8/8
5.	Kung Beng Hong <sup>2</sup>	8/8	6/7	8/8
6.	Lee Boon Huat <sup>1</sup>	N/A	7/7	7/8
7.	Dato' Thomas Mun Lung Lee (Retired on 19 July 2016)	6/7	4/4	N/A
8.	Megat Dziauddin Bin Megat Mahmud (Retired on 7 September 2016)	8/8	N/A	N/A

Notes:

<sup>1</sup> Independent Non-Executive Director.

<sup>2</sup> Non-Independent Non-Executive Director.

### (iii) Group Audit Committee ("Group AC")

The Group AC was set up to ensure the internal and external audit functions are properly conducted and audit recommendations are being carried out effectively, to comply with regulatory guidelines on Audit Committee and Internal Audit Function and to provide independent oversight of the Bank and its subsidiaries' financial reporting and internal control system and ensure checks and balances within the Bank and its subsidiaries.

It has full access to, and co-operation from the Management, and has the discretion to invite any Director or Senior Management to attend its meetings. It has explicit authority to investigate any matter within its Terms of Reference approved by the Board.

In addition to the review of the Group's financial statements, the Group AC reviews and evaluates with the external and internal auditors, the adequacy and effectiveness of the system of internal controls including financial, operational, compliance and information technology controls. It reviews the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors. When the external auditors provide non-audit services to the Group, the Group AC keeps the nature, extent and costs of such services under review. This is to balance the objectivity of the external auditors against their ability to provide value-for-money services. The Group AC also reviews significant financial reporting issues and judgments to ensure the integrity of the financial statements, and publications relating to financial performance.

It meets twice a year with the external and internal auditors in separate sessions and without the presence of the Management to consider any matters which might be raised privately. The Group AC has received the requisite disclosures from the external auditors evidencing the latter's independence. It is satisfied that the financial, professional and business relationships between the Group and the external auditors are compatible with maintaining the independence of the external auditors.

During the financial year ended 31 March 2017, thirteen (13) Group AC meetings were held. The attendance of members of Group AC is as reflected below:

	<b>Members</b>	<b>Meetings attended/ held</b>
1.	Thayaparan Sangarapillai <sup>1</sup> (Chairman) (Appointed as a member on 10 May 2016 and was re-designated as Chairman on 18 September 2016)	11/11
2.	Datuk Wan Azhar Bin Wan Ahmad <sup>1</sup>	13/13
3.	Ou Shian Waei <sup>1</sup>	13/13
4.	Kuah Hun Liang <sup>1</sup>	13/13
5.	Ho Hon Cheong <sup>2</sup>	13/13
6.	Tan Yuen Fah <sup>1</sup> (Chairman) (Retired on 18 September 2016)	5/5

**Notes:**

<sup>1</sup> Independent Non-Executive Director.

<sup>2</sup> Non-Independent Non-Executive Director.

**(iv) Group Risk Management Committee (“Group RMC”)**

The objectives of the Group RMC is to oversee the Senior Management’s activities in managing credit, market, liquidity, operational, legal and other risks as well as to ensure that the risk management process is in place and functioning according to its purposes. The Group RMC meets at least once every quarter.

The Group RMC is directly accountable to the Board and its primary functions include:

- Reviewing risk management strategies, policies and risk tolerance;
- Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling the extent to which these are operating effectively;
- Ensuring that infrastructure, resources and systems are in place for risk management, i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the financial institutions’ risk-taking activities; and
- Reviewing management’s periodic reports on risk exposure, risk portfolio composition and risk management activities.

During the financial year ended 31 March 2017, seventeen (17) Group RMC meetings were held. The attendance of members of Group RMC member is as reflected below:

	<b>Members</b>	<b>Meetings attended/ held</b>
1.	Kuah Hun Liang <sup>1</sup> (Chairman)	17/17
2.	Dato’ Majid Bin Mohamad <sup>1</sup>	16/17
3.	Lee Boon Huat <sup>1</sup>	13/17
4.	Ho Hon Cheong <sup>2</sup>	17/17
5.	Premod Paul Thomas <sup>1</sup> (Resigned on 13 April 2016)	-

**Notes:**

<sup>1</sup> Independent Non-Executive Director.

<sup>2</sup> Non-Independent Non-Executive Director.

A Group Risk Management Report, which provides an overview of the risk management framework within the Group, is available on the corporate website at [www.alliancebank.com.my](http://www.alliancebank.com.my).

