



MALAYSIA BUILDING SOCIETY BERHAD

Terms of Reference of the Audit Committee (AC)

1.0 PREAMBLE

The Board of Directors (“Board”) of Malaysia Building Society Berhad (“MBSB”) has established an Audit Committee (“AC”) with authority and duties as specified in these terms of reference.

2.0 REFERENCE

This Terms of Reference is set out as a guide on the principles and operations of the AC of MBSB.

3.0 COMPOSITION OF THE COMMITTEE

The Board of Directors shall appoint the Committee from amongst its members who fulfil the following requirements: -

- 3.1 The Committee shall consist of only Non-Executive Directors with at least three (3) members, a majority of whom are Independent Directors and chaired by an Independent Non-Executive Director;
- 3.2 No alternate directors shall be appointed as a member of the Committee;
- 3.3 The Committee’s Chairman shall be designated by the Board or, if it does not do so, the Committee members shall elect a Chairman by vote of a majority of the full Committee;
- 3.4 In the event of any vacancy in the Committee, arising from retirement or resignation, with the result that the number of members is reduced to below three (3), the Board must fill the vacancy within three (3) months;
- 3.5 The Board may from time to time appoint to the Committee additional members who are Non-Executive Directors as it deems fit and necessary;
- 3.6 The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time considered desirable to assist the Committee in the attainment of its objective;
- 3.7 All members should have the skills, knowledge and experience relevant to the responsibilities of the board of directors and are financially literate. At least one member of the AC:-
 - 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 –

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- a. he must have passed the examinations specified in Part I of the First Schedule of the Accountant Acts 1967; or
 - b. he must be a member of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or
 - iii. fulfils such other requirements as prescribed or approved by the Bursa Malaysia Securities Berhad
- 3.8 The Chairman of the AC is not the Chairman of the Board.

4.0 SECRETARY OF THE COMMITTEE

- 4.1 The Chief Internal Auditor shall be the Secretary to the Committee and the Head of Company Secretarial Department shall be the Recording Secretary to the Committee.
- 4.2 The Recording Secretary shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulate the notice of meeting supported by explanatory documentation to members of the AC prior to each meeting. The Recording Secretary shall keep the minutes of meetings.

5.0 OBJECTIVE

The primary objectives of the Committee are to: -

- 5.1 Assist the Board of Directors in fulfilling its fiduciary responsibilities particularly in the areas of accounting and management controls, financial reporting and to ensure financial statements comply with the applicable financial reporting standards;
- 5.2 Reinforce the independence and objectivity of the Internal Audit Division;
- 5.3 Provide the focal point for communication between external auditors, internal auditors, risk managers, Directors and the Management on matters in connection with accounting, reporting, risks and controls and providing a forum for discussion independent of the Management; and
- 5.4 Undertake additional duties as may be deemed appropriate and necessary to assist the Board.

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6.0 RIGHTS OF THE COMMITTEE

The Committee shall :-

- 6.1 Have the resources, which are required to perform its duties;
- 6.2 Have full and unrestricted access to any information pertaining to the Company and the Group;
- 6.3 Have direct communication channels with external auditors, internal auditors and risk managers;
- 6.4 Be able to obtain independent professional or other advice. All expenses incurred in relation to abovesaid shall be borne by the Company, approved by the Committee and implemented through the Secretary of the Committee.
- 6.5 Have the authority to investigate any matter within its terms of reference.
- 6.6 Have the authority to convene meetings with external auditors, internal auditors or both, in the absence of other management, at least once a year; and
- 6.7 To review and report to the board of directors on the internal audit plan and the results of the internal audit assessments.

7.0 DUTIES AND RESPONSIBILITIES

The following are the main duties and responsibilities of the AC:-

7.1 External Audit

- a. To review with external auditors, their audit plan, scope and nature of the audit.
- b. To review with external auditors, their audit report and audit findings and Management's response including the status of previous audit recommendations.
- c. To recommend the nomination of a person or persons as external auditors.
- d. To consider the appointment of external auditors, their audit fee and any question of their resignation, termination or dismissal and to make recommendations to the Board. The criteria to guide decisions on the appointment and re-appointment of the external auditor should include an assessment of the competence, audit quality and resource capacity of the external auditor and also consider information presented in

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the Annual Transparency Report of the audit firm. If the audit firm is not required to issue an Annual Transparency Report, the Audit Committee is encouraged to engage the audit firm on matters typically covered in an Annual Transparency Report including the audit firm's governance and leadership structure as well as measures undertaken by the firm to uphold audit quality and manage risks;

