



CORPORATE GOVERNANCE STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023 (FY2023)

The Board of Directors (“Board”) of Alliance Islamic Bank Berhad (“AIS” or “the Bank”) firmly believes that good corporate governance is the foundation of a well-managed institution. The Board is fully committed to integrity and fair dealing in all its activities, and has endeavored to adopt the best practice of corporate governance in all areas of its operations to enhance business prosperity and corporate accountability with the ultimate objective of safeguarding the interests of all stakeholders and enhancing shareholder value.

This corporate governance statement serves to provide a summary of the Bank’s corporate governance practices during FY2023 with reference to paragraph 22.1 of Bank Negara Malaysia (“BNM”)’s Policy Document on Corporate Governance.

A. BOARD OF DIRECTORS

1. Board Composition

The Board currently has four (4) members, comprising entirely Non-Executive Directors, all of whom are Independent Directors:

- (i) Datuk Wan Azhar bin Wan Ahmad (Independent Director/Chairman)
- (ii) Ibrahim bin Hassan (Independent Director)
- (iii) Dato’ Ahmad Hisham bin Kamaruddin (Independent Director)
- (iv) Rustam Bin Mohd Idris (Independent Director)
- (v) Joel Kornreich (Executive Director)
(Resigned wef 31 August 2022)

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>

2. The Board’s Roles and Responsibilities

The Board holds overall responsibility of promoting 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, employees 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) Approve policies relating to governance structure and reporting arrangements, Shariah non-compliance risk management and other areas that are material to the effective implementation of Shariah governance within the Bank;
- (c) 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;

- (d) Oversee the implementation of the Bank's governance framework and internal control framework, in particular to prevent Shariah non-compliance and any rectification measures to resolve incidences or circumstances that may result or have resulted in Shariah non-compliance, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Bank's operations;
- (e) Oversee the implementation of Shariah Advisory Council ("SAC") rulings and decisions or advice of the Shariah Committee within all business and functional lines, including any business or risk implications arising from such implementation;
- (f) Oversee the performance of senior management and other officers entrusted to implement Shariah governance framework such that the Board is satisfied that the measures of their performance are aligned with Shariah governance objectives;
- (g) Promote, together with senior management, a sound corporate culture within the Bank which reinforces ethical, prudent and professional behavior as well as reflecting the importance of adhering to Shariah requirements in product development and marketing, strategy formulation, business operations, risk management practices and other aspects that promote end-to-end compliance with Shariah;
- (h) Promote sustainability through appropriate environmental, social and governance considerations in the Bank's business strategies;
- (i) 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
- (j) Promote timely and effective communication between the Bank and Bank Negara Malaysia on matters affecting or that may affect the safety and soundness of the Bank.

The Board has adopted a Board Charter that sets out the mandate, responsibilities and procedures of the Board and the Board Committees, including matters reserved for the Board's decision. The Board Charter is reviewed by the Board at every two years interval, or as and when necessary, in line with evolving corporate governance requirements and practices to ensure its continued relevance.

The Board Charter was last reviewed by the Board on 26 October 2022.

The Board Charter is available on the Bank's corporate website at:

<https://www.alliancebank.com.my/islamic/corporate/corporate-governance.aspx>

3. Ethical Leadership by the Board

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

In addition, the Board has set up a Conflicts of Interest Policy for Directors to identify, disclose and manage any actual or potential conflicts of interest. Directors are required to inform the Board of conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors are to rescue themselves from discussion or decisions on those matters unless resolved otherwise by the remaining members of the Board.

Directors may only use or disclose information relating to the Bank to the extent that such use or disclosure is consistent with their duties as Directors.

The Conflicts of Interest Policy for Directors was last reviewed by the Board on 26 October 2022.

The Code of Conduct and the Conflicts of Interest Policy for Directors, which were established at the Group level, are available on Alliance Bank Malaysia Berhad's ("Alliance Bank") corporate website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

The Directors also adhere to the Code of Ethics for Company Director established by the Companies Commission of Malaysia.

4. **Division of Responsibilities between the Chairman and CEO**

The roles of the Chairman and CEO are separated, consistent with the principle of good corporate governance to promote accountability and facilitate division of responsibilities between them.

Datuk Wan Azhar being the Independent Chairman in leading the Board, is responsible for the effective overall functioning of the Board. He maintains a close professional relationship with the CEO, En. Rizal IL-Ehzan and his Senior Management team and acts as a mentor as required. He chairs Board meetings as well as general meetings of the Bank and concerns himself with the good order and effectiveness of the Board and its processes.

En. Rizal IL-Ehzan as CEO, in leading the Senior Management team, bears the primary responsibility over the day-to-day management of the Bank.

5. **Operation of the Board**

The Board schedules at least ten (10) meetings a year to review progress reports from the Management as well as to consider business and other proposals which require the Board's approval. All Directors are informed of these scheduled Board meetings before the start of each year. Ad-hoc Board meetings may be called to deliberate on and consider issues that require the Board's immediate consideration/decision.

