

HONG LEONG ISLAMIC BANK BERHAD

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

**HONG LEONG ISLAMIC BANK BERHAD (“HLISB” OR THE “BANK”)
- BOARD AUDIT AND RISK MANAGEMENT COMMITTEE****TERMS OF REFERENCE****Constitution**

The BARMC of HLISB was established on 29 September 2005.

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

1. Oversee Management’s implementation of the Bank’s governance framework and internal control framework/policies.
2. Ensure Management meets the expectations on risk management as set out in the Policy Document on Risk Governance.
3. Ensure Management has a reliable and transparent financial reporting process within the Bank by providing independent oversight of internal and external audit functions.
4. Oversee Management’s implementation of compliance risk management.
5. Promote the adoption of sound corporate governance principles as set out in the Policy Document on Corporate Governance within the Bank.
6. Consider Environmental, Social and Governance (ESG) issues when reviewing risk management policies as well as oversee progress against goals and targets for addressing climate related issues.

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 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.

Secretary

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

Terms of Reference

External Audit

- To make recommendations to the Board on the appointment, removal and remuneration of the external auditor.
- To review the terms of engagement and the audit plan prior to engaging the external auditor and/or re-appointment of the external auditor.
- To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- To review the assistance given by the officers of the Bank to the external auditor.
- 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.
- 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.
- To review third-party opinions on the design and effectiveness of the Bank's internal control framework.

Financial Reporting

- To review the accuracy and adequacy of the chairman's statement in the directors' report, and corporate governance disclosures of the Bank.
- To review the interim financial reports and annual financial statements of the Bank 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.
- To be informed on updates relating to the Bank's tax affairs, management of tax compliance risk and tax matters that may have a material impact to the Bank.

Related Party/Connected Party Transactions

- To review and update the Board on any related party transactions that may arise within the Bank.
- To monitor compliance with the Board's conflict of interest policy.

Related Party/Connected Party Transactions (cont'd)

- To review and recommend for Board's approval, any credit transactions and exposure with connected parties.

Internal Audit

- To review and approve the adequacy of the Internal Audit scope, procedures, frequency and plan and assess the internal audit's capacity to perform audits in highly technical areas, such as in information technology related audits.
- 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.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by Internal Audit Division, 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, Shariah requirements, policies and other problems identified by the Internal Audit and other control functions.
- 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, Shariah requirements, policies and other problems identified by the regulatory authorities.
- 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.
- To review any significant disagreements between the CIA and any member(s) of the Senior Management team where such disagreements 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.
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the CIA, and/or 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 to undertake its activities independently and objectively.
- To engage privately with the CIA on a regular basis (and in any case at least twice annually) to provide the opportunity for the CIA to discuss issues faced by the internal audit function.
- To review the Audit Charter and recommend for Board approval.

Internal Audit (cont'd)

- To ensure that GIA has an appropriate internal policy that addresses situations of bias/threat to objectivity, for example, where an internal employee transfer to GIA Unit will not be allowed to audit an area of operations which the auditor previously worked in, for a period of at least 12 months from joining GIA.
- 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 specialized areas.
- Other audit functions as may be agreed to by the BARMC and the Board.

Risk Management

- To review Management's activities in managing principal risks such as (but are not limited to) capital adequacy, credit risk, market risk, liquidity risk, rate of return risk in the banking book, operational risk, Shariah Non-Compliance risk and environmental, social and governance risk.
- To review 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.
- To review Management's major risk management strategies, policies and risk tolerance for the Board's approval.
- To review Management's overall framework on the ICAAP, annual risk appetite and Capital Management Plan for the Board's approval.
- To review Management's development and effective implementation of the ICAAP.
- To review Management's stress testing governance including the evaluation of the capital stress test scenarios, parameters, key assumptions, climate risk pathways and results.
- To review Management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of Management's internal controls and risk management process.
- 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.

Risk Management (cont'd)

- To review risk management function's infrastructure, resources and systems and to ensure the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk-taking activities.
- To receive and review reports from pertinent management committees.
- To review Management's implementation of risk management as set out in Policy Documents on Risk Governance, Corporate Governance and Shariah Governance.
- To review and advise on the appointment, remuneration, removal and redeployment of the CRO.
- 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.
- To review Management's implementation of the remuneration system and incentives provided by the remuneration system which take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- Other risk management functions as may be agreed to by the BARMC and the Board.

Compliance

- To assist the Board in the oversight of the management of compliance risk by:
 - a) reviewing compliance policies and overseeing management's implementation of the same;
 - b) reviewing 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 ensuring 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 and interactions with the CCO;

Compliance (cont'd)

- e) overseeing the Management's implementation of the principles set out in the Policy Document on Fair Treatment of Financial Consumers, including to promote the adoption of a sound corporate culture within the Bank which reinforces ethical, prudent and professional conduct and behaviour; and
 - f) updating the Board on all compliance matters, including providing its views on (a) to (e) above.
- In relation to the role of the CCO, support the Board in meeting the expectations on compliance management as set out in Policy Document on Compliance by:
 - a) reviewing and advising on the appointment, remuneration, removal and redeployment of the CCO;
 - 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 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 to perform 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.
 - Other compliance functions as may be agreed to by BARMC and the Board.

Whistleblowing

The BARMC oversees the implementation and effectiveness of the Bank's Whistleblowing Policy and exercises and carries out the responsibilities as set out under the Whistleblowing Policy.

Authority

The BARMC is authorised by the Board to:

1. review any activity of the Bank within its Terms of Reference;
2. seek any information it requires from any Director or member of Senior Management, and in this respect 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 if it considers necessary.

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

Meetings

The BARMC meets at least six (6) 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/Chief Executive Officer of HLB, CEO of HLISB, CIA, CRO, CFO, CCO, CSO, 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 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 majority of the members present must be independent director. 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.

After each 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

“BARMC”	means HLISB’s Board Audit and Risk Management Committee
“Bank” or “HLISB”	means Hong Leong Islamic Bank Berhad
“BNM”	means Bank Negara Malaysia
“Board”	means HLISB’s Board of Directors
“CCO”	means the Chief Compliance Officer or any equivalent position
“CEO”	means the Chief Executive Officer of HLISB
“CIA”	means the Chief Internal Auditor or any equivalent position
“CRO”	means the Chief Risk Officer of HLISB
“CSO”	means the Chief Shariah Officer of HLISB or any equivalent position
“GIA”	means Group Internal Audit
“HLB”	means Hong Leong Bank Berhad
“ICAAP”	means Internal Capital Adequacy Assessment Process
“Policy Document”	means the policy document published by BNM
“Senior Management”	means the Chief Executive Officer and other Senior Officers of the Bank as determined by the Chief Executive Officer from time to time.