- e. Assess the qualification, expertise, resources, effectiveness, suitability and independence of the external auditors.
- f. Monitor the effectiveness of the external auditors' performance on an annual basis and their independence and objectivity.
- g. Review the assistance given by the Group's officers to the external auditors and any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information.
- h. To recommend for Board's approval on the provision of non-audit services by the external auditors, evaluating whether such non-audit services would impair their independence.
- i. 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 judgment of the auditors.
- j. To meet with the external auditors at least once a year without the presence of the management to discuss any key concerns and obtain feedbacks.
- k. To ensure that the financial statements are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions for loan financing impairments and values ascribed to financial instruments.
- l. Maintaining regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the AC on significant matters.
- m. Ensuring that senior management is taking necessary corrective actions in a timely manner to address external audit findings and recommendations.
- n. Ascertain that a former partner of the external audit firm, including those providing advisory services and tax consulting, to observe a cooling-off period of at least three years before being appointed as a member of the AC.

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7.2 Financial Reporting

To review the Group's quarterly financial statements and reports, the Group's and Company's audited annual financial statements before submission to the Board of Directors for approval, focusing on: -

- a. Changes in or implementation of major accounting policy changes;
- b. Significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed; and
- c. Compliance with accounting standards and other legal requirements.
- d. Review and provide advice whether the financial statements taken as a whole provide a true and fair view of the company's financial position and performance.

7.3 Related Party Transaction

- a. Review any related party transactions and conflict of interest situation that may arise within the Company or Group including any transaction, procedures or course of conduct that raises questions on Management's integrity and update the Board on all related party transactions.
- b. Monitor compliance with the Board's conflicts of interest policy.

7.4 Internal Audit

- i. To establish an internal audit function for the company and Group and identify a Chief Internal Auditor who reports directly to the AC. The Chief Internal Auditor will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company and the Group.
- ii. To perform the following, in relation to the internal audit functions: -
 - a. Review the audit plan based on audit risk assignments and the adequacy of the scope, procedures, frequency, functions, resources and competency of the Internal Audit Division and that it has the necessary authority to carry out its duties.

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- b. Reviewing key audit reports and Investigation Reports to ensure the senior management is taking 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.
- c. Deliberate and endorse reporting on audit status.
- d. To provide oversight over the appointment, transfer, removal and appraisal of the performance of the Chief Internal Auditor. The remuneration of the Chief Internal Auditor is paid at subsidiary level. As such, the remuneration is determined by the Board Nominating & Remuneration Committee at the subsidiary level.
- e. Take cognisance of resignations of senior internal audit staff members and provide the resigning staff member an opportunity to submit his reasons for resigning.
- f. Ensure that the internal audit function is adequately resourced and staffed with competent and well trained officers.
- g. Ensure the independence of the internal audit function.
- h. On a regular basis, meet separately with the Chief Internal Auditor to discuss any matters that the committee or internal audit believes should be discussed privately.
- i. To ensure the internal audit function is well placed to undertake review or investigation on behalf of the AC. Thus, internal auditors should have an appropriate standing within the institution and be placed under the direct authority and supervision of the AC.
- j. Exercise direct authority and supervision over the functions of the Internal Audit Division and review its effectiveness and compliance with “BNM Guidelines on Internal Audit Function” requirement.
- k. Noting significant disagreements between the Chief Internal Auditor and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact the disagreements may have on the audit process or findings.
- l. Establishing a mechanism to assess the performance and effectiveness of the internal audit function.
- m. Approve the execution and implementation of the strategies relating to Internal Audit functions which has been approved by the Board, including to endorse periodic reporting of progress updates and performance on implementation of strategies and plans by the Internal Audit Division.

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7.5 Write off

To review, evaluate and endorse all debts written off.

7.6 Whistleblowing Related

To endorse/approve the outcome of the investigation arising from the whistle blowing complaints and where applicable to endorse the recommendation by IAD.

7.7 Others

- a. To undertake any other activities as authorised by the Board of Directors.
- b. To review operational policies and processes of the Group and to formulate new ones where appropriate with a view to improve efficiency, cost effectiveness and control over the resources of the Group.
- c. Review the accuracy and adequacy of the chairman's statement in the directors' report, corporate governance disclosures, interim financial reports and preliminary announcements in relation to the preparation of financial statements.
- d. Review third-party opinions on the design and effectiveness of the financial institution's internal control framework.
- e. To recommend the appointment /reappointment /termination of third parties /consultants conducting assessment related to financials.
- f. To note and endorse/approve to the outcome of independent assessment

7.8 Training

All members of the AC should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and standards, practices and rules.