#### **14. Shariah Committee**

Shariah Committee comprises five members the following members who have the necessary qualification, knowledge, expertise and experience in Islamic banking industry. Four (4) of the Shariah Committee members have the necessary qualification in Shariah law and they are members of academia whilst one (1) member has the qualification in Finance and experience in banking industry

##### Associate Professor Dr. Badruddin Bin Hj Ibrahim (Chairman)

Associate Professor Dr. Badruddin was appointed as a Shariah Committee member of AIS on 15 June 2009. His current appointment is as Deputy Dean (Academic Affairs), Ahmad Ibrahim Kulliyah of Law (AIKOL), International Islamic University of Malaysia (IIUM). While he specializes in the Islamic Law of Trust, and Islamic Law of Property, he is also experienced in Islamic Jurisprudence and Islamic Family Law, having taught such subjects in IIUM for over a decade.

As an academia, he actively pursue his thirst for knowledge by conducting many research activities under IIUM, his most recent research project is "Transaction Involving Unlawful Wealth Under Islamic Law". Much of his work has been presented publicly in academic institutions and conferences in Malaysia, the UK, Indonesia and Russia. In recent years, he has channeled his expertise and passion into organizing a myriad of Islamic Law-related conferences, conventions, and seminars.

He possesses a PhD in Islamic Law of Trust, Islamic Law of Property from IIUM, Malaysia. His Masters and Degree of Shariah and Law were obtained from the International Islamic University (IIU) of Islamabad, Pakistan.

##### Dr. Abdul Rahman Bin Awang

On 1 April 2005, Dr. Abdul Rahman was appointed as a Shariah Committee member of AIS. He brings with him over 30 years of experience in Islamic Law, having worked in various universities in Malaysia. His last position before retiring was an Associate Professor at Department of Islamic Law, International Islamic University Malaysia (IIUM).

With such credentials, and experiences, he was highly sought after to attend, present, and speak in numerous conferences that are related to his specialized field of Islamic Law around the world. He has also made several appearances in television programs on Malaysian national television as a speaker and panelist regarding Islamic Law issues.

He possesses a PhD in Islamic Law from the University of Edinburgh, Scotland, UK. Prior to that, he has obtained a Master of Laws (Comparative Laws) from Temple University, Philadelphia, USA and a Shariah and Law Degree from Al-Azhar University in Cairo, Egypt.

##### Tuan Haji Md Ali Bin Md Sarif

Tuan Haji Md Ali was appointed as a Shariah committee member of AIS on 1 April 2011. He is currently a distinguished academic fellow of the Institute of Islamic Banking and Finance (IIBF), International Islamic University Malaysia. Prior to joining IIBF in 2008, he was with Maybank Group from 1976, holding various senior positions until his retirement as Head of Planning, Maybank Islamic Berhad. He has extensive experience in the areas of Islamic Banking, Corporate Planning, Asset & Liability Management as well as Banking Operations.

He holds a Bachelor of Economics Degree from University Malaya and an MBA (Finance) from University Kebangsaan Malaysia.

Tuan Haji Md Ali is also a member of the AIS Board and serves as a 'bridge' between the Board and the Shariah Committee. The presence of a Director with sound Shariah knowledge would foster greater understanding and appreciation amongst the Board members on the decisions made by the Shariah Committee.

#### Ustaz Zaharudin Bin Muhammad

Ustaz Zaharudin was appointed as a Shariah Committee member of AIS on 1 April 2009. He is currently the sole proprietor for ASZA-HT Trading Sdn Bhd.

He obtained his Masters on Islamic Economy and Jurisprudence from the University of Cairo, Egypt (1<sup>st</sup> class, graduated in top 10). He has also obtained a Bachelor in Islamic Jurisprudence from the Al-Azhar University Cairo with 1<sup>st</sup> class amongst foreign students.

Furthermore, he has written several books and articles related to his specialized field of Islamic Jurisprudence. He has since published five more field-related books.

His previous working experiences are researcher in International Shariah Research Academy and Chief Religious Officer of Kumpulan Perangsang Sdn Bhd.

#### Dr. Azrul Azlan Bin Iskandar Mirza

Dr. Azrul Azlan was appointed as a member of Shariah Committee for AIS on 1 April 2015. He studied at the Al-Azhar University (Egypt) where he obtained a Bachelor in Shariah. He holds a Masters in Management from the International Islamic University of Malaysia (IIUM) and PhD in Islamic Finance from the International Centre for Islamic Finance (INCEIF).

He is currently attached to the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM) as Head of Islamic Banking & Finance Program. His fields of specialization are Shariah, Islamic finance and investment analysis. He is also a Fellow Researcher at Malaysian Muamalah Educator Association, Technical Expert for SIRIM MS1900 Shariah Based QMS and Fatwa Researcher for Mufti Council for State of Negeri Sembilan.