At each scheduled Board meeting, the CEO and Group Chief Financial Officer provide regular progress reports on the business and financial performance of the Bank as well as the performance, strategic developments, business plans and initiatives of the respective divisions throughout the year. The Board also receives regular updates on COVID-19 related matters, internal control, risk management, legal, shariah, compliance, internal audit, human resources, sustainability, governance and information technology related matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and reviewed at the appropriate point in the financial and regulatory cycle. The flexibility of the schedule enables pressing matters to be dealt with in a timely manner when they arise.

The Chairman and CEO maintain frequent contact with each other and the other Board members throughout the year outside of the formal meetings.

Company Secretary

The Board is currently supported by a corporate secretarial team led by Company Secretary, Mr. Simon Lee Wei Yen, who has more than thirty (30) years of experience in the corporate secretarial function. He is a Practising Secretary registered with Suruhanjaya Syarikat Malaysia and is an Associate of the Malaysian Institute of Chartered Secretaries and Administrators. He holds a Master of Business Administration in Finance from Universiti Putra Malaysia and a Master of Advanced Business Practice from University of South Australia.

Mr. Simon Lee provides counsel to the Board on governance matters and facilitates effective information flows between the Board, Board Committees and Senior Management. He renders effective support to the Chairman of the Board/Chairmen of 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. He also ensures Board procedures; applicable rules and regulations; and relevant laws are followed and complied with.

Mr. Simon Lee constantly keeps himself abreast with changes in relevant laws; rules and regulations; and industry development through continuous training and regular interaction with various stakeholders.

The Board assesses the fitness and propriety of Mr. Simon Lee annually in accordance with the Group's Policy on Fit and Proper. For FY2023, the Board is satisfied with the performance and support rendered by him as Company Secretary.

6. Board Committees

The Board has established Board Committees to oversee the implementation of strategies and policies; and maintain effective governance in the following areas: business decisions, audit, risk and compliance, remuneration, Board composition, succession planning and corporate governance.

The Board has five (5) Board Committees, comprising solely Non-Executive Directors: Group Audit Committee (“Group AC”), Group Nomination & Remuneration Committee (“Group NRC”), Group Risk Management Committee (“Group RMC”), Group Sustainability Committee (“Group SC”) and Group Information Technology Committee (“Group ITC”) that operate on a Group basis covering the Bank and its related companies, namely Alliance Bank and Alliance Investment Bank Berhad (“AIBB”) (collectively, “the Group”).

Each Board Committee has its own Terms of Reference which are approved by the Board and reviewed at every two (2) years or 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 Terms of Reference of the Board Committees are available on Alliance Bank’s website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

Group NRC

The Group NRC supports the Board in carrying out its functions in the following matters concerning the Board, Shariah Committee, Senior Management and Company Secretary:

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

The Group NRC also supports the Board in actively overseeing the design and operation of the Bank’s remuneration system. It periodically reviews the remuneration of Directors on the Board, particularly on whether the remuneration remains appropriate to each Director’s contributions, taking into account the level of expertise, commitment and responsibilities undertaken.

The functions of the Group NRC are set out in its Terms of Reference which is published on the Alliance Bank’s corporate website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

The Terms of Reference of the Group NRC was last reviewed and revised by the Board on 30 January 2023.

The members of the Group NRC are as follows:

- Susan Yuen Su Min – Chairperson
- Tan Sri Dato’ Ahmad bin Mohd Don
- Datuk Wan Azhar bin Wan Ahmad
- Wong Yuen Weng, Ernest

During FY2023, the Group NRC met sixteen (16) times. Eleven (11) were regular meetings while five (5) meetings were ad-hoc meetings convened to consider exigency matters.

Details of each Group NRC member’s attendance during FY2023 are as follows:

No.	Group NRC Members	Attendance	Percentage
i.	Susan Yuen Su Min	16/16	100%
ii.	Tan Sri Dato’ Ahmad bin Mohd Don	16/16	100%
iii.	Datuk Wan Azhar bin Wan Ahmad	16/16	100%
iv.	Wong Yuen Weng, Ernest	16/16	100%

Group AC

The Group AC assists the Board in overseeing the Group's financial and reporting processes. It monitors the integrity of the financial statements and supervises both the internal and external audit processes, and reports back to the Board. It reviews the effectiveness of the policies, procedures and systems in place related to, among others, operational risks, compliance, information technology and systems (including cyber security). It works closely with the Group RMC in connection with assessing the effectiveness of the risk management and internal control framework.

The members of the Group AC are as follows:

- i. Tan Chian Khong – Chairman
- ii. Datuk Wan Azhar bin Wan Ahmad
- iii. Cheryl Khor Hui Peng

The Group AC met thirteen (13) times including two (2) joint meetings with Group RMC to ensure effective exchange of information between the two Board Committees.

