



ALLIANCE ISLAMIC BANK

CORPORATE GOVERNANCE STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019





ALLIANCE ISLAMIC BANK

Alliance Islamic Bank Berhad (776882-V)

CORPORATE GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019 (FY2019)

The Board of Directors (“Board”) of Alliance Islamic Bank Berhad (“AIS” or the “Bank”), a wholly-owned subsidiary of Alliance Bank Malaysia Berhad (Alliance 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 endeavoured to adopt 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 shareholder value.

AIS’ approach to corporate governance practices is in conformity with Bank Negara Malaysia’s (BNM) Policy Document on Corporate Governance (BNM CG Policy) and is guided by the principles and practices set out in the Malaysian Code on Corporate Governance issued in 2017 (the Code).

A. BOARD OF DIRECTORS

1. BOARD COMPOSITION

The Board currently has five members, four of whom are Independent Non-Executive Directors:

The members of the Board are as follows:

- (i) Datuk Wan Azhar bin Wan Ahmad
(Independent Non-Executive Director/Chairman)
- (ii) Tuan Haji Md Ali bin Md Sarif
(Independent Non-Executive Director)
- (iii) Tuan Haji Ibrahim Bin Hassan
(Independent Non-Executive Director)
- (iv) Joel Kornreich
(Non-Independent Executive Director)
- (v) Dato’ Ahmad Hisham bin Kamaruddin
(Independent Non-Executive Director)
(Appointed on 15 February 2019)
- (vi) Dato’ Majid bin Mohamad
(Independent Non-Executive Director)
(Resigned on 31 December 2018)

The profiles of each of the members of the Board are available on the Bank’s corporate website at <https://www.alliancebank.com.my/islamic/corporate/corporate-profile/board-directors.aspx> . None of the Directors holds any shares in the Bank.

The current Board comprises individuals of high calibre with diverse experience which collectively has the necessary skills, experience and qualifications to effectively manage the Bank and discharge the responsibilities of the Board. The diversity of business backgrounds in the composition of the Board ensures good use of different and wide-ranging skills, regional as well as industry experience and other attributes of the Directors.

Tenure and Independence

The Board considers a strong element of independence on the Board vital for good corporate governance. Independent Directors of the Bank exercise independent judgement and participated in the deliberations of the Board objectively with no individual or small group of individuals dominating the Board's decision making process. The number of Independent Directors on the Board of the Bank has well exceeded the requirement laid down in BNM CG Policy to have a majority of independent directors at all times.

The Board through the Group Nomination & Remuneration Committee (Group NRC) assesses the independence of the Independent Directors annually. In the annual assessment of the Independent Directors of the Bank in respect of FY2019, the Board was satisfied that each of the Independent Directors of the Bank continues to be independent and free from any business or other relationship that 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 criteria of independence as set out in BNM CG Policy.

The Bank has adopted a maximum 9-year policy for tenure of Independent Directors and a maximum 12-year policy for tenure of Non-Independent Non-Executive Directors.

As at the date of this Statement, none of AIS' Independent Directors have served for a cumulative period of more than 9 years in the Alliance Bank Group.

Board Gender Diversity

The Board, through the Group NRC, has taken steps to ensure that women candidates are given priority consideration in the selection and recruitment process for directors towards achieving the gender diversity target of 30% women participation. While it is important to promote board gender 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.

Currently there are no women directors on the Board of AIS.

New Appointment and Re-Appointment of Director

Any proposed appointment of new Directors or proposed re-appointment of Directors to the Board will be assessed by the Group NRC. The Group NRC is guided by the Group Board Succession Plan in identifying potential candidates for nomination as Directors. The Group Board Succession Plan entails the guiding principles for effective succession planning as well as the procedure in ensuring a smooth transition in the Board's succession process as existing Directors leave the Board and new ones come on board. The Group NRC identifies potential candidates for nomination as Directors from various sources such as referrals from existing Directors or officers and Directors Register maintained by FIDE Forum and other leadership development and consulting organisations.

The Group Board Succession Plan was last reviewed and updated by the Board in December 2018 to ensure alignment with the strategic direction of the Bank.

Assessment Criteria and Process for Board Candidates

The Group NRC takes into account the strategic directions of the Alliance Bank Group when evaluating candidates to fill any Board vacancy. In assessing candidates for new Board appointment, the Group NRC looks for diversity of skills, knowledge, experience and gender of the candidates.

To ensure a candidate has the character, experience, integrity and competency to effectively discharge his/her role as a Director, the Group NRC will assess the candidates on the following criteria:

- (i) not be disqualified under section 68 of the Islamic Financial Services Act, 2013;
- (ii) comply with the fit and proper requirements of the Bank;
- (iii) not have any competing time commitments that impair his/her ability to discharge his/her duties effectively;
- (iv) not be an active politician;
- (v) not be a partner of a firm which has been appointed as the external auditors of the Bank or any of the firm's officers directly involved in the engagement until at least two years after – (a) he/she ceases to be an officer or partner of that firm; or (b) the firm last served as an auditor of the Bank; and
- (vi) preferably at a minimum holds a degree qualification and/or other equivalent qualification(s) and at least 5 years senior managerial position.

