



ALLIANCE BANK

Alliance Bank Malaysia Berhad (88103-W)

(for the Financial Year Ended 31 March 2014)

MEMBERSHIP AND ATTENDANCE

The Committee comprises the following Non-Executive Directors and details of attendance of each member at Committee meetings held during the financial year ended 31 March 2014 are as follows :-

<u>Members</u>	<u>Attendance</u>
Megat Dziauddin Bin Megat Mahmud (Chairman) (<i>Independent Non-Executive Director</i>)	10/10
Kung Beng Hong (<i>Non-Independent Non-Executive Director</i>)	10/10
Ou Shian Waei (<i>Independent Non-Executive Director</i>)	10/10

TERMS OF REFERENCE

1. POLICY

It is the policy of **Alliance Bank Malaysia Berhad (ABMB) and its subsidiaries** to establish a Group Audit Committee to ensure that internal and external audit functions are properly conducted and that audit recommendations are being carried out effectively.

2. OBJECTIVES

- 2.1 To comply with regulatory guidelines on Audit Committee and Internal Audit Function.
- 2.2 To provide independent oversight of ABMB and its subsidiaries' financial reporting and internal control system and ensuring checks and balances within ABMB and its subsidiaries.

3. COMPOSITION OF THE GROUP AUDIT COMMITTEE

- 3.1 The Group Audit Committee shall be appointed by the Directors of ABMB and its subsidiaries, which shall fulfill the following requirements:-
 - a) the Group Audit Committee must be composed of no fewer than three members;
 - b) all the Group Audit Committee members must be non-executive directors, with a majority of them being independent directors;
 - c) the members of the Group Audit Committee shall elect a Chairman from among themselves who shall be an Independent Director; and
 - d) at least one member of the Group Audit Committee:-

- i) must be a member of the Malaysian Institute of Accountants; or
- ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and :-
 - aa) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - bb) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

3.2 No alternate Director shall be appointed as a member of the Group Audit Committee.

4. SECRETARY TO THE GROUP AUDIT COMMITTEE

The Company Secretary shall be the Secretary to the Group Audit Committee.

5. QUORUM

Two members of the Group Audit Committee shall constitute a quorum at any meeting and majority of members present must be Independent Directors to form a quorum.

6. ATTENDANCE AT MEETINGS

- 6.1 The Group Chief Internal Auditor is invited to attend all meetings of the Group Audit Committee.
- 6.2 The Group Chief Financial Officer and the External Auditors are normally invited to attend meetings as and when necessary.
- 6.3 Other Board members and employees may attend meetings upon the invitation of the Group Audit Committee.
- 6.4 The Secretary of the Group Audit Committee shall provide the necessary administrative and secretarial services for the effective functioning of the Group Audit Committee. The minutes of meetings are circulated to the Group Audit Committee Members and to all other members of the pertinent Boards.

7. FREQUENCY OF MEETINGS

The Group Audit Committee shall meet at least quarterly although additional meetings may be called at any time at the discretion of the Group Audit Committee.

8. FUNCTIONS OF THE GROUP AUDIT COMMITTEE

The functions of the Group Audit Committee are:-

- 8.1 To recommend the re-appointment of the External Auditors, the audit fee and any questions of resignation or dismissal and whether there is reason (supported by grounds) to believe that the External Auditors are not suitable for re-appointment;
- 8.2 To discuss with the External Auditors before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

