HONG LEONG CAPITAL BERHAD
- BOARD AUDIT AND RISK MANAGEMENT COMMITTEE

TERMS OF REFERENCE

Constitution

The Board Audit Committee of the Company has been established since 23 March 1994 and has been re-designated as the BARMC on 29 August 2001.

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

1. Oversee Senior Management's implementation of the Company's governance, risk management and internal control framework/policies.

2. Ensure Senior Management meets the expectations on risk management and compliance.

3. Ensure Senior Management has a reliable and transparent financial reporting process within the Company 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 based on applicable legislations, regulations and code for the Group.

6. Oversee the implementation of the Group's sustainability strategies and consider ESG issues when reviewing risk management policies as well as oversee progress against goals and targets for addressing climate related issues.

Composition

1. The BARMC shall:

   (a) have at least three (3) directors;

   (b) comprise only non-executive directors, with a majority of them being independent non-executive directors;

   (c) be chaired by an independent non-executive director who is not the Chairman of the Board; and

   (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the BARMC.

2. A former partner of the external auditor of the Company shall not serve or be appointed as a member of the BARMC until at least three (3) years after:

   (a) he/she ceases to be an officer or partner of that audit firm; or

   (b) the audit firm last served as an external auditor of the Company.

Secretary

The Secretary to the BARMC is the Company Secretary of the Company or his/her nominee(s).

Terms of Reference

External Audit

1. To make recommendations to the Board on the appointment, re-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 approval of the provision of non-audit services by the external auditor.

4. To monitor and assess the effectiveness of the external audit, including the review of the assistance given by the officers of the Group 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 Company's internal control framework.

Financial and Regulatory 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 Company.

2. To review the interim financial reports and annual financial statements of the Company and the Group before submission to the Board, focusing particularly on:

   (a) changes in or implementation of significant accounting policies and practices;

   (b) significant matters highlighted including financial reporting issues, material judgements made by management, material and unusual events or transactions, and how these matters are addressed;

   (c) material adjustments arising from the audit;

   (d) the going concern assumptions; and

   (e) compliance with accounting standards and other legal requirements.

3. To review the sustainability statement and/or report disclosures of the Company.

4. To note the update on the Company tax affairs, management of tax compliance risk and tax matters that may have a material impact to the Company/Group.

Related Party/Connected Party Transactions and Conflict of Interest Situations

1. To review and update the Board on any related party transactions that may arise within the Group.

2. To monitor compliance with the Board's conflict of interest policy, review conflict of interest situations that arose, persist or may arise within the Group, and the measures taken to resolve, eliminate or mitigate such conflicts.

Internal Audit

1. To ensure that the internal audit function is functionally placed under the authority and supervision of the BARMC.

2. To review and approve the adequacy of the internal audit mandate, scope, procedures, frequency and plan.

3. To assess the performance and effectiveness of the internal audit function by an established mechanism to satisfy itself that the internal audit function is effective.

4. To review the adequacy and effectiveness of internal controls and risk management processes.

5. To review reports and significant findings of the internal audit function, 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.

6. 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.

7. To support the Board in meeting the expectations on internal audit function as set out in BNM's policy document, "Guidelines on Internal Audit Function of Licensed Institutions".

8. 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 a regular review to determine whether the internal audit function has appropriate standing not only within the Company but also within the Group to undertake its activities independently and objectively.

9. To engage privately with the Head of Internal Audit on a regular basis (and in any case at least once annually) to provide the opportunity for the Head of Internal Audit to discuss issues faced by the internal audit function.

10. To review the Audit Charter and recommend the same for Board's approval.

11. To review any significant disagreement between the Head of Internal Audit 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.

12. To establish an appropriate mechanism to address and manage situations where there is a threat to the independence and objectivity of internal audit.

13. 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.

14. Other internal 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 ESG risk.

2. To review Senior Management's reporting to the Board on measures taken to:

   (a) Identify and examine principal risks faced by the Company.
   (b) Implement appropriate systems and internal controls to manage these risks.

3. To review major risk management strategies, policies and risk tolerance thresholds for the Board's approval.

4. To review the overall ICAAP framework, material updates relating to recovery planning, annual risk appetite and Capital Management Plan for the Board's approval.

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 Group'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's 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 once annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.