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.

2. BOARD EFFECTIVENESS REVIEW

The Board recognises that it continually needs to assess and improve its effectiveness. This is achieved through the Board's annual performance evaluation, induction of new Board members and ongoing Board development activities.

Board Effectiveness Assessment

The Board has implemented an annual Board Effectiveness Assessment process as follows, 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.

Step 1: Completion of Comprehensive Questionnaire

I. Assessment of the Board by Board Members

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

II. Individual Director Self-Assessment

For individual Directors' assessments, Self-Assessment Forms by Individual Director are completed individually by every Director.

III. Peer Assessment of Individual Directors

The performance of each Board Member is also assessed by their fellow Board Members based on similar criteria of the Individual Director Self-Assessment.

IV. Assessment of the Board Committees

Each Member of the Board Committees completes the Self-Assessment Form in respect of the Board Committees in which he/she is a member. The effectiveness of the Board Committees is assessed against the following pre-established criteria:

- A. Committee Governance
- B. Accountability and Responsibilities

Step 2: Reporting and Discussion with the Group NRC and the Board

The results of the annual Board Effectiveness Assessment for the Board as a whole, Board Committees and the contribution of each Individual Director are compiled for deliberation by the Group NRC, respective Board Committees and the Board for improvement, where necessary.

For FY2019, the Board was satisfied with the results of the annual Board Effectiveness Assessment and would take the necessary steps to address areas for improvement suggested by the Directors.

The Board also periodically engages external consultants to assist in and lend objectivity to the annual board assessment. In the previous FY2018, an external consultant was engaged to undertake the Board Effectiveness Assessment and Individual Director Evaluation for the Alliance Bank Group.

Fit and Proper Assessment

The Board, through the Group NRC, assessed the fitness and propriety of the Directors in accordance with the Group's Policy on Fit and Proper as part of the annual Board Effectiveness Assessment exercise. All Directors are required to complete a Fit & Proper Declaration annually. The Fit & Proper Declarations by the Directors are verified against independent sources.

For FY2019, the Board was satisfied that each of the Directors had met the required standard of fitness and propriety.

3. BOARD TRAINING AND DEVELOPMENT

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 roles and responsibilities effectively. While the Directors are expected to have personal development skills to improve themselves, they are encouraged to attend a minimum of three days of training programmes relating to the relevant areas within the financial year taking into consideration emerging trends in the financial services industry. In addition, each Board Committee Member is encouraged to attend a minimum of two days of additional training programmes relevant to the respective areas of the Board Committees in each financial year to keep abreast with the latest developments in the industry.

The Bank has put in place an In-house Directors' Orientation Programme for newly appointed Directors to familiarise themselves with the Bank's operations in addition to the regulatory and mandatory training programmes such as the Capital Market Directors Programme and Financial Institutions Directors' Education (FIDE) Core Programme. Upon appointment, a new Director will attend an in-house orientation programme within three months of the appointment where he/she will be briefed on the operations and business strategies by the Senior Management to familiarise him/her with the Bank and the Alliance Bank Group. Directors also received guidance and counsel from the Company Secretary on the Bank's governance matters as well as their duties as Directors of the Bank.

The Directors are provided with adequate budgets to attend relevant training programmes on an ongoing basis in various areas including Investment banking, corporate governance and compliance, board leaderships, risk management, anti-money laundering and latest development and innovation in the marketplace that are relevant to the financial services industry to enable them to keep abreast with the latest developments in the industry. The Directors are also regularly being updated on new requirements affecting their responsibility and are constantly reminded of their obligations.

The Directors have attended various training programmes during FY2019 as follows:

Director(s)	Trainings attended by Directors
Datuk Wan Azhar Bin Wan Ahmad	<ul style="list-style-type: none"> • FIDE: Understanding Fintech and Its Implications for Banks • In-house Board Briefing on Anti-Money Laundering • FIDE Forum Dinner Talk: "The Director as Coach": An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE FORUM's "DNA of a Board Leader" • Islamic Finance for Board of Directors Programme (IF4BoD) • In-house IBM Blockchain World WireTM: The New Normal in Global Payments
Md Ali Bin Md Sarif	<ul style="list-style-type: none"> • 5th BNM-FIDE FORUM Annual Dialogue • In-house Board Briefing on Anti-Money Laundering • Muzakarah Cendekiawan Syariah Nusantara Ke-12 • 1st PIDM-FIDE Forum Annual Dialogue • FIDE Forum: Blockchain in Financial Services Industry by IBM • Global Islamic Finance Forum • IFSB Executive Forum • FIDE Forum: Fintech: Disruption to be Embraced? - Demo Day and Dialogue with 10 Fintech Companies • BNM-FIDE Forum Board Conversations (Banks and DFIs) • CSA - Ethics and Professional Conducts • CSA - Legal and Regulatory Framework
Dato' Majid Bin Mohamad	<ul style="list-style-type: none"> • Fide Forum: Win the Innovation Race: Unlocking the creative power of Asian by Professor Roy Chua • Fide Forum: IBM THINK Malaysia • Fide Forum Dinner Talk: "The Director as Coach": An exclusive dialogue with Dr Marshall Goldsmith and Launch of FIDE FORUM's "DNA of a Board Leader". • Fide Forum: Fintech: Disruption to be Embraced? - Demo Day and Dialogue with 10 Fintech Companies. • Fide Forum: Board Conversation (Banks and DFIs) • Fide Forum: Board Conversation (Insurance Companies & Takaful Operators)
Ibrahim Bin Hassan	<ul style="list-style-type: none"> • 5th BNM-FIDE FORUM Annual Dialogue • FIDE: Credit Risk Management Banking Sector • FIDE Forum: Building and Effective Board - Board Selection • Islamic Finance for Board of Directors Programme (IF4BoD)
Joel Kornreich	<ul style="list-style-type: none"> • In-house Board Briefing on Anti-Money Laundering • Islamic Finance for Board of Directors Programme • IBM Blockchain World WireTM: The New Normal in Global Payments
Dato' Ahmad Hisham bin Kamaruddin	<ul style="list-style-type: none"> • In-house Director Induction Programme

4. BOARD RESPONSIBILITIES

Board Charter

The Board has adopted 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.

The Board has the overall responsibility for promoting the sustainable growth and financial soundness of the Bank 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 Bank and its customers, officers and the general public.

The key responsibilities of the Board are set out below:

- (a) approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Bank's risk profile;
- (b) oversee the selection, performance, remuneration and succession plans of the Chief Executive Officer (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 Bank;
- (c) oversee the implementation of the Bank'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 Bank's operations;
- (d) promote, together with senior management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behaviour;
- (e) promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- (f) 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
- (g) promote timely and effective communication between the Bank and BNM on matters affecting or that may affect the safety and soundness of the Bank.

The Board has established various Board Committees to assist and complement the Board in the execution of its responsibilities. These Board Committees operate within clearly defined roles and responsibilities as set out in the terms of reference of each of the committees. The respective Board Committees reviewed its terms of reference as and when necessary. Any proposed changes to the terms of reference of the Board Committees are subject to the approval of the Board.

The Board's approach is that major policy decisions are matters for the Board as a whole. The matters reserved for the Board's decision include, among others, key proposals/issues related to strategy and management, structure and capital, financial reporting and controls, communication with stakeholders, Board membership and appointments of CEO, remuneration, delegation of authority, etc.

To assist with their respective fiduciary duties and responsibilities, the roles of the Chairman, Non-Executive Directors and CEO are identified and set out in the Board Charter.

The Board Charter is reviewed by the Board as and when necessary in line with development in corporate governance requirements and practices to ensure its continued relevance to the Board. The Board Charter was last reviewed and revised by the Board on 4 December 2018 with, among others, the following changes:

- (i) Limiting the tenure of independent directors to a maximum cumulative term of 9 years and removal of the option for an independent director to continue serving on the Board as a non-independent director upon completion of the 9 years term.

- (ii) Introduced a new policy by limiting the tenure of non-independent non-executive directors to a maximum cumulative term of 12 years.

The Board Charter is available on its corporate website at <https://www.alliancebank.com.my/islamic/corporate/corporate-governance.aspx>.

Code of Conduct

The Bank is guided by the Code of Conduct established by the Board which outlines the conduct required of the Board members and the employees individually in order for them to discharge their duties in a professional, honest and ethical manner.

Core areas of conduct set out in the Code of Conduct include, among others:

- (a) compliance with laws, regulations, internal policies and procedures;
- (b) avoidance of conflict of interest;
- (c) misuse of position;
- (d) misuse of information and insider trading;
- (e) reject bribery and corruption;
- (f) respect customer confidentiality and data privacy; and
- (g) stay alert to money laundering, terrorism and fraud.

To underscore the importance of adherence to and observance of the Bank's Code of Conduct, our employees refresh their understanding of the Code of Conduct by way of e-learning annually.

The Code of Conduct is available on Alliance Bank's corporate website at www.alliancebank.com.my.

The Directors also adhere to the Bank's Conflict of Interest Policy for Directors.

The Bank's Conflict of Interest Policy for Directors was last reviewed and updated by the Board on 24 October 2018 to align with changes to regulatory guidelines.

Whistleblowing Policy

In line with the Bank's strive for sustained ethical business practices, the Bank has put in place a Whistleblower Policy that is designed to provide a platform for employees to report any misconducts committed or about to be committed, including breaches of any laws, regulations, business principles, policies and guidelines of the Bank; and 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 and other improprieties.

The Whistleblower Policy is also an avenue for employees to raise concerns in relation to specific issues that are in the interest of integrity and justice.