- 8.3 To recommend the nomination of a person or persons as the External Auditors;
- 8.4 To assess objectivity, performance and independence of the External Auditors (e.g. by reviewing and assessing the various relationships between the External Auditors and ABMB and its subsidiaries);
- 8.5 To approve the use of the appointed external audit firm for non-audit services including the non-audit fees payable;
- 8.6 To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgement of the External Auditors;
- 8.7 To review –
 - a) with the External Auditors, the audit plan;
 - b) with the External Auditors, their evaluation of the system of internal controls;
 - c) with the External Auditors, their audit report;
 - d) the assistance given by ABMB and its subsidiaries' officers to the External Auditors; and
 - e) the consolidated financial statements of ABMB and its subsidiaries;
- 8.8 To review the quarterly, half-yearly and year-end financial statements of ABMB and its subsidiaries, prior to the approval of the Boards of Directors, focusing particularly on:-
 - a) any changes in accounting policies and practices;
 - b) significant adjustments arising from the audit;
 - c) any other significant and unusual events;
 - d) the going concern assumption; and
 - e) compliance with accounting standards and other legal requirements;
- 8.9 To ensure fair and transparent reporting and prompt publication of the financial accounts;
- 8.10 To discuss problems and reservations arising from the interim and final audits, and any matter the External Auditors may wish to discuss (in the absence of management where necessary);
- 8.11 To review the External Auditors' management letter and management's response;
- 8.12 To regularly review the audit findings of the External Auditors and Regulators and ensure that issues are being managed and rectified appropriately and in a timely manner;
- 8.13 To review best practices on disclosure in financial results and annual reports of ABMB and its subsidiaries in line with the principles set out in the Malaysian Code of Corporate Governance, other applicable laws, rules, directives and guidelines;
- 8.14 To review the effectiveness of internal controls and risk management processes;
- 8.15 To do the following in relation to the internal audit function:
 - a) oversee the Internal Audit function and ensure compliance with requirements of regulators;
 - b) review the adequacy of the scope, functions, competency and resources of the internal audit function, and that it has the necessary authority to carry out its work;
 - c) review and approve the internal audit plan, review results of the internal audit process and where necessary ensure that appropriate actions are taken on the recommendations of the internal audit function;
 - d) review internal controls including the scope of the internal audit program, the internal audit findings and recommend actions to be taken by the Management;

- e) regularly review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner;
- f) appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Group Chief Internal Auditor;
- g) ensure the compensation scheme of the internal auditors is consistent with the objectives and the demands of the internal audit function;
- h) consider the major findings of internal investigations and management's responses;
- i) review the effectiveness of the infrastructure for ensuring Shariah compliance;
- j) establish an appropriate mechanism to address and manage situations where there is a threat to the objectivity of internal audit; and
- k) ensure the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.

8.16 Where internal audit function lacks the expertise needed to perform the audit of specialised areas, external experts may be engaged. However, the Group Audit Committee remains responsible for ensuring that audit of specialised areas is adequate.

8.17 In situations that external experts are engaged to carry out review of specialised areas where internal audit is not or not sufficiently proficient, the Group Audit Committee should ensure that:

- a) terms and scope of the engagement, the working arrangement with the internal auditors and reporting requirements are clearly established, and
- b) if the External Auditors are engaged, the Group Audit Committee is responsible for ensuring that such engagement does not compromise the independence of the External Auditors in their roles as statutory auditors of ABMB and its subsidiaries; and

8.18 To consider and examine any other matters as defined by the Boards.

9. AUTHORITY

9.1 The Group Audit Committee is authorised by the Boards to:-

- a) investigate any matter within the scope of the Group Audit Committee's duties;
- b) have full access to and co-operation by management and full discretion to invite any director or executive officer to attend its meetings;
- c) have full and unrestricted access to any information in ABMB and its subsidiaries;
- d) obtain independent professional advice or other advice, whenever deemed necessary;
- e) make recommendations for improvements of operating performance and management control arising from internal and external audit recommendations;
- f) have the resources which are required to perform its duties;
- g) have direct communication channels with the Internal and the External Auditors; and
- h) able to convene meetings with the External Auditors, the Internal Auditors or both, excluding the attendance of other directors and employees of ABMB and its subsidiaries, at least twice a year.

9.2 The Chairman and/or members of the Group Audit Committee are authorised by the Board to engage on a continuous basis with senior management, such as the Chairman, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Internal Auditor and the External Auditors in order to be kept informed of matters affecting ABMB and its subsidiaries.

