

HONG LEONG BANK BERHAD

BOARD RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

CONSTITUTION

The Board Risk Management Committee (“BRMC”) is established to 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 meets the expectations on risk management as set out in the policy document on Risk Governance.
3. Oversee management’s implementation of compliance risk management.
4. Promote the adoption of sound corporate governance principles as set out in the Policy Document on Corporate Governance within the Bank and its subsidiaries (“the Group”).

COMPOSITION

The BRMC 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 board committee; and
- (e) include the Chair of the Board Audit Committee.

SECRETARY

The Secretariat to the BRMC is the Group Risk Management (“GRM”) of the Bank.

TERMS OF REFERENCE

Risk Management

1. To review management’s activities in managing principal risks such as credit, market, liquidity, interest rate risk in the banking book, operational, compliance, and the risk management process.
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 Board’s approval.

4. 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.
5. To review management's development and effective implementation of the ICAAP.
6. To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
7. To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
8. To review the adequacy and effectiveness of management's internal controls and risk management process.
9. 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.
10. 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 Group's risk-taking activities.
11. To receive and review reports from pertinent management committees.
12. To review management's implementation of risk management as set out in BNM's policy documents on Risk Governance, Approaches to Regulating and Supervising Financial Group and Corporate Governance.
13. To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer.
14. To engage privately with the Chief Risk Officer on a regular basis (and in any case at least twice annually) to provide opportunity for the Chief Risk Officer to discuss issues faced by the risk management function.
15. 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.
16. Other risk management functions as may be agreed by the Board.

Compliance

1. 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 to ensure the compliance function and Chief Compliance Officer has 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 Company's overall management of compliance risk, having regard to the assessments of senior management and internal audit and interactions with the Chief Compliance Officer;
 - e) updating the Board on all compliance matters, including providing its views on (a) to (d) above.
2. In relation to the role of the Chief Compliance Officer, 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 Chief Compliance Officer;
 - b) ensuring that the Chief Compliance Officer has sufficient stature to allow for effective engagement with the CEO and other members of senior management;
 - c) engaging privately with the Chief Compliance Officer on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Compliance Officer to discuss issues faced by the compliance function;
 - d) ensuring that the Chief Compliance Officer is supported with sufficient resources to perform duties effectively;
 - e) where the Chief Compliance Officer also carries out responsibilities in respect of other control functions, the BRMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the Chief Compliance Officer.
3. Other compliance functions as may be agreed to by the Board.

Group Governance

1. Noted that:
 - (a) The Bank, as a company with licensed subsidiary companies has overall responsibility for ensuring the establishment and operation of a clear governance structure within its subsidiaries (“Bank Group”).
 - (b) The Board’s responsibility is to promote the adoption of sound corporate governance principles throughout the Bank Group.
 - (c) The Bank’s risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation within the Bank Group.
 - (d) The respective subsidiaries’ board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at the Bank 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 Bank Group policies.

AUTHORITY

The BRMC is authorised by the Board to review any activities 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 BRMC.

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

MEETINGS

The BRMC meets at least eight (8) times a year and additional meetings may be called at any time as and when necessary.

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 BRMC meetings, whenever required.

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

Two (2) members of the BRMC, who shall be independent and non-executive, shall constitute a quorum.

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