Employees who utilise the whistleblower platform are ensured of anonymity (if applicable) and are protected against work related retaliation to a certain extent, regardless of whether or not the concerns raised are upheld.

In addition to the internal reporting channels, employees are also given information on external reporting channels i.e. BNM and Securities Commission of Malaysia.

The Chairman of the Group NRC, who is an Independent Non-Executive Director of Alliance Bank, is the designated person appointed to be responsible for the effective implementation of the Whistleblower Policy. The Chairmen of the Board, Group Audit Committee (Group AC) and Group CEO are involved in the whistleblower processes. The Board is informed of the relevant whistleblower investigation/conclusions.

The Bank is also committed to ensuring that third parties are provided with an avenue to raise complaints as whistleblowers. To this end, the "ALLIANCE Speak up" Statement, being a whistleblower statement for third parties, has been made available

for public viewing and information through Alliance Bank's corporate website at www.alliancebank.com.my

Company Secretary

The Board is supported by a qualified and competent Company Secretary with over 26 years of experience in the corporate secretarial function. He is an Associate member of The Malaysian Institute of Chartered Secretaries and Administrators. He holds a Master of Business Administration in Finance from University Putra Malaysia and a Master of Advanced Business Practice from University of South Australia.

The Company Secretary provides counsel to the Board on corporate governance matters and advocates the adoption of corporate governance best practices; renders effective support to the Chairman of the Board/Board Committees and Directors in the discharge of their roles and responsibilities; and facilitates effective communication of decisions and policies made by the Board/Board Committees to the Management. The Company Secretary also ensures Board procedures; applicable rules and regulations; and relevant laws are complied with.

The Company Secretary keeps abreast with changes in relevant laws; rules and regulations; and industry development through continuous training and regular interaction with various stakeholders and industry peers.

The Board assesses the fitness and propriety of the Company Secretary annually in accordance with the Group's Policy on Fit and Proper. For FY2019, the Board is satisfied with the performance and support rendered by the Company Secretary.

Board Meetings and Supply of Information

The Board meets on a scheduled basis at least eight times a year to review progress reports on the Bank's business and financial performance, approve budget, strategies, business plans and significant policies as well as to consider business and other proposals which require the Board's approval. All Directors are informed of these scheduled dates of Board meetings before the start of the financial year. Ad-hoc Board meetings may be called to deliberate and assess issues that require the Board's immediate consideration and decision. The Board also meets without presence of Management as and when it is required.

Directors are required to attend at least 75% of all the Board/Board Committee meetings during each financial year. The attendance of Directors at a Board/Board Committee 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.

The Board's approval for urgent and straight forward matters may be obtained through written resolutions approved via circulation.

All Directors are supplied with information on a timely manner. The agenda for each Board/Board Committee meeting, together with detailed reports and proposal papers to be tabled, are circulated to the Directors for their prior reading well in advance of the date of the meeting. The Directors may request to be furnished with additional information for clarification.

Relevant Senior Management Officers are invited to attend Board/Board Committees meetings to provide the Board/Board Committees with detailed explanations and clarifications on proposals tabled to enable the Board/Board Committees to make informed decisions.

The Bank 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 Bank's corporate responsibility in line with environmental initiatives by reducing its paper consumption.

Every Director has the right to resources, whenever necessary and reasonable, for the performance of his/her 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.

Minutes of Board and Board Committees' meetings are circulated to the Board members in a timely manner for their review to ensure that the minutes accurately record the deliberations and decisions of the Board and Board Committees.

Number of meetings convened by the Board and attendance of each Director

In total, the Board met formally for 11 times during FY2019. 9 meetings were regular meetings scheduled before the start of the financial year while 2 meeting were ad hoc meetings to consider exigency matters. In addition, the Board had 2 offsite meetings on Group Strategy and Budget respectively during FY2019.

All Directors have demonstrated that they are able to allocate sufficient time to the Bank in discharging their duties and responsibilities, and their commitment is affirmed by their attendance at the Board and Board Committees meetings held during FY2019, as reflected below:

No.	Directors	Attendance
1.	Datuk Wan Azhar bin Wan Ahmad Chairman of the Board Independent Non-Executive Director	11/11
2.	Tuan Haji Ibrahim bin Hassan Independent Non-Executive Director	11/11
3.	Tuan Haji Md Ali bin Md Sarif Independent Non-Executive Director	11/11
4.	Dato' Majid bin Mohamad ^(a) Independent Non-Executive Director	6/9
5.	Joel Kornreich Non-Independent Executive Director	11/11
6.	Dato' Ahmad Hisham bin Kamaruddin ^(b) Independent Non-Executive Director	1/1

Notes:

^(a) Resigned on 31 December 2018.

^(b) Appointed on 15 February 2019.