SUMMARY OF ACTIVITIES

During the financial year, the Group Audit Committee carried out the following activities:-

1. FINANCIAL RESULTS

- 1.1 Reviewed the quarterly financial results with the Management before recommending them for approval by the Board of Directors.
- 1.2 Reviewed the annual audited financial statements with the External Auditors and the Management before recommending them for approval by the Board of Directors. The review was, inter-alia, to ensure compliance with :-
 - a) The Companies Act, 1965,
 - b) Financial Services Act 2013,
 - c) Islamic Financial Services Act 2013,
 - d) Applicable approved accounting standards in Malaysia, and
 - e) Other legal, statutory and regulatory requirements.

2. EXTERNAL AUDIT

- 2.1 Reviewed with the External Auditors, the Internal Control Recommendation together with Management's responses to the findings for the financial year ended 31 March 2013 and the half year ended 30 September 2013.
- 2.2 Reviewed the re-appointment of PricewaterhouseCoopers as the External Auditors for the financial year ended 31 March 2014.
- 2.3 Reviewed and endorsed the letter of engagement for the appointment of PricewaterhouseCoopers as statutory auditors for the financial year ended 31 March 2014
- 2.4 Reviewed and approved the appointment of PricewaterhouseCoopers for :
 - The verification procedures in relation to the Bank's submissions to Perbadanan Insurans Deposit Malaysia ("PIDM") for the year of assessment 2013.
 - The Foreign Account Tax Compliance Act ("FATCA") on the Operationalisation of Approved Implementation Roadmap
 - The Foreign Account Tax Compliance Act ("FATCA") Implementation Project
 - The Provision of Tax Compliance Services
 - The Goods and Services Tax Implementation ('GST')

3. INTERNAL AUDIT

- 3.1 Reviewed with the internal auditors the internal audit plan for the financial year ended 31 March 2014 to ensure adequate scope and coverage of the activities of the banking group.
- 3.2 Reviewed internal audit reports, audit recommendations made and Management responses to these recommendations. The Group Audit Committee, where appropriate has directed action to be taken by Management to rectify and improve the system of internal controls and procedures, based on the internal auditors' recommendations and suggestions for improvements.
- 3.3 Monitored the implementation of the audit recommendations to ensure that all the key risks and controls have been addressed.

- 3.4 Monitored the progress of the Group Internal Audit function in executing the audit plan, adequacy of resources to carry out the audits and assessed the performance of the Group Chief Internal Auditor.

GROUP INTERNAL AUDIT FUNCTIONS

1. The Group Internal Audit's primary role is to assist the Committee to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the system of internal controls that mitigate critical risks.
2. The authority of the Group Internal Audit is provided in the Internal Audit Charter, which formally documents the roles, duties and responsibilities of the internal auditors. The Group Chief Internal Auditor reports directly to the Group Audit Committee.
3. To assist the banking group in adopting the high standards of corporate governance, the internal audits carried out provide reasonable assurance that the system of internal controls continue to operate satisfactorily and effectively. These audits cover the review of the adequacy of risk management, operational controls, compliance with established procedures, guidelines and statutory requirements, quality of assets, computer application systems and management efficiency, amongst others.
4. In line with the best practices, Group Internal Audit adopts a risk-based approach that deploys audit resources to focus on significant risk areas and thus, enhance the effectiveness and efficiency of the audit function by prioritising the audits of areas which have been assessed as having potentially higher risks.
5. The audit approach includes the application of Computer Assisted Audit Techniques (CAATs) that enables interrogation of data in order for audits to be carried out in a more effective and efficient manner.
6. The area of information systems audits of various application systems are carried out to assess whether the application systems' controls are in place, and operating securely and with integrity.
7. Prior to implementation of key new business products, Group Internal Audit assists Management in reviewing the control risks involved to evaluate whether such risks are properly mitigated.
8. Group Internal Audit works collaboratively with Risk Management to monitor the risk governance framework and the risk management processes that are applied to ensure an acceptable level of risk exposure which is consistent with the risk management policy of the banking group.
9. The internal auditors work closely with the External Auditors to resolve any control issues raised by them to ensure that significant issues are duly acted upon by Management.
10. Group Internal Audit reviews the infrastructure and procedures of Alliance Islamic Bank Berhad to ensure a sound and effective internal control system for Shariah compliance.