Previously he was a Shariah Committee member for KAF Investment Bank Berhad and OSK Investment Berhad.

#### Roles and Responsibilities of Shariah Committee

The primary roles and responsibilities of the Shariah Committee are as follows:

- Advising the Board and Management on Shariah related matters;
- Reviewing and endorsing Shariah related policies and guidelines;
- Endorsing and validating relevant documents in the proposal of new products and services including contract, agreement or other legal documentation used in executing Islamic banking transactions;
- Endorsing and validating product guidelines, marketing advertisements, sales illustrations and brochures related to AIS's products, services and activities;
- Assessing the work carried out by Shariah Review and Shariah Audit in order to ensure compliance with Shariah matters;
- Advising AIS on the computation and distribution of Zakat;
- Assisting and advising related parties such as AIS's legal counsel, auditor or consultant on Shariah matters upon request;
- Advising AIS in consultation with the Shariah Advisory Council of BNM ("SAC") on any Shariah matters which have not been resolved or endorsed by the SAC;
- Monitoring AIS's compliance with all SAC's decisions; and

- Reviewing the Shariah Non-Compliance and Potential Shariah Non-Compliance of AIS.

## 15. Remuneration Policy

### Non-Executive Directors

The objective of the Bank's policy on Directors' remuneration is to attract and retain Directors needed to steer the Bank towards achieving its goals effectively. The determination of the Non-Executive Directors' remuneration is a matter for the Board as a whole. The level of remuneration of Non-Executive Directors is linked to their level of responsibilities.

All Non-Executive Directors are paid fixed annual director fees and meeting attendance allowance for each Board or Board Committee meeting attended. In addition, Non Executive Directors also receive other benefits including Directors & Officers Liability Insurance and medical benefits.

On the recommendation by Remuneration Committee, the Board has recommended the Directors' fees in respect of the FY2017 and Directors' other benefits from 31 January 2017 until the next AGM for shareholders' approval at the forthcoming 2017 AGM.

The details on the aggregate remuneration of the Directors of the Bank in respect of the financial year ended 31 March 2017 are as follows:-

	<b>BANK</b>		
	<b>Fees RM'000</b>	<b>Sitting Allowance and Benefits-in- kind RM'000</b>	<b>Bank Total RM'000</b>
<b>Executive Directors</b>	-	-	-
<b>Non-Executive Directors</b>			
Tan Sri Dato' Ahmad Bin Mohd Don	37	5	42
Kung Beng Hong	155	73	228
Lee Ah Boon	153	63	216
Ou Shian Waei	212	68	280
Kuah Hun Liang	157	61	218
Datuk Wan Azhar Bin Wan Ahmad	160	75	235
Lee Boon Huat	157	64	221
Ho Hon Cheong	142	62	204
Thayaparan A/L S. Sangarapillai	113	37	150
Dato' Thomas Mun Lung Lee (Retired on 19 July 2016)	67	37	104
Tan Yuen Fah (Retired on 18 September 2016)	61	25	86

### Senior Management

The Group has established a Compensation Policy which outlines the mandatory requirements that must be reflected in the design of management of performance and remuneration arrangements across the Group.

The remuneration strategy of the Group is designed around the following principles:

- supports a performance culture that is based on merit, differentiates and rewards excellent performance, both in the short and long term, and recognizes the Group's Core Values;
- enables the Group to attract and retain employees and to motivate them to achieve the Group's results;
- balances the mix of Fixed Compensation and Variable Compensation to appropriately reflect the value and responsibility of the role performed day to day, and to influence appropriate behaviours and actions;
- consistent with, and promotes, effective risk management practices and the Group's compliance and control culture;
- takes into account the long-term performance of the Group, in order to create sustainable financial performance and value for the Group and Shareholders.

The Compensation Policy covers all employees, including Senior Management of the Group. Employees whose remuneration is covered by collective agreements or subject to labour union negotiations are bound by the terms and conditions of such agreements.

Senior Management in this context means the Group Chief Executive Officer and the Business and Support Heads who report directly to him or to the Board/Board Committees.