B. BOARD COMMITTEES

To enhance the Board's effectiveness in discharging its duties and responsibilities, the Board has established the following Board Committees which operate within specific delegated authority and functions to complement the Board in the execution of its responsibilities:

- Group NRC
- Group AC
- Group Risk Management Committee (Group RMC)

The Group AC, Group RMC and Group NRC operate on a Group basis covering the Bank and its related companies namely, Alliance Bank and Alliance Islamic Bank Berhad (AIS). Each Board Committee has its terms of reference which set forth the responsibilities of that committee.

Group NRC

The Group NRC supports 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 Alliance Bank Group's remuneration system. Group NRC also periodically reviews the remuneration of Directors on the Board, and on whether remuneration remains appropriate to each Director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.

The Terms of Reference of Group NRC is available on Alliance Bank's corporate website at www.alliancebank.com.my.

The members of the Group NRC are as follows:

1. Ou Shian Waei – Independent Non-Executive Director, Alliance Bank/Chairman
2. Tan Sri Dato' Ahmad Bin Mohd Don – Independent Non-Executive Director, Alliance Bank
3. Datuk Wan Azhar Bin Wan Ahmad – Independent Non-Executive Director, Alliance Bank and AIS
4. Lee Ah Boon – Non-Independent Non-Executive Director, Alliance Bank
5. Susan Yuen Su Min – Independent Non-Executive Director, Alliance Bank (Appointed as a member of Group NRC on 1 April 2019)
6. Kung Beng Hong – Non-Independent Non-Executive Director of the Bank and Alliance Bank (Stepped down as a member of Group NRC with effect from 1 January 2019 following his retirement from the Boards of AIBB and Alliance Bank effective even date)
7. Lee Boon Huat – Independent Non-Executive Director, Alliance Bank (Member of Group NRC until 31 July 2018)

During FY2019, a total of 14 Group NRC meetings were held. 10 were regular meetings scheduled before the start of the financial year while 4 meetings were ad hoc meetings convened to consider exigency matters. The details of attendance of the Group NRC members are as follows:

No.	Group NRC Members	Attendance
1.	Ou Shian Waei (Chairman)	14/14
2.	Tan Sri Dato' Ahmad Bin Mohd Don	14/14
3.	Datuk Wan Azhar Bin Wan Ahmad	14/14
4.	Lee Ah Boon	14/14
5.	Kung Beng Hong	11/11
6.	Lee Boon Huat	6/6

Group AC

The Group AC supports the Boards in relation to the oversight of the Group's financial and reporting processes. It monitors the integrity of the financial statements and supervises both the internal and external audit processes, reporting back to the Board.

It reviews the effectiveness of the policies, procedures and systems in place related to, among others, operational risks, compliance, IT and Information Systems (including cyber security) and works closely with the Group RMC in connection with assessing the effectiveness of the risk management and internal control framework.

The Terms of Reference of the Group AC is available on Alliance Bank's corporate website at www.alliancebank.com.my.

The members of the Group AC are as follows:

1. Thayaparan S. Sangarapillai – Independent Non-Executive Director, Alliance Bank/Chairman
2. Kuah Hun Liang –Independent Non-Executive Director of the Bank and Alliance Bank
3. Datuk Wan Azhar Bin Wan Ahmad – Independent Non-Executive Director, Alliance Bank and AIS
4. Ho Hon Cheong – Non-Independent Non-Executive Director, Alliance Bank
5. Tan Chian Khong – Independent Non-Executive Director, Alliance Bank

During FY2019, a total of 21 Group AC meetings were held. 11 were regular meetings scheduled before the start of the financial year while 10 meetings were ad hoc meetings convened to consider exigency matters. The details of attendance of the Group AC members are as follows:

No.	Group AC Members	Attendance
1.	Thayaparan S. Sangarapillai (Chairman)	21/21
2.	Kuah Hun Liang	20/21
3.	Datuk Wan Azhar Bin Wan Ahmad	21/21
4.	Ho Hon Cheong	21/21
5.	Tan Chian Khong	20/21

The Group AC meetings were attended by Group Chief Internal Auditor together with the relevant Audit Department Heads while the attendance of other Management staff is by invitation depending on the matters deliberated by the Group AC.

Group RMC

The Group RMC oversees the Senior Management's activities in managing credit, market, liquidity, operational, compliance, legal, IT/Cyber and other risks as well as to ensure that the risk strategy is sound and the risk management framework is in place and functioning effectively according to its purposes. It also actively promotes consistent culture of compliance, risk awareness and risk management within the Alliance Bank Group.

The Terms of Reference of Group RMC is available on Alliance Bank's corporate website at www.alliancebank.com.my.