The details of each Group AC member's attendance during FY2023 are as follows:

No.	Group AC Members	Attendance	Percentage
i.	Tan Chian Khong	13/13	100%
ii.	Datuk Wan Azhar bin Wan Ahmad	13/13	100%
iii.	Cheryl Khor Hui Peng	13/13	100%

Group RMC

The Group RMC oversees the Senior Management's activities in managing enterprise risks, covering areas such as credit, market, liquidity, operational, compliance, legal, IT/Cyber and sustainability as well as ensures compliance with regulations. This includes ensuring a sound risk strategy and that the risk management framework is functioning effectively according to its purposes. It also actively promotes a consistent culture of compliance; and risk awareness and risk management culture within the Group. Its oversight role includes approving and deliberating risk and compliance strategies, policies and methodologies and related matters.

The Group RMC was responsible for overseeing technology-related matters until 1 August 2022 when the Board established the Group ITC to support the Board on oversight over technology-related matters as required under BNM Policy Document on Risk Management in Technology.

The functions of the Group RMC are set out in its Terms of Reference which is published on Alliance Bank's corporate website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

The Terms of Reference of the Group RMC was last reviewed and revised by the Board on 23 November 2022.

The members of the Group RMC are as follows:

- i. Lee Boon Huat – Chairman
- ii. Ibrahim bin Hassan
- iii. Mazidah Binti Abdul Malik
- iv. Lum Piew
- v. Lee Ah Boon

During FY2023, the Group RMC met twenty-four (24) times including two (2) joint meetings with the Group AC. Twenty-two (22) meetings were regular meetings while two (2) meetings were ad-hoc meetings to consider exigency matters.

Details of each Group RMC member's attendance during FY2023 are as follows:

No.	Group RMC Members	Attendance	Percentage
i.	Lee Boon Huat	24/24	100%
ii.	Ibrahim bin Hassan	24/24	100%
iii.	Mazidah binti Abdul Malik	24/24	100%
iv.	Lum Piew	24/24	100%
v.	Lee Ah Boon	24/24	100%

Group SC

The Group SC supports the Board in the oversight of setting sustainability strategies, priorities and targets, to ensure that the Group's strategies, goals and principles pertaining to sustainability are aligned with, promote and encourage the Group's commitment towards sustainability.

The functions of the Group SC are set out in its Terms of Reference which is published on Alliance Bank's corporate website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

The members of the Group SC are as follows:

- i. Susan Yuen Su Min – Chairman
- ii. Dato' Ahmad Hisham bin Kamaruddin
- iii. Cheryl Khor Hui Peng

During FY2023, the Group SC met six (6) times. Four (4) were regular meetings while two (2) meetings were ad-hoc meetings convened to consider exigency matters.

Details of each Group SC member's attendance during FY2023 are as follows:

No.	Group SC Members	Attendance	Percentage
i.	Susan Yuen Su Min (Chairman)	6/6	100%
ii.	Dato' Ahmad Hisham bin Kamaruddin	6/6	100%
iii.	Cheryl Khor Hui Peng	6/6	100%

Group ITC

The Group ITC was set up on 1 August 2022 as an outcome-based Board Committee to primarily provide end-to-end oversight for the IT strategy projects due to its far-reaching and long-term implications for the Bank. The Group ITC is responsible for supporting the Board in providing oversight over technology-related matters in accordance with paragraph 8.4 of the BNM Policy Document on Risk Management in Technology.

The Terms of Reference of Group ITC is published on Alliance Bank's corporate website at:

<https://www.alliancebank.com.my/corporate/corporate-governance.aspx>

The members of the Group ITC are as follows:

- i. Lee Ah Boon – Chairman
- ii. Lum Piew
- iii. Cheryl Khor Hui Peng

During FY2023, the Group ITC met seven (7) times.

Details of each Group ITC member's attendance during FY2023 are as follows:

No.	Group ITC Members	Attendance	Percentage
i.	Lee Ah Boon (Chairman)	7/7	100%
ii.	Lum Piew	7/7	100%

iii.	Cheryl Khor Hui Peng	7/7	100%
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7. Board Size, Composition, Tenure and Independence

The Board, which has four (4) members, is composed entirely of Non-Executive Directors, all of whom are Independent Directors.

The Board comprises individuals of high caliber with diverse experience which collectively has the necessary skills, experience and qualifications to effectively manage the Bank and to discharge the responsibilities of the Board. The diverse of business backgrounds of the Directors ensures good use of their different and wide-ranging skills, including their regional as well as industry experience and other attributes for the long-term success of the Bank and the delivery of sustainable value to its shareholder.

The Board considers a strong element of independence among its members as vital for good corporate governance. Independent Directors of the Bank exercised 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. Today, the number of Independent Directors, who makes up 100% of the Board, thereby exceeding the requirement of the BNM's Policy Document on Corporate Governance that the majority of the Board comprise Independent Directors at all times.

The Board, through the Group NRC, assesses Independent Directors' independence annually. In the annual assessment of the Independent Directors of the Bank in respect of FY2023, the Board was satisfied that each of the Independent Directors of the Bank continued 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 interests of the Bank, and that each of them continues to fulfill the criteria set out in BNM Policy Document on Corporate Governance.

The Bank has adopted a nine (9)-year policy for tenure of Independent Directors and a twelve (12)-year policy for the tenure of Non-Independent Non-Executive Directors. As at the date of this Statement, none of the Bank's Independent Directors have served for a cumulative period of more than nine (9) years in the Bank.