The remuneration of the Group is made up of the following components:

Fixed pay	Consists of base salary, and where applicable, cash allowance	<ul style="list-style-type: none"> <li>• Determined based on roles and responsibilities, individual experience and skill sets, the Group's legal obligations and market competitiveness.</li> </ul>
Variable rewards	Consists of Cash Bonus and Deferred Cash / Share	<ul style="list-style-type: none"> <li>• Cash Bonus is principally used to recognise an individual's performance throughout the performance year.</li> <li>• The Cash Bonus aligns compensation with prudent risk-taking and incorporates adjustments to reflect (i) financial and non-financial measures of business performance; (ii) the risks related to the business activities taking into account, where relevant, of the cost of the associated capital, and (iii) the time necessary for the outcomes of those business activities to be reliably measures.</li> <li>• Deferred Cash / Share are used to achieve the following objectives : <ul style="list-style-type: none"> <li>(i) Retain top performers and critical staff</li> <li>(ii) Provide market competitive total compensation</li> <li>(iii) Provide meaningful award for motivation</li> </ul> </li> </ul>
Employee Benefits		Employee benefits are used to foster employees' sense of being valued and sense of well-being, delivering cost-effective programmes that are of value to employees.



Any deferred variable remuneration that has not been paid or vested to employee is subject to forfeiture or adjustment in the event of :

- Resignation
- Misconduct / poor performance

The following depicts the total value of remuneration awarded to the Group Chief Executive Officer and Senior Management of the Bank in respect of the financial year ended 31 March 2017:

<b>Group Chief Executive Officer</b>	<b>Non-Deferred (RM'000)</b>	<b>Deferred (RM'000)</b>	<b>Total amount of Outstanding Deferred remuneration As at 31.3.2017 (RM'000)</b>	<b>Total amount of Deferred Remuneration Paid Out (Vested) in FY2017 (RM'000)</b>
<b>Fixed</b> - Cash-based	4,041	-	-	-
<b>Variable</b> - Cash-based	2,300	333	333	-
<b>Variable</b> - Share-based	-	-	-	-

<b>Senior Management</b>	<b>No. of Senior Management</b>	<b>Non-Deferred (RM'000)</b>	<b>Deferred (RM'000)</b>	<b>Total amount of Outstanding Deferred remuneration As at 31.3.2017 (RM'000)</b>	<b>Total amount of Deferred Remuneration Paid Out (Vested) in FY2017 (RM'000)</b>
<b>Fixed</b> - Cash-based	14	13,581	-	-	-
<b>Variable</b> - Cash-based	14	5,477	730	730	-
<b>Variable –</b> Share-based	7	-	747	404	1,313

<b>Category</b>	<b>Senior Management</b>	
	<b>No.</b>	<b>Amount (RM'000)</b>
Number of Senior Management and total amount of guaranteed bonuses awarded during FY2017;	1	690
Number and total amount of sign-on awards made during FY2017;	-	-
Number and total amount of severance payments made during FY2017.	-	-

### **Performance Management**

The Group actively manages the performance of employees to ensure a robust link between remuneration outcomes and the achievement of the Group's strategy.

Employee performance is assessed against both what an employee achieves and how he/she achieves it. Formal assessments occur biannually, at the middle and end of the performance year respectively. Assessment outcomes directly influence an employee's short term incentive and long term incentive outcomes.

Individual objectives represent “what” the employee is expected to achieve. For Senior Management, objectives are set within a balanced scorecard framework with the scorecard categories aligning to the Group’s strategy. Scorecard objectives are cascaded down and documented in each employee’s Individual Performance Plan or Job Standard at the commencement of the performance year.

An employee’s performance will be measured based on both financial and non-financial objectives. In addition to achieving their objectives, employees are also assessed based on the Bank’s core values / key behaviours.

To safeguard the independence and authority of employees engaged in Risk and Control functions, including the functions of Compliance, Risk and Audit, the compensation for employees in Risk and Control functions do not have strong linkages to the performance of any business areas they oversee. The performance metrics of these employees are based principally on the achievement of the objectives of their job functions, rather than on the financial performance of the Group.

## **ACCOUNTABILITY AND AUDIT**

### **1. Financial Reporting**

The Board is complemented by the Group AC to oversee the Bank’s financial reporting processes including the review of the Bank’s annual financial statements to ensure accuracy, adequacy and completeness as well as to ensure that the financial report is prepared in accordance with accounting policies and standards and the guidelines of BNM.

### **2. Internal Control**

The Board has overall responsibility in maintaining a system of internal controls covering not only financial controls but also controls relating to operational, compliance and risk management. However, such systems can only provide reasonable but not absolute assurance against the risk of material misstatement, fraud or losses occurring. The rationale of the system of internal controls is to enable the Bank to achieve its corporate objectives within an acceptable risk profile and it is not expected to eliminate all the risks but is aimed at minimizing and managing the risks.

On-going reviews are continuously carried out to ensure the effectiveness, adequacy and integrity of the system of internal controls.