The members of the Group RMC are as follows:

1. Lee Boon Huat – Independent Non-Executive Director, Alliance Bank/Chairman (Re-designated as Chairman of Group RMC with effect from 1 January 2019)
2. Ho Hon Cheong – Non-Independent Non-Executive Director, Alliance Bank
3. Tuan Haji Ibrahim Bin Hassan – Independent Non-Executive Director, AIS
4. Mazidah Binti Abdul Malik – Independent Non-Executive Director of the Bank
5. Thayaparan S. Sangarapillai – Independent Non-Executive Director, Alliance Bank (Appointed as a member of Group RMC with effect from 1 January 2019)
6. Kuah Hun Liang – Independent Non-Executive Director of the Bank and Alliance Bank/Chairman (Chairman/Member of Group RMC until 31 December 2018)

During FY2019, a total of 23 Group RMC meetings were held. 18 were regular meetings scheduled before the start of the financial year while 5 meetings were ad hoc meetings convened to consider exigency matters. The details of attendance of the Group RMC members are as follows:

No.	Group RMC Members	Attendance
1.	Lee Boon Huat (Chairman)	20/23
2.	Ho Hon Cheong	23/23
3.	Tuan Haji Ibrahim Bin Hassan	22/23
4.	Mazidah Binti Abdul Malik	23/23
5.	Thayaparan S. Sangarapillai	2/2
6.	Kuah Hun Liang	21/21

C. SHARIAH COMMITTEE

The Board has established a Shariah Committee comprises five (5) 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 whilst one (1) member has the qualification in Finance and experience in banking industry.

Assoc. Prof. Dr. Badruddin bin Hj Ibrahim (Chairman)

Assoc. Prof. Dr. Badruddin was appointed as a Shariah Committee member of Alliance Islamic Bank Berhad on 15 June 2009 and has served as Chairman of the Shariah Committee since 1 April 2015. He is currently the Deputy Dean (Academic Affairs), Ahmad Ibrahim Kulliyah of Law (AIKOL) at International Islamic University of Malaysia (IIUM). He specializes in Islamic Jurisprudence, Islamic Political System, Islamic Law of Trust, and Islamic Law of Property, and is also experienced in Islamic Law of Transaction and Islamic Family Law, having taught such subjects in IIUM for over a decade.

As an academic, his body of work encompasses various researches under the ambit of IIUM. His most recent research project being '*Maslahah Based Fatwa on Issues Relating to Wealth in Malaysian Context*'. Much of his work has been presented publicly in academic institutions and conferences in Malaysia, the UK, Indonesia and Russia.

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

Tuan Haji Md Ali bin Md Sarif

Tuan Haji Md Ali was appointed as a Shariah committee member of Alliance Islamic Bank Berhad on 1 April 2011. He was a Distinguished Academic Fellow of the Institute of Islamic Banking and Finance (IIBF), International Islamic University Malaysia from 2008 to 2014. Prior to joining IIBF in 2008, he was with the Maybank Group for 32 years, 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.

Ustaz Zaharudin bin Muhammad

Ustaz Zaharudin was appointed as a Shariah Committee member of Alliance Islamic Bank Berhad on 1 April 2009. He is currently the sole shareholder of ASZA-HT Trading Sdn Bhd.

He has a Bachelor in Islamic Jurisprudence and obtained his Masters on Islamic Economy and Jurisprudence from the University of Cairo, Egypt.

He has authored several books and articles related to his specialized field of Islamic Jurisprudence.

Ustaz Zaharudin was previously the Chief Religious Officer of Kumpulan Perangsang Sendirian Berhad and the Researcher and Head of Takaful Unit, the International Shari'ah Research Academy for Islamic Finance (ISRA). He was also a Shariah Committee member for HSBC Amanah Takaful (Malaysia) Berhad and Prudential BSN Takaful Berhad.

Dr. Azrul Azlan bin Iskandar Mirza

Dr. Azrul Azlan was appointed as a member of the Shariah Committee in Alliance Islamic Bank Berhad on 1 April 2015. He studied at Al-Azhar University in Egypt where he obtained a Bachelor in Shariah. He holds a Masters in Management from the International Islamic University of Malaysia (IIUM) and a PhD in Islamic Finance from the International Centre for Education in Islamic Finance (INCEIF). He is also a Shariah Adviser for Islamic Stockbroking Window of AIBB by virtue of him being a registered adviser with Securities Commission.

He is currently attached to the Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM) as the Head of Islamic Banking & Finance Program. His fields of specialization are Shariah, Islamic finance and investment analysis. He is also a Shariah Committee member for FWD Takaful Berhad formerly known as HSBC Amanah Takaful (Malaysia) Berhad. He is also the Shariah Adviser for the proposed AIBB's Islamic Stockbroking Services

Dr. Azrul was previously a Shariah Committee member for OSK Investment Berhad, KAF Investment Bank Berhad and a Fatwa Researcher for the Negeri Sembilan Mufti Council.

Ustaz Ahmad Fauwaz bin Ali @ Fadzil

Ustaz Ahmad Fauwaz bin Ali @ Fadzil was appointed as a member of the Shariah Committee in Alliance Islamic Bank Berhad on 1 April 2018. He studied at Al-Azhar University in Egypt where he obtained a Bachelor in Shariah. Whilst in Egypt, he completed the edict issuance course at Darul Ifta Misriyah. He also holds a Master in Shariah from the University of Malaya (UM). He is actively involved in training as trainer to ASAS (Association of Shariah Advisor) and state religious departments. He also a host for a radio program of RTM.

