



**TERMS OF REFERENCE OF  
BOARD RISK COMMITTEE (“BRC”)  
BANK ISLAM MALAYSIA BERHAD (“Bank Islam” or “The Bank”)**

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**1. Introduction**

Board Risk Committee (“BRC” or “the Committee”) is a Committee of the Board. The BRC is to support the Board in meeting the expectations on risk management as set out by Bank Negara Malaysia (“BNM”) and oversee the Management’s activities in managing credit risk, market risk, liquidity risk, operational risk, legal risk, Shariah risk and other risk and to ensure that the risk management process is in place and functioning.

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**2. Authority**

The Committee shall have the authority to deliberate and approve on matters within its primary duties and responsibilities in line with the Authority Limits document or such limits as may be determined by the Board of Directors from time to time. During the discharge of such duties, the Committee shall have:-

- (a) Access to the full company records, properties and personnel.
  - (b) Independent professional advice and expertise necessary to perform its duties.
  - (c) Access to advice and services of any officers of the Risk Management Division.
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**3. Primary Duties and Responsibilities**

- (a) Review and recommend risk management strategies, policies and risk appetite for the Board’s approval.
  - (b) Review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
  - (c) Review the implementation of capital management in line with the Capital Adequacy Framework for Islamic Bank issued by Bank Negara Malaysia (BNM).
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- (d) Oversee the development and implementation of stress testing programme in line with the Stress Testing policy document issued by Bank Negara Malaysia (BNM) which includes:
- i. Review the appropriateness and consistency of stress test design towards the Bank’s risk appetite and business strategy and ensure that the opinions of all relevant expertise across the Bank are taken into account.
  - ii. Review and provide constructive challenge on the results, scenarios and methodologies (including key assumptions) of the stress testing.
  - iii. Evaluate the appropriate management actions to mitigate the potential impacts and assess the outcome of the stress testing on the Bank’s risk appetite, capital and liquidity planning, and strategic business decisions.
- (e) Oversee and control the implementation of Internal Capital Adequacy Assessment Process (ICAAP) which includes:-
- i. Review capital plan;
  - ii. Review summary of capital adequacy reports as part of the risk reports; and
  - iii. Note mandate of capital management committee, capital management standards and policies.
- (f) Determine the risk appetite/ tolerance level of the Bank at enterprise and at strategic business unit levels including but not limited to sectoral limit and counterparty limits.
- (g) Review the allocation of risk-adjusted capital and broad-based limits across the Bank covering market, credit and operational risk.
- (h) Review and if necessary recommend to the Board the Bank’s Business Continuity Management framework and policy for dealing with various extreme internal/ external events and disasters.
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- (i) Review the effectiveness of the reporting structure for the overall business activities and risk management functions and the implementation of the appropriate system to manage various types of risks undertaken by the Bank.
  - (j) Review the risk management processes, systems and internal controls throughout the Bank.
  - (k) Review regularly the Management’s reports on risk exposure including Shariah compliance risk, risk portfolio composition and risk management activities including the adequacy of tools, systems and resources for the successful execution of risk functions within the Bank.
  - (l) Review and approve risk methodologies for measuring and managing risks arising from the Bank’s overall management of all risks covering market, credit and operational through identified tools.
  - (m) Review and monitor Compliance initiatives and activities on anti money laundering / counter financing of terrorism (AML/CFT) and other regulatory requirements.
  - (n) Review and take note of the Shariah non-compliance event and approve rectification plan of such event prior to submission of the same to BNM within the stipulated timeframe.
  - (o) Review, monitor and regularly report to the Board on the following:-
    - i. credit transactions with connected parties;
    - ii. aggregate credit exposure to each connected party and their status; and
    - iii. material concentration.
  - (p) Approve the engagement of external and independent reviewers for the validation of risk measurement methodologies and outputs.
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- (q) Review and recommend to the Board any business proposals on the following:-
- i. New products and services;
  - ii. Discretionary power or authority limits in relation to any product programs proposals.
- (r) Review any business proposals particularly on:-
- i. product programs and its performance;
  - ii. target market and risk acceptance criteria of any products or services; and
  - iii. product profitability assessment.
- (s) Oversee the management, operations and performance of the investment account which includes:-
- i. Review and recommend strategies and policies including profit distribution policy, valuation policy and disclosure policy relating to investment account;
  - ii. Review the effectiveness of the risk management policies, processes, infrastructure and the reporting of various types of risk associated with the assets funded by the investment account; and
  - iii. Review and approve the competency and investment expertise of the personnel managing the investment account.
- (t) Review and recommend to the Board proposals on single or joint discretionary authority.
- (u) Review and recommend to the Board on any new outsourcing proposals and approve renewal of the outsourcing services including the appointment and/or renewal of the outsourcing service provider.
- (v) Review the resolution of findings on Bank Islam’s Composite Risk Rating (CRR).
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(w) Undertake such other duties and responsibilities as determined by the Board of Directors of the Bank.