8. Board Gender Diversity

The Board has adopted the Group Board Gender Diversity Policy which provides that women candidates will be given priority consideration in the selection and recruitment process of identifying suitable Board candidates towards achieving the gender diversity target of 30% women participation on the Board. 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 remain a priority. The Group Board Gender Diversity Policy was last reviewed and approved by the Board on 30 January 2023.

9. 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 comprises the guiding principles for effective succession planning as well as the procedures for ensuring a smooth transition in the Board's succession process as existing Directors leave the Board and new ones come on board. The Group Board Succession Plan was last reviewed by the Board on 30 January 2023.

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 Financial Institutions Directors' Education (FIDE) Forum and other leadership development and consulting organisations.

10. Assessment Criteria and Appointment Process for Board Candidates

The Group NRC takes into account the strategic directions of the Group when evaluating candidates to fill any Board vacancy. In assessing candidates for new Board appointments, the Group NRC considers the diversity of skills, knowledge and experience as well as the 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 assesses the candidates on the following criteria:

- (a) Not disqualified under section 68(1) of the Islamic Financial Services Act, 2013;
- (b) Comply with the fit and proper requirements of the Bank;
- (c) Do not have any competing time commitments that could impair his/her ability to discharge his/her duties effectively;
- (d) Not an active politician;
- (e) Not a partner of a firm which has been appointed as the external auditors of the Bank or any of the firm's officer directly involved in the engagement until at least three years after:
 - (i) he/she ceases to be an officer or partner of that firm; or
 - (ii) the firm last served as auditors of the Bank; and
- (f) Preferably at a minimum, holds a degree qualification and/or other equivalent qualification(s) and with at least 5 years in 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 in accordance with Section 63 of the Islamic Financial Services Act 2013.

11. Board and Board Committee Meetings

Directors are required to attend at least 75% of all the Board/Board Committees meetings held during each financial year. During the COVID-19 period, all Board and Board Committees meetings were held by way of video conferencing to limit face-to-face contact.

In FY2023, in line with the easing of COVID-19 restrictions, the Board and Board Committees meetings have transitioned to hybrid mode i.e. physical and virtual setting facilitated by video-conferencing.

The Directors are supplied with information in a timely manner. The agenda for each Board/Board Committee meeting, together with detailed reports and proposal papers to be tabled is 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 and advisers are invited to attend Board/Board Committees meetings, where necessary, to provide the Board/Board Committees with detailed explanations and clarifications on the proposals tabled to enable the Board/Board Committees in making informed decisions.

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.

The Board may also at any time interact directly with, or request further explanation, information or updates on any aspect of the Bank's operations or business concerns from the Management.

The Board may have access to independent advisers when it sees a need. If it became appropriate for a Director to obtain external professional advice, separate from advice obtained on behalf of the Bank, this would be arranged in consultation with the Chairman and the advice so obtained would ordinarily be provided to all directors.

The Group has implemented paperless meetings where Board materials are uploaded to a secured Board portal that the Directors can access through 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 dissemination of Board packs and removes the need for hard copy papers as part of the Group's corporate sustainability initiatives for a reduced carbon footprint.

The Board had met 15 times during FY2023, including one (1) meeting each on Group basis to review and approve the Strategy and Budget of the Group and to review the results of the Board Effectiveness Evaluation for FY2022 and an Engagement Session with the Shariah Committee.

All Directors have demonstrated that they are able to allocate sufficient time to the Bank in discharging their duties and responsibilities, and their commitment has been affirmed by their attendance at the Board meetings held during FY2023, as reflected below:

No.	Directors	Attendance
1.	Datuk Wan Azhar bin Wan Ahmad Chairman of the Board/ Independent Director	15/15
2.	Ibrahim bin Hassan Independent Director	15/15
3.	Dato' Ahmad Hisham bin Kamaruddin Independent Director	15/15
4.	Rustam bin Mohd Idris Independent Director	15/15
5.	Joel Kornreich Executive Director (resigned wef 31 August 2022)	7/7

12. Board Effectiveness Assessment

The Board recognises that it needs to continuously assess and improve its performance. This is achieved through the Annual Board Effectiveness Assessment and ongoing Board development activities.

The Board has implemented an Annual Board Effectiveness Assessment process carried out by the Group NRC, to assess the effectiveness of the Board as a whole, the Committees of the Board and the contributions of each individual Director. The Board through the Group NRC will also engage an external independent consultant to assist in and lend objectivity to the Annual Board Effectiveness Assessment once every three (3) years.

The Board has engaged KPMG Management & Risk Consulting Sdn. Bhd. ("KPMG MRC") to conduct the Annual Board Effectiveness Evaluation ("BEE") in FY2022. The FY2023 Annual BEE was conducted internally, via the completion of the comprehensive Self-Assessment Questionnaires by Directors.

Appended below is the Board Effectiveness Assessment processes in respect of FY2023:

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 pre-established criteria in the following areas:

- (a) Board Composition/Structure;
- (b) Board Process;
- (c) Board Governance; and
- (d) Major Responsibilities of the Board.