He is currently attached to Telaga Biru Sdn. Bhd. as a Shariah consultant. His fields of specialization are Islamic Jurisprudence (*Usul Fiqh*). He was also a member of Panel of Aqidah, Perak Islamic Religious Affairs Department, Pakar Rujuk Kajian Kampung Mizan (USIM), and Shariah advisor for Sultan Ismail Hospital, Johor and Rangkaian Mercu Health and Beauty Sdn. Bhd.

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' 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.

During FY2019, nine (9) meetings were held. The attendance of members of Shariah Committee is as reflected below:

No.	Shariah Committee Members	Attendance
1.	Assoc. Prof. Dr. Badruddin Bin Hj Ibrahim (Chairman)	9/9
2.	Md Ali Bin Md Sarif	9/9
3.	Ustaz Zaharudin Bin Muhammad	9/9
4.	Dr. Azrul Azlan Bin Iskandar Mirza	9/9
5.	Ustaz Ahmad Fauwaz bin Ali@Fadzil	9/9

The Board had assessed the fitness and propriety of each of the Shariah Committee members and was satisfied with the fitness and propriety of each of them.

D. INTERNAL CONTROL FRAMEWORK

The Bank operates a holistic internal control framework, which is intended to safeguard the Bank's assets and our customers' information and deposits. To do so, the internal control framework operates on a system of checks and balances. Examples of such controls include:

- Board oversight over Management actions/decisions;
- Segregation of duties;
- Authorisation controls;
- Transactional limits;
- Portfolio/concentration limits;
- Verification/validation checks;
- Reconciliation checks;
- Physical security/access controls;
- Automated, system-based controls and password controls;
- Documentation controls.

The above are supplemented with policies, limits and procedures to govern the Bank's various products, services and activities. The Board and Senior Management are responsible for setting the 'tone at the top'; backed by staff training/orientation and ongoing supervision. Incident handling is reinforced through performance management and consequence management. The key policies and procedures are disclosed in the Risk Management Report set out in the Annual Report 2019 of Alliance Bank which is available on Alliance Bank's website at www.alliancebank.com.my.

The Board, relevant Board Committees and Management Committees periodically review and update the key policies and procedures in accordance with the operational and business needs of the Bank, changes in regulations and industry development.

The internal control framework is embedded within the Bank's three Lines of Defence, the details of which are disclosed in the Risk Management Report set out in the Annual Report 2019 of Alliance Bank which is available on Alliance Bank's website at www.alliancebank.com.my.

Frontline Units – 1st Line of Defence

Business Units, aided by Business Support functions, including Business Risk and Credit Underwriting functions and Risk Control Officers form the 1st Line of Defence.

In addition to the departmental controls within the respective 1st Line business and support units, the Bank also conducts supervisory checks and independent reviews, to assess whether these controls are functioning effectively as intended. This framework is further augmented by independent audits carried out on the 1st Line and 2nd Line functions.

Risk Control Functions – 2nd Line of Defence

Group Risk Management, Group Compliance and Shariah Review Team form the 2nd Line of Defence.

Group Compliance has established the Compliance Risk Assessment and Review Framework which is a risk based approach and process to ensure compliance risk is proactively identified and managed. The framework identify, prioritise and assign accountability for managing current and potential compliance risks to which the bank may be expose to. Compliance testing plan is developed annually to ensure that controls over compliance related risks are tested and verified. Deficiencies identified from the review will be reported and appropriately followed up, to ensure corrective actions are put in place to strengthen the controls.

Internal Audit – 3rd Line of Defence

As the 3rd Line of defence, Group Internal Audit (GIA) performs regular independent reviews on the Bank's activities to evaluate and make recommendations to improve the effectiveness of governance, risk management and control processes. The reviews are conducted in accordance with the annual audit plan, which was developed based on the GIA's risk-based audit planning methodology and approved by the Group AC.

E. REMUNERATION

Non-Executive Directors

The objective of the Alliance Bank Group'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 sitting allowance for each Board or Board Committee meeting attended. In addition, Non-Executive Directors also receive other benefits including Directors & Officers Liability Insurance, provided that such Director has not acted negligently, fraudulently or dishonestly, or is in breach of his duty of trust.

For FY2019, Alliance Bank Group has engaged an independent consultant to carry out a review on the remuneration of the Non-Executive Directors to ensure that the Bank's remuneration for the Non-Executive Directors continues to be in line with the industry taking into consideration the complexities of the Bank's business and operation. The proposed increase in the remuneration of the Non-Executive Directors will be tabled to the shareholders of the Bank for approval at the forthcoming Annual General Meeting to be held on 25 July 2019.

The details of remuneration of each Director of the Bank received/receivable from the Bank in respect of FY2019 are disclosed on pages 72-74 of the Annual Audited Financial Statements.

Senior Management

The Group Compensation Policy governs the design and management of remuneration for employees in the Bank. The policy is reviewed and endorsed by the Group NRC and approved by the Board on a periodic basis and whenever material changes are required.