The Group AC provides an independent oversight of the internal controls system of the Bank. In this regard, all findings on control issues raised by the Internal Auditors, External Auditors and BNM inspection team are tabled and discussed at the Group AC meetings. All agreed recommendations to enhance the control system are also reviewed by the Group AC until they are fully implemented.

To ensure that a sound system of controls is in place, the Board has established primary processes in reviewing the adequacy and integrity of the system of internal controls. The primary processes include:

- Regular and comprehensive management reports are made available to the Board on a regular basis, covering financial performance and key business indicators, which allow for effective monitoring of significant variances between actual performance against budgets and plans;
- Clearly defined delegation of responsibilities to Committees of the Board and to Management including organization structures and appropriate authority levels;

- A code of conduct, human resource policies and performance reward system to support business objectives, risk management and the system of internal control;
- A proper procedure to control applications and the environment of computer information systems;
- Regular update of internal policies and procedures to reflect changing risks or resolve operational deficiencies; and
- Regular review of the business processes by the Group Internal Audit to assess the effectiveness of the control environment and highlight significant risks impacting the Group.

### **3. Policy against Fraud**

All employees are entrusted with the responsibility to stay alert to risk of fraud and to assist in combating fraud. The Group has put in place reporting procedures with regard to fraud and robbery/burglary.

The Group has also put in place a Whistleblower Policy which is designed to provide an avenue for staff to report any misconducts committed or about to be committed, including any possible financial improprieties such as manipulation of financial results, misappropriation of assets, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, or other improprieties. The Whistleblower Policy is also an avenue for employees to raise concerns in relation to the specific issues which are in the interest of integrity and justice, and which fall outside the scope of other Group policies and procedures.

### **4. Anti-Money Laundering and Counter-Financing of Terrorism**

The Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 provides the legal framework to counter money laundering and terrorism financing in reporting institutions. In order to reduce the likelihood of any of the entities within the Group becoming vehicles for money laundering and terrorism financing activities, the Group has a policy on anti-money laundering and counter-financing of terrorism setting out the minimum standards that are to be adopted and implemented by the entities within the Group.

The key features of the policy are as follows:

- clear enunciation of the roles and responsibilities of various persons within the Group, including the Board of Directors and Senior Management;
- a customer acceptance policy which requires, amongst others, establishment of a business relationship only after satisfactory verification and due diligence of a new customer or persons acting on their behalf;
- ongoing monitoring of transactions to detect unusual and suspicious patterns of activity and intensified monitoring for higher risk customers;
- mandatory reporting of suspicious transactions and prohibition against disclosure any reporting activities to the relevant regulatory and law enforcement authorities;
- co-operation with the Financial Intelligence & Enforcement Department, BNM and other regulatory authorities; and
- proper retention of records for the prescribed retention period.

The standards expected by the Group are upheld and reinforced by periodic training programmes on anti-money laundering and counter-financing of terrorism.

## **5. Relationship with the Auditors**

Through the Group AC, the Board has established a transparent and professional relationship with the auditors, both internal and external. The Group AC meets with the External Auditors at least twice a year to discuss the audit plan, annual financial statements and audit findings. It also meets with the External Auditors whenever it deems necessary. The Group AC meets at least once in every quarter where the Internal Auditors and the Management of the Bank are present.

## **COMMUNICATION WITH STAKEHOLDERS**

The Bank recognizes the importance of maintaining transparency and accountability to its stakeholders. The Bank practices the provision of clear, transparent, comprehensive and timely information to its investors in order to facilitate informed investment decision making by its investors.

The Bank is a wholly-owned subsidiary of Alliance Financial Group Berhad, a public company listed on the Main Market of Bursa Malaysia Securities Berhad. The AGM of Alliance Financial Group Berhad is an important forum for communication and dialogue with shareholders. The shareholders will have the opportunities to raise questions on the Bank and the Directors and Senior Management Officers of the Bank would be available to address to any questions raised.

The Group keeps the market and investors apprised of the Group's corporate developments and financial performance through regular media releases, briefings and meetings with media, analysts and fund managers. Analysts' briefings are conducted and press statements issued in conjunction with the release of the quarterly financial results of Alliance Financial Group Berhad. The Group embarked on regular roadshows and has dialogues with local and international stockbroking and research houses. The analysts' briefings, roadshows and dialogues keep the investment community informed on the progress and development of the business activities of the Group and provide an avenue for the Group to receive feedback from potential investors.

Investors, stakeholders and the public may access the Bank's website at [www.alliancebank.com.my](http://www.alliancebank.com.my) for information.

This Corporate Governance Statement is made in accordance with a resolution of the Board of Directors dated 20 June 2017.