

HONG LEONG BANK BERHAD

BOARD AUDIT COMMITTEE TERMS OF REFERENCE

CONSTITUTION

The BAC of HLB has been established since 18 August 1994 and was re-designated as the Board Audit & Risk Management Committee (BARMC) on 10 January 2002. Subsequently, on 2 October 2006, the Board decided to reconstitute the BAC separately from the Board Risk Management Committee (BRMC).

The BAC is established to provide independent oversight over internal and external audit functions, internal controls and ensuring checks and balances within the Bank. The BAC shall 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 has a reliable and transparent financial reporting process within the Bank by providing independent oversight of internal and external audit functions.

COMPOSITION

The BAC 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;
- (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the BAC;
- (e) include the Chair of the Board Risk Management Committee; and
- (f) not have a former audit partner appointed to the Committee unless a cooling-off period of at least 3 years has been observed.

SECRETARY

The Secretary(ies) to the BAC 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 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 BAC 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 Group's internal control framework.

Financial Reporting

1. To review the accuracy and adequacy of the chairman's statement (if any) in the directors' report, corporate governance disclosures, interim financial reports, preliminary announcements in relation to the preparation of financial statements and annual financial statements.
2. To be informed on updates relating to the Bank's tax affairs, management of tax compliance risks and on tax matters that may have a material impact to the Bank/ Group.

Related 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.

Related Party Transactions (cont'd)

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

Whistleblowing

The BAC 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.

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, including its capacity to perform audits in highly technical areas, such as in information technology related audits.
2. To review the adequacy and effectiveness of internal controls and risk management processes.
3. 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.
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. This includes a regular review to determine whether the Internal Audit function has appropriate standing not only within the Bank but also within the Group to undertake its activities independently and objectively.

Internal Audit (cont'd)

7. 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.
8. To review the Audit Charter and recommend for Board approval.
9. 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 disagreements if they remain unresolved within a reasonable period of time.
10. 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.
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 BAC and the Board.

Group Governance

1. Noted that:
 - (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 Group-wide.

- (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 BAC 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 Bank and to check that the entity specific risks are adequately addressed in the implementation of Group-wide policies.

AUTHORITY

The BAC 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 in this respect, all employees are directed to co-operate with any request made by the BAC, including but not limited to providing the BAC with sufficient support and resources required to investigate any matter within the mandates of the BAC; and
3. obtain independent legal or other professional advice if it considers necessary.

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

MEETINGS

The BAC meets at least eight (8) 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, Chief Financial Officer, Chief Risk Officer, CIA, Chief Compliance Officer, other Senior Management, employees and external auditors may be invited to attend the BAC meetings, whenever required.

At least twice a year, the BAC will have separate sessions with the External Auditors without the presence of Executive Directors and Management.

The BAC and BRMC must meet periodically to ensure effective exchange of information so as to enable effective coverage of all risks, including emerging risk issues that could have an impact on the institution's risk appetite and business plans.

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

Two (2) members of the BAC, 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 BAC meeting unless a quorum is present at the commencement of the meeting and when conducting the business of the meeting.

After each meeting, the BAC shall report and update the Board on significant issues and concerns discussed during the BAC 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 BAC, 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

"BAC"	means HLB's Board Audit Committee
"Bank" or "HLB"	means Hong Leong Bank Berhad
"BNM"	means Bank Negara Malaysia
"Board"	means HLB's Board of Directors
"BRMC"	means Board Risk Management Committee
"CIA"	means the Chief Internal Auditor of HLB
"Group"	means HLB and its subsidiaries
"GIA"	means Group Internal Audit
"HLFG"	means Hong Leong Financial Group Berhad