II. Individual Director Self-Assessment

For individual Directors' assessments, Self-Assessment Forms by Individual Directors are completed individually by each 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 Directors' 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 pre-established criteria in the following areas:

- (a) Committee Governance; and
- (b) Accountability and Responsibilities.

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

The results of 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 FY2023, the Board was satisfied with the results of the Annual Board Effectiveness Assessment.

Fitness and Propriety 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 in conjunction with 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 FY2023, the Board was satisfied that each of the Directors had met the required standard of fitness and propriety.

The Group's Policy on Fit and Proper was last reviewed by the Board on 30 January 2023.

13. Board Training and Development

The Board acknowledges the importance of continuous training for the Directors to gain insights 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. The training needs of the Directors are assessed on a yearly basis by the Group NRC and an annual Board Development Plan is recommended to the Board for approval and adoption. This is to ensure the Directors are accorded the appropriate training necessary for them to discharge their responsibilities more effectively.

Per the annual Board Development Plan, Directors are encouraged to attend a minimum of three (3) training programmes 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 (2) training programmes relevant to the respective areas of the Board Committees in each financial year to keep abreast with the latest developments.

The Bank has 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 mandatory training programmes such as Financial Institutions Directors' Education Core Programme and Islamic Finance for Board of Directors Programme. Upon appointment, a new Director will attend an in-house orientation programme within three (3) 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 Group.

Directors also received guidance from the Company Secretary on the Bank's governance framework and associated policies, as well as their duties as Directors of the Bank.

The Directors are provided with the opportunity to attend relevant training programmes on an on-going basis in areas relating to Islamic banking, corporate governance, compliance, risk management, anti-money laundering/counter-terrorism financing, anti-bribery and corruption, climate change, strategic issues, emerging trends, thefts and risks, and sustainability, as well as the latest developments, innovations and disruptive technology in the financial services industry to keep abreast of the latest industry developments. All Directors are also regularly updated on new requirements affecting their responsibilities and are constantly reminded of their obligations.

During FY2023, the Directors have attended various training programmes. The list of training programmes attended by the Directors is as follows:

Directors	Training Programmes attended by Directors
Datuk Wan Azhar bin Wan Ahmad	<ul style="list-style-type: none"> • Iclif: Building the Islamic Finance Industry's Future: Creating Role Model Economies, Inclusive Institutions and Impact-Driven Investment. • FIDE Forum: The Emerging Trends, Threats and Risks to the Financial Services Industry - Managing Global Risk, Investment and Payment System. • Capital Market Director Programme (CMDP) Module 2A: Business Challenges and Regulatory Expectations - What Directors Need to Know (Equities & Future Broking). • Iclif: OE-ESG and Islamic Finance: Implications for Boards and Corporate Governance. • In-house Training: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) and Anti-Bribery & Corruption Training. • In-house Training: Climate Risk Management & Scenario Analysis. • Discussion on Cotemporary Fatwa.
Ibrahim bin Hassan	<ul style="list-style-type: none"> • Iclif: Building the Islamic Finance Industry's Future: Creating Role Model Economies, Inclusive Institutions and Impact-Driven Investment. • Cybersecurity Malaysia: Cybersecurity Awareness and Risk Governance Program. • FIDE Forum: The Emerging Trends, Threats and Risks to the Financial Services Industry - Managing Global Risk, Investment and Payment System. • In-house Training: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) and Anti-Bribery & Corruption.

Directors	Training Programmes attended by Directors
	<ul style="list-style-type: none"> • In-house Training: Climate Risk Management & Scenario Analysis.
Dato' Ahmad Hisham bin Kamaruddin	<ul style="list-style-type: none"> • Iclif: Sustainability Series - Sustainability in the Energy Sector. • Iclif: Building the Islamic Finance Industry's Future: Creating Role Model Economies, Inclusive Institutions and Impact-Driven Investment. • PIDM Industry Forum 2022. • FIDE Forum: The Emerging Trends, Threats and Risks to the Financial Services Industry - Managing Global Risk, Investment and Payment System. • In-house Training: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) and Anti-Bribery & Corruption. • In-house Training: Climate Risk Management & Scenario Analysis. • Discussion on Contemporary Fatwa.
Rustam bin Mohd Idris	<ul style="list-style-type: none"> • FIDE Forum: Leadership Perspectives on Board Effectiveness in conjunction with Board Effectiveness Evaluation Launch. • Iclif: Building the Islamic Finance Industry's Future: Creating Role Model Economies, Inclusive Institutions and Impact-Driven Investment. • CMDP (Module 1) - Directors as Gatekeepers of Market Participants. • CMDP (Module 2B): Business Challenges and Regulatory Expectations - What Directors Need to Know (Fund Management). • CMDP (Module 3): Risk Oversight and Compliance - Action Plan for Board of Directors. • CMDP (Module 4): Emerging and Current Regulatory Issues in the Capital Market. • PIDM Industry Forum 2022. • In-house Training: Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) and Anti-Bribery & Corruption. • In-house Training: Climate Risk Management & Scenario Analysis.

