

HONG LEONG BANK BERHAD

BOARD AUDIT COMMITTEE TERMS OF REFERENCE

CONSTITUTION

The Board Audit Committee (“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 of Directors (“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 Company’s governance framework and internal control framework/policies.
2. Ensure management has a reliable and transparent financial reporting process within the Company 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;
- (d) comprise directors who have the skills, knowledge and experience relevant to the responsibilities of the BAC; and
- (e) include the Chair of the Board Risk Management Committee.

SECRETARY

The Secretariat to the BAC is 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 auditors and/or re-appointment of the external auditors.

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 Bank and its subsidiaries (“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.

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

Internal Audit

1. 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.
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 policy document, "Guidelines on Internal Audit Function of Licensed Institutions".
6. To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Chief Internal Auditor, 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.
7. To engage privately with the Chief Internal Auditor on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Internal Auditor to discuss issues faced by the internal audit function.
8. To review the Audit Charter and recommend for Board approval.
9. Other audit functions as may be agreed to by the Board.

Group Governance

1. Noted that:
 - (a) Hong Leong Financial Group ("HLFG") as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within the Group.
 - (b) HLFG 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 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 review any activity of the Group 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 BAC.

The BAC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

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, Chief Internal Audit, Chief Compliance Officer, other senior management 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 the majority of members present must be independent directors.

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.