

## **HONG LEONG FINANCIAL GROUP BERHAD TERMS OF REFERENCE OF THE BOARD AUDIT AND RISK MANAGEMENT COMMITTEE**

### **Constitution**

The Board Audit Committee of HLFG 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 management's implementation of the Group's governance framework and internal control framework/policies.
2. Oversee that 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 Company by providing independent oversight of internal and external audit functions.
4. Oversee management's implementation of compliance risk management.
5. Promote the adoption of the sound corporate governance principles set out in the Policy Document on Corporate Governance within the Group.

### **Group Governance**

1.
  - (a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within the Group.
  - (b) The Board's responsibility is to promote the adoption of sound corporate governance principles throughout the Group.
  - (c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation throughout the Group.
  - (d) The respective subsidiaries' board of directors and Senior Management must 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 subsidiary and ensure that entity specific risks are adequately addressed in the implementation of Group-wide policies.
2. The BARMC shall support the Board to discharge its responsibilities above by reviewing the objectives, strategies, plans, governance framework and policies proposed by HLFG's audit, risk and compliance functions for adoption and implementation throughout the Group.

## **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 Company.

## **Terms of Reference**

### **Audit**

#### **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 by approving the provision of non-audit services by the external auditor.
4. To review 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 Reporting**

1. To review the accuracy and adequacy of the chairman's statement 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 Group 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.

3. 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

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.

#### Internal Audit

1. To review and approve the adequacy of the internal audit scope, procedures, frequency and 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 findings of 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.
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 CIA, and to provide oversight on the adequacy of resources and remuneration of the internal auditors.
7. To engage privately with the CIA on a regular basis (and in any case at least once annually) to provide the opportunity for the CIA to discuss issues faced by the internal audit function.
8. To review the Audit Charter and recommend for Board approval.
9. To review any significant disagreement between the CIA 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 specialized areas.
13. Other audit functions as may be agreed to by the BARMC and the Board.

### **Risk Management**

1. To review management's activities in managing principal risks such as (but are not limited to) capital adequacy, credit risk, market risk, liquidity risk, operational risk, compliance risk and environmental, social and governance risk.
2. To review 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 management's major risk management strategies, policies and risk tolerance for the Board's approval.
4. To review management's overall framework on the ICAAP, including management's stress testing programme, annual risk appetite and Capital Management Plan for the Board's approval.
5. To review management's development and effective implementation of the ICAAP.
6. To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition and risk management activities.
7. To review the adequacy and effectiveness of management's internal controls and risk management process.
8. 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.
9. 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.
10. To receive and review reports from pertinent management committees.
11. To review management's implementation of risk management as set out in Policy Document on Risk Governance, Approach to Regulating and Supervising Financial Groups, and Corporate Governance.
12. To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer.
13. To engage privately with the Chief Risk Officer on a regular basis (and in any case at least once annually) to provide the opportunity for the Chief Risk Officer to discuss issues faced by the risk management function.

14. 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 the Company's compliance risk by:
  - a) reviewing compliance policies and overseeing the 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 Group 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 as set out in 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 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 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 Company's Whistleblowing Policy and Procedures,
  - 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.

## **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.

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

## **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 CFO, Chief Risk Officer, CIA, CCO, employees and external auditors are 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 the 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.

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.

## **Definitions**

<b>“BARMC”</b>	<b>means HLFG’s Board Audit and Risk Management Committee</b>
<b>“BNM”</b>	<b>means Bank Negara Malaysia</b>
<b>“Board”</b>	<b>means HLFG’s Board of Directors</b>
<b>“CCO”</b>	<b>means the Chief Compliance Officer of HLFG</b>

<b>“CFO”</b>	<b>means the Chief Financial Officer of HLFG</b>
<b>“CIA”</b>	<b>means the Chief Internal Auditor of HLFG</b>
<b>“Company” or “HLFG”</b>	<b>means Hong Leong Financial Group Berhad</b>
<b>“Group”</b>	<b>means HLFG and its subsidiaries</b>
<b>“ICAAP”</b>	<b>means Internal Capital Adequacy Assessment Process</b>
<b>“Policy Document”</b>	<b>means the policy document published by BNM</b>
<b>“Senior Management”</b>	<b>means the Chief Executive Officer, CFO and Heads of Departments of HLFG</b>
<b>“Whistleblowing Policy and Procedures”</b>	<b>means Whistleblowing Policy and Whistleblowing Standard Operating Procedures</b>