

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 Board Audit and Risk Management Committee (“BARMC”) of HLISB has been established on 29 September 2005.

The BARMC is a committee 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. Oversee that 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.

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

- 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 auditors and/or re-appointment of the external auditors.
- 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 (if any) in the directors' report, corporate governance disclosures, interim financial reports and annual financial statements.

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.
- 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, plan, and assess the performance and effectiveness of the internal audit function, including its capacity to perform audits in highly technical areas, such as in information technology related audits.
- 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, 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, 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 policy document, "Guidelines on Internal Audit Function of Licensed Institutions".
- To note significant disagreements between the Chief Internal Auditor and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings.
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Chief Internal Auditor (or his equivalent), 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 Chief Internal Auditor (or his equivalent) on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Internal Auditor (or his equivalent) to discuss issues faced by the internal audit function.
- To review the Audit Charter and recommend for Board approval.
- Other audit functions as may be agreed to by the Board.

Risk Management

- To review management's activities in managing principal risks such as credit, market, liquidity, rate of return risk in the banking book, operational, Shariah compliance and the risk management process.
- 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 Board's approval.
- To review management's overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), annual risk appetite and Capital Management Plan for Board's approval.
- To review management's development and effective implementation of the ICAAP.
- To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions 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.
- 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 BNM's policy documents on Risk Governance, Corporate Governance and Shariah Governance Framework.

Risk Management (cont'd)

- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer.
- To engage privately with the Chief Risk Officer on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Risk Officer 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 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 establishment of the compliance function and the position of the Chief Compliance Officer /Head of Compliance ("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;
 - e) overseeing the management's implementation of the principles set out in the BNM's 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
 - f) updating the Board on all significant compliance matters, including providing its views on (a) to (e) above.

Compliance (cont'd)

- In relation to the role of the CCO, support the Board in meeting the expectations on compliance management as set out in BNM's 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;
 - 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 the Board.

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 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 if it considers necessary.

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 of Hong Leong Bank Berhad (HLB), Managing Director/Chief Executive Officer (MD) of HLISB, Chief Internal Auditor, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer, Chief Shariah Officer, other senior management and external auditors may be invited to attend the BARMC meetings, whenever required.

Meetings (cont'd)

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 the majority of members present must be independent director.

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.