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**4. Composition**

- (a) The Committee members shall be appointed by the Board.
  - (b) Pursuant to BNM Corporate Governance Policy issued on 3 August 2016, the Committee must:-
    - (i) have at least three (3) directors;
    - (ii) have a majority of independent directors;
    - (iii) be chaired by an independent director, who is not the Chairman of the Board; and
    - (iv) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the Committee.
  - (c) The Managing Director, the Chief Risk Officer or any other officer of the Bank may be invited to attend the Committee meeting as and when considered appropriate by the Committee.
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**5. Secretary**

The Secretary shall be the Company Secretary of the Bank or such other person as appointed by the Committee.

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**6. Frequency of meetings**      The Committee shall meet not less than six (6) times a year, with additional meetings for particular matters, as and when required.

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**7. Notice of Meetings**

(a) Unless otherwise agreed by the members, the notice for each meeting confirming the venue, date and time together with the agenda of the meetings shall be forwarded to each member of the Committee at least three (3) days prior to the date of the meeting.

(b) In addition to the scheduled meeting, the Secretary shall convene any special meeting upon receipt of request from the Chairman/directors by giving due notice.

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**8. Quorum for meetings**

(a) The quorum for meeting shall be at least 50% of the total members.

(b) In the event the Chairman is unable to attend the Committee meeting, the members present may elect any one of the independent directors present (who is not the Chairman of the Board) to be the Chairman of the meeting.

(c) A member of the Committee shall abstain from participating in discussions and decisions on matters directly involving him and shall not be counted for the purpose of determining a quorum.

(d) Any member who participates in the meeting via tele-conferencing device shall be counted for the purpose of determining a quorum.

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**9. Decision-Making**      All decisions and/or approvals are to be made on unanimous basis, whilst always adhering to the quorum for meeting.

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**10. Attendance**      Each member of the Committee is required to attend at least 75% of the Committee meetings held in each financial year.

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**11. Circular Resolution**

- (a) Decision by the Committee may be made via circular resolution.
  - (b) Decision made via circular resolution is deemed effective after being executed by all members of the Committee, who are present in Malaysia.
  - (c) All decisions and/or approvals made via circular resolution shall be presented at the subsequent Committee meeting for notation.
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**12. Minutes of Meetings**

- (a) The Secretary shall minute the proceedings and resolutions of all meetings of the Committee. The minutes must record the decisions of the Committee, including the key deliberations, rationale for each decision made, and any significant concerns or dissenting views. The minutes must also indicate whether any member abstained from voting or excused himself from deliberating on a particular matter.
  - (b) Minutes of meetings shall be submitted to the Board for notification in such format as determined by the Board.
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**13. Review of the Terms of Reference**

The Board of Directors may review the Terms of Reference of the Committee once every two years or as and when is necessary.

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