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**HONG LEONG INVESTMENT BANK BERHAD**  
**- BOARD AUDIT AND RISK MANAGEMENT COMMITTEE****TERMS OF REFERENCE****Constitution**

The BARMC of the Bank has been established since 4 October 2012.

The BARMC is established to support the Board in discharging the following responsibilities:

1. Oversee Senior Management's implementation of the Bank's governance framework and internal control framework/policies.
2. Oversee that Senior Management meets the expectations on risk management as set out in the policy document on Risk Governance.
3. Oversee that Senior Management has a reliable and transparent financial reporting process within the Bank by providing independent oversight of internal and external audit functions.
4. Oversee Senior Management's implementation of compliance risk management.
5. Promote the adoption of sound corporate governance principles set out in the BNM Policy Document on Corporate Governance within the Bank.

**Composition**

The BARMC shall:

- (a) have at least three directors;
- (b) comprise only non-executive directors, with a majority of them being independent directors;
- (c) be chaired by an independent director; and
- (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the BARMC.

**Secretary**

The Secretary(ies) to the BARMC are the Company Secretary(ies) of the Bank.

**Terms of Reference****External Audit**

1. To make recommendations to the Board on the appointment, removal and remuneration of the external auditor.
2. To review the terms of engagement and the audit plan prior to engaging the external auditor and/or re-appointment of the external auditor.

3. To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
4. To review the assistance given by the officers of the Bank to the external auditor.
5. To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the BARMC on significant matters.
6. To review the report of the external auditor, including any significant matters and to ensure that management has taken the necessary corrective actions in a timely manner to address the external audit findings and recommendations.
7. To review third-party opinions on the design and effectiveness of the Bank's internal control framework.

### **Financial Reporting**

1. To review the accuracy and adequacy of the chairman's statement (if any) in the directors' report and corporate governance disclosures of the Bank.
2. To review the interim financial reports and annual financial statements of the Bank and its subsidiaries before submission to the Board, focusing particularly on changes in accounting policies and practices; significant adjustments arising from the audit; the going concern assumptions; and compliance with accounting standards and other legal requirements.

### **Related Party/Connected Party Transactions**

1. To review and update the Board on any related party transactions that may arise within the Bank.
2. To review and recommend for Board's approval, any credit transactions and exposure with connected parties.
3. To monitor compliance with the Board's conflict of interest policy.

### **Internal Audit**

1. To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
2. To review the adequacy and effectiveness of internal controls and risk management processes.
3. To review reports and significant findings by Internal Audit Department, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.

4. To review reports and findings issued by regulatory authorities, and to check that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.
5. To support the Board in meeting the expectations on Internal Audit management as set out in BNM's "Guidelines on Internal Audit Function of Licensed Institutions".
6. To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Internal Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors. This includes regular review to determine whether the internal audit function has appropriate standing within the Bank to undertake its activities independently and objectively.
7. To engage privately with the Head of Internal Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Internal Audit to discuss issues faced by the internal audit function.
8. To review the Audit Charter and recommend for Board's approval.
9. To review any significant disagreement between the Head of Internal Auditor and any member(s) of the Senior Management team where such disagreement may have adverse impact on the audit process or findings, and to recommend resolutions of such disagreement if they remain unresolved within a reasonable period of time.
10. To establish an appropriate mechanism to address and manage situations where there is a threat to the objectivity of internal audit.
11. To satisfy itself that the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.
12. To ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established when engaging external experts, where the internal audit function lacks the expertise needed to perform the audit of specialised areas.
13. Other audit functions as may be agreed to by the BARMC and the Board.

### **Risk Management**

1. To review Senior Management's activities in managing principal risks such as (but are not limited to) capital adequacy, credit risk, market risk, liquidity risk, operational risk, IT risk and environmental, social and governance risk.
2. To review Senior Management's reporting to the Board on measures taken to:
  - (a) Identify and examine principal risks faced by the Bank.
  - (b) Implement appropriate systems and internal controls to manage these risks.
3. To review the major risk management strategies, policies and risk tolerance for Board's approval.

4. To review the overall framework on ICAAP, annual risk appetite and Capital Management Plan.
5. To review the development and effective implementation of the ICAAP.
6. To review the stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
7. To review the periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
8. To review the adequacy and effectiveness of the internal controls and risk management process.
9. To review the adequacy of risk management policies and frameworks in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
10. To review risk management function's infrastructure, resources and systems and to ensure that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities.
11. To receive and review reports from pertinent management committees.
12. To review Senior Management's implementation of risk management as set out in BNM Policy Document on Risk Governance, Approach to Regulating and Supervising Financial Groups, and Corporate Governance.
13. To review and advise on the appointment, remuneration, removal and redeployment of the CRO.
14. To engage privately with the CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.
15. To review Senior Management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
16. Other risk management functions as may be agreed to by the BARMC and the Board.