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8.0 EVALUATION OF AC

- 8.1 An evaluation will be carried out annually to assess the performance and effectiveness of the Committee in line with the need for Board effectiveness evaluation;
- 8.2 Where necessary, an external consultant will be engaged to assist in and to lend objectivity to the annual assessment.

9.0 QUORUM

- 9.1 The quorum for a meeting shall be majority of the committee members whereby the members present must be Independent Non-Executive Directors and the quorum should be maintained throughout the meeting.
- 9.2 The attendance sheet may be also circulated in hard copy or electronic form signed physically or digitally signed for record.

10.0 MEETINGS

10.1 Frequency of Meeting

- i. The committee meets every quarter or more frequently, either on face to face or secured online basis, as circumstances dictate. In the event of face to face or secured online meeting is not possible, a resolution by circulation can also be passed for urgent issues.
- ii. Sufficient interval should be allowed between audit committee meetings and board meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board as appropriate.
- iii. Apart from the scheduled meetings, the Chairman of the Committee may call for additional meetings whenever necessary or shall call a meeting if requested to do so by the Board, or any Committee member or can be based on the advice of the Group Chief Executive Officer and Chief Internal Auditor.

10.2 Invitees

- i. As part of its duty to foster communication, the Group Chief Executive Officer (GCEO), the Management Team, Chief Compliance Officer (CCO), Chief Financial Officer (CFO),

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Chief Risk Officer (CRO) or any other person(s) who may be requested by the Committee are invited to attend the meetings for the purpose of briefing the Committee on the activities involving their areas of responsibilities. The presence of the external auditors will be requested when required.

- ii. While the Committee may invite any person to be in attendance to assist it in its deliberations, the Committee should also ensure that the Members meet exclusively when necessary.

10.3 Decision Making

- i. The Chairman of the Committee shall report and update the Board of Directors on significant issues and concerns discussed during the Committee meetings and where appropriate, make the necessary recommendations to the Board of Directors.
- ii. The Chairman of the Committee should engage on continuous basis with senior management, such as Chairman, the Group Chief Executive Officer, the Chief Financial Officer, the Chief Internal Auditor and the external auditors in order to be kept informed of matters affecting the Group.
- iii. Questions arising at any Meeting of the Committee shall be decided by a majority of votes by members present at said Meeting.
- iv. The Chairman shall not have a casting vote. In the event of an equality of votes, the Chairman shall refer the matter to the Board for its ultimate decision.

*The reference of the GCEO in this context shall include CEO or Acting CEO, whichever is applicable at the material time.

11.0 CONFIRMATION OF MEETING

11.1 Confirmation of each meeting is by way of minutes of meeting.

11.2 Proper records of all decisions/ recommendations made for each Meeting, in which case minutes of each Meeting must be confirmed by the Chairman and retained by the Committee's recording secretary as the Committee's records. A copy of the confirmed minutes of Meeting of the Committee must be presented to the Board for the latter's notation.

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12.0 CIRCULAR RESOLUTION

12.1 A Circular Resolution in writing circulated in hard copy or electronic form signed physically or digitally signed and approved by all Members of the Committee shall be effective for all purpose as a resolution of the Committee passed at a Meeting duly convened and constituted.

12.2 All approvals obtained via Circular Resolutions must be recorded and notified at the subsequent Meeting by the Secretary.

13.0 CONFIDENTIALITY

13.1 No member of the Committee or any officer, employee or any person attending any meeting of the Committee shall disclose any information which has been obtained by him/her in the course of his/her duties or in the course of the Committee meeting and which is not made public except:

- i. For any purposes of any civil or criminal proceedings under any written law;
- ii. For any purposes as required by any authority with regulatory powers over MBSB which includes but not limited to Securities Commission and Companies Commission Malaysia;
- iii. In respect of any information available to the public; or
- iv. Where otherwise authorised by the Board or the GCEO (or in his/her absence, the designated person authorized to hold the post or act on his/her behalf).

13.2 In relation to the confidentiality of information, the members must not misuse information obtained in the course of duties to derive personal gains or for any purpose other than that intended by MBSB.

14.0 CONFLICT OF INTEREST

14.1 Members must disclose all circumstances in which there may be a conflict of interest in any issues deliberated during meetings.

14.2 The interested member shall abstain from participating directly or indirectly in deliberating and decision making process involving issues of which he/ she has an interest.



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15.0 REVIEW OF TERMS AND REFERENCES

15.1 This Terms of Reference is required to be reviewed every three (3) years or as and when required.

15.2 The amendment to this Terms of Reference is subject to recommendation by AC and approval by Board.

End