All Directors are also regularly being updated on new requirements affecting their responsibility and are constantly reminded of their obligation.

14. Shariah Committee

The Board has established a Shariah Committee which 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 Islamic

Jurisprudence whilst one (1) member has the qualification in Business Administration and experience as a central banker.

The members of Shariah Committee are as follows:

Chairman

Dr Tuan Badrul Hisyam bin Tuan Soh

Members

Ustaz Ahmad Fauwaz bin Ali @ Fadzil
Tuan Haji Rustam bin Mohd Idris
Professor Dr Muhamad Rahimi bin Osman
Assistant Professor Dr. Muhammad Naim bin Omar
(Appointed wef 1 April 2022)

The profiles of each of the members of the Shariah Committee are available on the Bank's corporate website at:

<https://www.alliancebank.com.my/islamic/corporate/corporate-profile/shariah-committee.aspx>

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

- (a) Provide counsel or advice to AIS on the application of any rulings of BNM's Shariah Advisory Council ("SACBNM"), Securities Commission's Shariah Advisory Council ("SACSC") or standards on Shariah matters that are applicable to the operations, business, affairs and activities of AIS.
- (b) Provide counsel or advice on matters which require a reference to be made to the SACBNM and SACSC.
- (c) Provide counsel or advice on the operations, business, affairs and activities of AIS which may trigger a Shariah non-compliance event.
- (d) Deliberate on and affirm a Shariah non-compliance finding by any relevant function.
- (e) Endorse rectification measures to address a Shariah non-compliance event.
- (f) Endorse Shariah-related policies and frameworks before they are approved by the Board.
- (g) Approve procedures that complement policies and frameworks and product collaterals.
- (h) Assess the works carried out by Shariah Review and Shariah Audit.
- (i) Endorse zakat computation and distribution.

During FY2023, fourteen (14) meetings including one engagement session with the Board were held.

Details of each Shariah Committee member's attendance during FY2023 are as follows:

Shariah Committee Member	Attendance	Percentage
Dr Tuan Badrul Hisyam bin Tuan Soh (Chairman)	14/14	100%
Tuan Haji Rustam bin Mohd Idris	14/14	100%
Professor Dr Muhamad Rahimi bin Osman	13/14	93%
Assistant Professor Dr Muhammad Naim bin Omar (Appointed wef 1 April 2022)	14/14	100%
Ustaz Ahmad Fauwaz bin Ali @ Fadzil	14/14	100%

B. REMUNERATION

Board of Directors

The objective of the 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 and is linked to their roles and level of responsibilities.

All Non-Executive Directors are paid fixed annual Director fees and sitting allowance for each Board/Board Committee meeting attended. In addition, Non-Executive Directors also receive other benefits including outpatient medical reimbursement, Group Hospitalisation & Surgical coverage and Directors & Officers Liability Insurance coverage, provided that such Director has not acted negligently, fraudulently or dishonestly, or is in breach of his duty of trust.

During FY2023, a revised fee structure and meeting allowance of the Non-Executive Directors reviewed by the Group NRC and the Board with the advice from an external independent consultant, Willis Tower Watson was approved by the shareholder of the Bank at the Annual General Meeting of the Bank held on 26 July 2022.

The details of remuneration of each Director of the Bank received/receivable from the Bank and the Group in respect of FY2023 are disclosed on page 66 of the annual audited financial statements of the Bank for FY2023.

The remuneration of the Non-Executive Directors will be tabled to the shareholder for approval at the forthcoming 16th Annual General Meeting of the Bank to be held on 26 June 2023.

Performance Management

As the Group envisioned to be the preferred banking partner, the Group has set 8 strategic growth pillars in its ACCELER8 2027 ambition and the Bank is part of this ambition. The Group's performance is measured using the balanced scorecard approach. It encompasses metrics that are based on the Bank's key financials and franchise-building focusing on medium to longer-term strategic initiatives and sustainability agenda encompassing the Environmental, Social and Governance (ESG) elements of climate change and human capital including culture. The longer-term sustainability agenda is also incorporated in the balanced scorecard in the form of developing a new sustainable banking business, reducing the Group's greenhouse gas emission footprint, proportion of C5 portfolio and scaling up Green-tech financing. The Board sets the tone from the top by reviewing and approving the Group's balanced scorecard.

The Group's balanced scorecard is cascaded to the various functional units and employees to ensure alignment with its aspirations. This KPI alignment is measured in its Voice of Employees survey. Since FY2022, we have incorporated ESG-related KPIs for senior management and key staff which reflect our commitment to develop and drive compelling ESG values.

The Bank actively manages the performance of employees to ensure a robust link between the achievement of the Bank's objectives, individual performance and remuneration outcomes. Formal assessments occur biannually, at the middle and end of each performance year.

Employee performance is assessed against what an employee achieves and how he/she achieves it and contributes towards the divisional and overall Bank performance. Individual objectives or Key Performance Indicators represent "what" the employee is expected to achieve. Overall individual performance is calculated based on a ratio of 80% from Objectives and 20% from Key Behaviours and Values. In addition, the overall performance is subject to penalties that are based on risk, compliance and control outcomes.