## **Compliance**

1. To assist the Board in the oversight of the management of compliance risk by:
  - a) reviewing compliance policies and overseeing Senior Management's implementation of the same;

- b) reviewing the establishment of the compliance function and the position of the CCO to ensure the compliance function and CCO are provided with appropriate standing, authority and independence;
  - c) discussing and deliberating compliance issues regularly and oversee that such issues are resolved effectively and expeditiously;
  - d) reviewing annually the effectiveness of the Bank's overall management of compliance risk, having regard to the assessments of Senior Management and internal audit, as well as interactions with the CCO;
  - e) updating the Board on all significant compliance matters, including providing its views on (a) to (d) above.
2. In relation to the role of the CCO, support the Board in meeting the expectations on compliance management as set out in BNM Policy Document on Compliance by:
- a) reviewing and advising on the appointment, remuneration and termination of the CCO;
  - b) ensuring that CCO has sufficient stature to allow for effective engagement with the CEO and other members of Senior Management;
  - c) engaging privately with the CCO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function;
  - d) ensuring that the CCO is supported with sufficient resources, including competent officers, to perform his duties effectively;
  - e) where CCO also carries out responsibilities in respect of other control functions, the BARMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the CCO.
3. Other compliance functions as may be agreed to by the BARMC and the Board.

### **Whistleblowing**

1. In relation to the Bank's Whistleblowing Policy and Procedures,
  - a) oversee the implementation and effectiveness of the Bank's Whistleblowing Policy and Procedures; and
  - b) exercise its powers and carry out its responsibilities as set out under the Bank's Whistleblowing Policy and Procedures.

## **Group Governance**

1. Noted that:
  - (a) HLFGB as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within the HLFGB Group.
  - (b) HLFGB Board's responsibility is to promote the adoption of sound corporate governance principles throughout the Group.
  - (c) HLFGB's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation Group-wide.
  - (d) The respective subsidiaries' Board and Senior Management must validate that the objectives, strategies, plans, governance framework and policies set at HLFGB level are fully consistent with the regulatory obligations and the prudential management of the subsidiaries and ensure that entity specific risks are adequately addressed in the implementation of Group-wide policies.
2. The Bank's BARMC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFGB level are fully consistent with the regulatory obligations and the prudential management of the Bank and to check that the entity specific risks are adequately addressed in the implementation of Group-wide policies.

## **Authority**

The BARMC is authorised by the Board to review any activity of the Bank within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of Senior Management and all employees are directed to co-operate with any request made by the BARMC.

The BARMC is authorised by the Board to obtain independent legal or other professional advice as it considers necessary.

## **Meetings**

The BARMC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The Group Managing Director, CEO, CRO, CCO, Head of Internal Audit, CFO, other Senior Management, employees and external auditor may be invited to attend the BARMC meetings, whenever required.

At least twice a year, the BARMC will have separate sessions with the external auditor without the presence of Executive Directors and the Senior Management.

Issues raised, discussions, deliberations, decisions and conclusions made at the BARMC meetings are recorded in the minutes of the BARMC meetings. A BARMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the BARMC meeting where the material transaction or material arrangement is being deliberated by the BARMC.

Two (2) members of the BARMC, who shall be independent, shall constitute a quorum and the majority of members present must be independent directors.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

### **Revision of the Terms of Reference**

Any revision or amendment to the Terms of Reference, as proposed by the BARMC, shall first be presented to the Board for its approval. Upon the Board's approval, the said revision or amendment shall form part of this Terms of Reference which shall be considered duly revised or amended.

### **Definitions**

<b>“BARMC”</b>	means the Board Audit and Risk Management Committee
<b>“Board”</b>	means the Board of Directors
<b>“Bank” or “HLIB”</b>	means Hong Leong Investment Bank Berhad
<b>“BNM Policy Document”</b>	means the policy document published by Bank Negara Malaysia
<b>“CCO”</b>	means the Chief Compliance Officer/Head of Compliance
<b>“CEO”</b>	means the Chief Executive Officer
<b>“CFO”</b>	means the Chief Financial Officer
<b>“CRO”</b>	means the Chief Risk Officer
<b>“Group”</b>	means Hong Leong Financial Group Berhad and its subsidiaries
<b>“HLFG”</b>	means Hong Leong Financial Group Berhad
<b>“ICAAP”</b>	means Internal Capital Adequacy Assessment Process
<b>“Senior Management”</b>	means the CEO, CFO and Heads of Departments of HLIB
<b>“Whistleblowing Policy and Procedures”</b>	means the Whistleblowing Policy and Standard Operating Procedures