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

- supports a performance culture that is based on merit, differentiates and rewards performance, both in the short and long term, and recognises the Bank's Core Values/Key Behaviours;
- enables the Bank to attract and retain employees and to motivate them to achieve the desired results;
- balances the mix of fixed and variable pay to appropriately reflect the value and responsibility of the role, and to influence appropriate behaviours and actions;
- consistent with, and promotes, effective risk management practices and the Bank's compliance and control culture;
- takes into account the long-term performance of the Bank, in order to create sustainable financial performance and value for the Bank and shareholders.

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

The Bank's total compensation is made up of the following components:

Fixed pay	Consists of base salary, and where applicable, cash allowance	Determined based on roles and responsibilities, individual experience and skill sets, the Bank's legal obligations and market competitiveness.
Variable rewards	Consists of Cash Bonus and Deferred Cash/ Share	<p>These are not guaranteed and subject to the Bank's results and performance of the work unit and individual employee. Align compensation with prudent risk-taking and incorporates adjustments to reflect:</p> <ol style="list-style-type: none"> financial and non-financial measures of business performance; the risks related to the business activities taking into account, where relevant, of the cost of the associated capital. <p>Deferred Cash/Share are also used to achieve the following objectives:</p> <ol style="list-style-type: none"> Retain top performers and critical staff; Provide market competitive total compensation; Align the interest of employees with long term sustainability.
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.

The Bank bonus pool is determined based on the overall Bank performance and subject to adjustment after taking into consideration inputs from Audit, Risk and Compliance on both quantitative risk measures and qualitative risk outcomes. The final bonus pool is approved by the Board.

The Bank has identified Material Risk Takers comprising the Senior Management of the Bank and other officers whose responsibilities have a material impact on the Bank's performance and risk profile. Senior Management of the Bank is defined as the CEO and members of the Management Committee. The variable remuneration of Material

Risk Takers and other highly remunerated employees is subject to deferral policy. The deferral serves to align remuneration payment schedules with the time horizon of risks and the potential for financial risks to crystallise over a longer period of time. Under the deferral policy, the variable remuneration is subject to progressive deferral rate up to 40% where deferral rate increases with the higher amount of variable remuneration. The deferred portion or award will vest equally over a period of three years. The deferred awards, both unvested and vested portions, are subject to forfeiture and clawback in the event of a material restatement of the Bank or business unit's financials or significant deterioration in the Bank or business unit's financial health and/or the employee committed misconduct or resigned.

The Bank does not have Other Material Risk Takers who are not members of the Senior Management but have authority to commit the Bank significantly to risk exposure.

The following depicts the total value of remuneration awarded to the Senior Management of the Bank in respect of the FY2019. There were 4 members in the Senior Management of the Bank in FY2019.

Table 1: Remuneration Awarded to Senior Management in FY2019

Category	RM'000
Fixed Pay	2,744
Variable Pay – cash based	574
Deferred Variable Pay – cash based	181

Table 2: Breakdown of Deferred Remuneration

Category	Senior Management
Total amount of outstanding deferred remuneration	
• Cash (RM'000)	184
• Shares (RM'000)	-
Total amount of deferred remuneration paid out during the financial year	
• Cash (RM'000)	58
• Shares (RM'000)	-
Outstanding deferred remuneration (performance adjustments):	
• Of which exposed to ex-post adjustments	100%
• Reductions in current year due to ex-post adjustments (explicit)	0
• Reductions in current year due to ex-post adjustments (implicit)	0
Outstanding retained remuneration (performance adjustments)	
• Of which exposed to ex-post adjustments	0
• Reductions in current year due to ex-post adjustments (explicit)	0
• Reductions in current year due to ex-post adjustments (implicit)	0

Examples of explicit ex-post adjustments include malus, clawbacks or similar reversals or downward revaluations of awards.

Examples of implicit ex-post adjustments include fluctuations in the value of shares or performance units.

Table 3: Guaranteed Bonuses, Sign-on Awards and Severance Payment for FY2019

Category	Senior Management
Number of guaranteed bonuses	-
Number of sign-on awards	-
Number of severance payments	-
Total amounts of above payment made for the financial year (RM'000)	-

Performance Management

The Bank actively manages the performance of employees to ensure a robust link between remuneration outcomes and the achievement of the Bank's strategy. Formal assessments occur biannually, at the middle and end of the performance year respectively. Assessment outcomes directly influence an employee's remuneration.

Employee performance is assessed against both what an employee achieves and how he/she achieves it. 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 Bank'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 taking into consideration risk, compliance and control outcomes. In addition to achieving their objectives, employees are also assessed on the Bank's core values/key behaviours.

To safeguard the independence and authority of employees engaged in Risk and Control functions, covering the functions of Compliance, Risk and Audit, the performance of employees in Risk and Control functions are assessed independently of 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 Bank. The remuneration of these risk and control functions employees is positioned at a higher fixed pay component and reviewed annually.