To safeguard the independence and authority of employees engaged in Risk and Control functions that cover Compliance, Risk Management and Internal Audit, the performance of employees in Risk and Control functions are assessed independently of the performance of any business areas they oversee. Their performance metrics 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 risk and control functions' employees is positioned at a higher fixed pay component and reviewed annually.

ESG elements are inculcated in the Bank's Total Rewards approach through performance management and risk management considerations. By incorporating ESG related KPIs for senior management and key staff with the robust linkage between KPIs achievement and the variable remunerations, the Bank strives to drive and reward compelling ESG values within the organisation.

The Group Remuneration Policy governs the design and management of remuneration for employees, including Senior Management of the Group. The policy is reviewed and endorsed by the Group NRC and approved by the Board every two (2) years or earlier whenever material changes are required, to ensure that remuneration practices and programmes are consistent with regulatory requirements and the Group's aspirations. It covers all employees, including Senior Management of the Group. Sustainability KPIs are carried by senior management and differentiated by their role as leaders of business, enablers and governance. The compensation pool assigned to each Division is dependent on their achievements of their respective KPIs which include the ESG elements or parameters. Hence, the success of these sustainability initiatives will have direct impact to the short term incentive bonus funding at group, division and individual levels. 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 remuneration 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. This is aligned with prudent risk-taking and incorporates adjustments to reflect:</p> <ul style="list-style-type: none"> i. Financial and non-financial measures of business performance; and ii. The risks related to the business activities, taking into account, where relevant, of the cost of the associated capital. <p>Deferred Cash/Share is also used to achieve the following objectives:</p> <ul style="list-style-type: none"> i. Retain top performers and critical employees; ii. Provide market competitive total compensation; and iii. Align the interest of employees with long- term sustainability. <p>Variable remuneration is categorised into Short Term Incentive and Long Term Incentive.</p> <p><u>Short Term Incentive</u> Consists of performance bonus and sales commission and incentives which are subject to deferred payments.</p> <p><u>Long Term Incentive</u> Consists of share option, performance shares and restricted shares. The employee share plans have expired and pending review for new plans.</p>
Employee Benefits and Well Being	Indirect and non-cash compensation paid to an employee	<p>Employee benefits are used to foster employees' sense of being valued and improve their quality of life. Benefits help employees pay for healthcare, save for retirement, purchase home and car and take time off work when needed focused at delivering flexible and cost-effective programmes that are of value to employees.</p> <p>Fit@Alliance initiatives bring wellness themes of physical, emotional, financial and social to promote healthy lifestyles among employees and by extension to their colleagues and family.</p>

Career Development & Progression	Conducive environment and opportunities for learning and self development	<p>Development plan is part of our annual appraisal to identify employees' career aspirations, strengths and development needs.</p> <p>Career conversations, targeted development interventions, accelerated progression and mentoring form part of key talent's individual development plan.</p> <p>Robust learning curriculum coupled with Learning Roadmap for each Division enables upskilling and reskilling set the path towards a future-proofed workforce.</p> <p>Our Learning & Development curriculum outlines five (5) key learning priorities to build future-ready skills and competencies as well as establishing a sustainable business:</p> <ol style="list-style-type: none"> 1. A Systematic Way of Approaching Customers 2. Harnessing Digital to Improve Customer Value Proposition & Scale Up 3. Leveraging Technology to Streamline Processes 4. Managers Enabling Teams to Succeed 5. Keeping the Bank Safe and Sustainable <p>Coaching and continuous feedback promote learning from others.</p> <p>Project assignments, rotation and relief assignment that provide valuable practical exposure to new areas of work.</p>
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Determining Variable Remuneration

The Board approved the Short-Term Incentive Framework in 2017 to ensure the variable remuneration complies with the BNM Policy Document on Corporate Governance. The framework was subsequently included in the Group Remuneration Policy and is subject to periodic review to ensure the variable remuneration complies with the BNM's Policy Document on Corporate Governance. The Group bonus pool is determined based on the overall Group performance and is subject to risk adjustments. The Group NRC takes into consideration collective input from Internal Audit, Risk Management and Compliance on both quantitative and qualitative risk outcomes to determine need for moderation to the Group Bonus Pool. The final bonus pool is approved by the Board.

Individual employees are also accountable to keep the Bank safe via their daily contribution to risk, compliance and control measures. A consequence management framework is in place to keep employees informed of the consequences of significant breaches or non-compliance which includes disciplinary actions and impact to remuneration.

The Bank has identified Material Risk Takers comprising the Senior Management and other officers who are not members of the Senior Management whose responsibilities have a material impact on the Group's performance and risk profile. 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 a progressive deferral rate of up to 40%. The deferral rate increases with the higher amount of variable remuneration payable to the eligible employees. The deferred portion or award will vest equally over a period of three (3) 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 if the employee has 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 (“SMs”) of the Bank in respect of FY2023. There were five (5) members of the Senior Management of the Bank in FY2023.