15. 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 compliance function and the position of the CCO to ensure the compliance function and the 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 Company's overall management of compliance risk, having regard to the assessments of Senior Management and internal audit, as well as interactions with the CCO; and

   (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 by:

   (a) reviewing and advising on the appointment, remuneration, termination and redeployment of the CCO of the Company;

   (b) ensuring that the 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 once 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/her duties effectively; and

   (e) where the 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

In relation to the Company's Whistleblowing Policy and Procedures, to:

(a) oversee the implementation and effectiveness of the Company's Whistleblowing Policy and Procedures; and

(b) exercise its powers and carry out its responsibilities as set out under the Company's Whistleblowing Policy and Procedures.

HLFG Group Governance

1. Noted that:

   (a) HLFG as an apex entity has overall responsibility for ensuring the –
      (i) establishment and operation of a clear governance structure within the HLFG Group; and
      (ii) implementation of prudential standards in a manner providing sufficient coverage of material risks arising from the activities of the HLFG Group.

   (b) Subject to relevant regulatory requirements, HLCB shall provide relevant information to HLFG on matters which present material risks to itself or the HLFG Group as a whole, and consider the remedial or corrective actions recommended by HLFG to address such materials risks.

   (c) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.

   (d) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation throughout the Group. Upon receipt of such proposal(s) from HLFG, the Board and Senior Management of HLCB must assess and validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of HLCB and ensure that entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.

2. HLCB's BARMC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiaries and to check that the entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.

Authority

The BARMC is authorised by the Board to:

1. review any activity of the Group within its Terms of Reference;

2. 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, including but not limited to providing the BARMC with sufficient support and resources required to investigate any matter within the mandates of the BARMC; and

3. obtain independent legal or other professional advice as it considers necessary at the expense of the Company.

The Board remains fully accountable for any authority delegated to the BARMC.

Meetings

The BARMC shall meets at least four (4) times in each financial year and additional meetings may be called at any time as and when necessary. All meetings to review the interim financial reports and annual financial statements are held prior to such interim financial 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 auditors may be invited to attend the BARMC meetings, whenever required.

At least twice a year, the BARMC will have separate sessions with the external auditors 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, or potentially has, directly or indirectly, an interest in a material transaction or material arrangement or conflict of interest situation shall not be present at the BARMC meeting when the material transaction or material arrangement or conflict of interest situation is being deliberated by the BARMC. The interested BARMC member may be counted in the quorum present at the BARMC meeting.

Two (2) members of the BARMC, who shall be independent, shall constitute a quorum and majority of the members present must be independent non-executive directors. No business shall be transacted at any BARMC meeting unless a quorum is present at the commencement of the meeting and when conducting the business of the meeting.

Matters arising at any BARMC meeting shall be decided by a majority of votes. In case of an equality of votes, the BARMC Chairman shall have a second or casting vote, except when only two (2) BARMC members are eligible to vote on the matter at issue, in which event the BARMC Chairman shall not have a second or casting vote, and the matter arising at the BARMC meeting shall be referred to the Board for decision.

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.

Circular Resolutions

A resolution in writing signed by a majority of the BARMC members shall be as valid and effectual as if it had been passed at a meeting of the BARMC duly convened and held. Any such resolution may be contained in a single document or may consist of several documents in like form, each signed by one or more BARMC members.

For the purpose of this provision, "in writing" and "signed" include approval by facsimile, email and other electronic means.

Review and Revision of the Terms of Reference

This Terms of Reference of the BARMC is subject to periodic review by the BARMC or at least once annually. 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

"BARMC"	Board Audit and Risk Management Committee
"BNM"	Bank Negara Malaysia
"Board"	Board of Directors
"CCO"	Chief Compliance Officer or the Head of Compliance
"CEO"	Chief Executive Officer
"CFO"	Chief Financial Officer
"Company" or "HLCB"	Hong Leong Capital Berhad
"CRO"	Chief Risk Officer
"ESG"	Environmental, Social and Governance
"Group"	Company and its subsidiaries
"HLFG"	Hong Leong Financial Group Berhad
"HLFG Group"	HLFG and its subsidiaries
"ICAAP"	Internal Capital Adequacy Assessment Process
"IT"	Information Technology
"Senior Management"	CEO, CFO and Heads of Departments of the Group
"Whistleblowing Policy and Procedures"	Whistleblowing Policy and Standard Operating Procedures