Table 1: Remuneration Awarded to SMs in FY2023

FY2023

Category	(RM'000)
Fixed Pay	3,651
Variable Pay – cash based	1,086
Deferred Variable Pay – cash based	297

Table 2 : Breakdown of Deferred Remuneration

Category	(RM'000)
Total amount of outstanding deferred remuneration	
• Cash	-
• Shares	299
Total amount of deferred remuneration paid out during the financial year	
• Cash	-
• Shares	594
Outstanding deferred remuneration (performance adjustments):	
• Of which exposed to ex-post adjustments	100%
• Reductions in current year due to ex-post adjustments (explicit)	-
• Reductions in current year due to ex-post adjustments (implicit)	-
Outstanding retained remuneration (performance adjustments)	
• Of which exposed to ex-post adjustments	-
• Reductions in current year due to ex-post adjustments (explicit)	-
• Reductions in current year due to ex-post adjustments (implicit)	-

Category	SMs
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)	-

C. AUDIT AND RISK MANAGEMENT

1. Risk Management and Internal Control Framework

The Board is ultimately responsible for the Bank's risk management and internal control framework. The Board, assisted by the Group RMC and Group AC, confirms that it monitors the Bank's risk management and internal control systems and carries out a review of their

effectiveness, at least annually. The monitoring and review covers all material controls, including financial, operational and compliance controls.

Further details of the Group's Risk Management Framework and Internal Control System are explained in the Statement on Risk Management and Internal Control and Risk Management Report on pages 148 to 157 of the 2023 Integrated Annual Report of Alliance Bank, which is accessible from Alliance Bank's corporate website at <https://www.alliancebank.com.my>.

2. Anti-Bribery & Corruption

The Group adopts a zero-tolerance stance against any acts of bribery and corruption, and is committed to act professionally, fairly and with integrity in all business dealings and relationships.

The Group has established an Anti-Bribery and Corruption Policy, which sets out the minimum standards of conduct and guiding principles in respect of bribery and corruption risk which may arise in the business activities of the Group. The Policy is guided by the Guidelines on Adequate Procedures issued pursuant to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009 and is supported by the Group's Anti-Bribery and Corruption Procedures.

During FY2023, the Directors attended the in-house Anti-Bribery and Corruption programme as part of the Annual Board Development Plan.

3. 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 instances of unethical behaviour, abuse, actual or suspected fraud, harassment, discrimination, misappropriation of assets, bribery or other misconduct or illegal activities within the Bank.

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 when the concerns are raised in good faith.

In addition to the internal reporting channels, employees could also direct their whistleblower complaints to external regulators and/or law enforcement agencies such as BNM and Securities Commission Malaysia.

The Chairperson of the Group NRC, who is an Independent Director, is the designated person appointed to be responsible for the effective implementation of the Whistleblower Policy. The Group NRC also has regular oversight of the whistleblower complaints and investigation carried out.

Together with the Chairperson of the Group NRC, the Chairman of the Board, Chairman of the Group AC, and the Group CEO are also involved in the whistleblower processes. The Board is informed of any relevant whistleblower investigation/findings.

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", being a whistleblower channel for third parties, has been made available for public viewing and information through Alliance Bank's corporate website at www.alliancebank.com.my.

4. Internal Control Framework

The Statement on Risk Management and Internal Control of the Group is set out in the 2023 Integrated Annual Report of Alliance Bank.

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 on-going 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 2023 Integrated Annual Report of Alliance Bank. The Board, Board Committees and Management Committees periodically review and update these 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 2023 Integrated Annual Report of Alliance Bank.

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 and Group Compliance (which includes the Shariah Review unit) form the 2nd Line of Defence.

Group Risk Management is responsible for formulating, implementing and reviewing Risk Management frameworks, as well as recommending risk policies, risk appetite parameters, risk methodologies and risk control measures.

Group Compliance has established the Group Compliance Framework to ensure effective management of compliance risks in a structured manner. The key principles outlined in the framework provides that the Board and Senior Management are responsible to oversee and ensure the effective management of compliance risks across the Group, compliance is the responsibility of all employees within the Group and the Group should hold itself to high standards in carrying on business, and at all times observe both the spirit and the letter of the laws and regulations.

Group Compliance is responsible for ensuring that controls to manage compliance risks are adequate and operating as intended. It is also responsible for assessing and monitoring of compliance risk faced by the Group.

The Shariah Review Team conducts review on the operations of AIS to ensure the products offered are in compliance with Shariah principles. Review results and non-compliances, if any are reported to the Shariah Committee of Alliance Islamic Bank Berhad.

Details on the risk management framework and internal control system are explained in the Statement on Risk Management and Internal Control, and Risk Management Report set out in the 2023 Integrated Annual Report of Alliance Bank.

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 3-year rolling audit plan, which is developed based on the GIA's risk-based audit planning methodology and approved by the Group AC. More detailed description on the internal audit function is highlighted in the Group AC Report as set out in the 2023 Integrated Annual Report of Alliance Bank.