

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

#### **CORPORATE GOVERNANCE**

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interests of other stakeholders.

The Board also reviewed the manner in which the Bank Negara Malaysia ("BNM") policy document on Corporate Governance ("BNM CG") is applied in the Group, where applicable, as set out below.

#### **A Board of Directors ("Board")**

##### **I Roles and Responsibilities of the Board**

The Board assumes responsibility for effective stewardship and control of the Company and has established Terms of Reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board. The key roles and responsibilities of the Board broadly covers formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required of them by BNM as specified in guidelines and circulars issued by BNM from time to time.

The day-to-day business of the Company is managed by the Group Managing Director/Chief Executive Officer ("GMD/CEO") who is assisted by the management team. The GMD/CEO and his management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit function, internal controls; and risk management to the Board Audit and Risk Management Committee ("BARMC"). The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and GMD/CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the GMD/CEO. This division of responsibilities between the Chairman and the GMD/CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A Board of Directors ("Board") (cont'd)**

##### **I Roles and Responsibilities of the Board (cont'd)**

The GMD/CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Company for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Company and tracking compliance and business progress.

Independent Non-Executive Directors ("INEDs") are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the INEDs' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at 'www.ssm.com.my'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

##### **II Board Composition**

The Board comprises the Chairman who is a Non-Independent Non-Executive Director, an Executive Director, a Non-Independent Non-Executive Director and four Independent Non-Executive Directors.

The Company is guided by BNM CG in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

The Board is of view that the current size and composition of the Board are appropriate and effective for the control and direction of the Company's business.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****A. Board of Directors ("Board") (cont'd)****II Board Composition (cont'd)**

During the financial year ended 30 June 2017, six (6) Board Meetings were held and the attendance of the Directors was as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri Quek Leng Chan (Chairman, Non-Independent Non-Executive)	6/6
Mr Tan Kong Khoon (Non-Independent Executive Director)	6/6
Mr Masakatsu Komaita (Non-Independent Non-Executive Director)	6/6
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director)	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Independent Non-Executive Director)	6/6
YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)	6/6
Ms Shalet Marian (Independent Non-Executive Director)	6/6
Ms Loh Guat Lan (Group Managing Director/Chief Executive Officer) (Resigned as Board Member w.e.f. from 1 January 2017)	3/3

Mr Quek Kon Sean has resigned from the Board on 9 July 2016 before the first Board meeting of the financial year ended 2017 and as such did not attend any of the Board meetings held during financial year ended 2017.

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

**Supply of Information**

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary and Internal Auditors. All Directors also have access to independent professional advice at the Company's expense, in consultation with the Chairman or the GMD/CEO of the Company.

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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board of Directors ("Board") (cont'd)**

###### **Directors' Profile**

###### **YBHG TAN SRI QUEK LENG CHAN**

**Chairman/Non-Executive/Non-Independent**

**Age 74, Male, Malaysian**

YBhg Tan Sri Quek Leng Chan is qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

YBhg Tan Sri Quek is the Chairman of Hong Leong Assurance Berhad ("HLA") and was appointed to the Board of HLA on 20 December 1982. He is a member of the Remuneration Committee of HLA.

He is the Chairman & Chief Executive Officer of Hong Leong Company (Malaysia) Berhad, a public company; Chairman of GuocoLand (Malaysia) Berhad, Hong Leong Financial Group Berhad ("HLFG"), Hong Leong Bank Berhad ("HLB") and Hong Leong Capital Berhad ("HLCB"), companies listed on the Main Market of Bursa Malaysia Securities Berhad; and Chairman of Hong Leong Foundation, a public company.

###### **MR TAN KONG KHOON**

**Executive Director/Non-Independent**

**Age 60, Male, Singaporean**

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advance Management Program.

Mr Tan is the President & Chief Executive Officer of HLFG. He was the Group Managing Director/Chief Executive Officer of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of Development Bank of Singapore ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was President and Chief Executive Officer of Bank of Ayudhya, the fifth largest bank in Thailand listed on the Thailand Stock Exchange.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****A. Board of Directors ("Board") (cont'd)****Directors' Profile (cont'd)****MR TAN KONG KHOON**

**Executive Director/Non-Independent**

**Age 60, Male, Singaporean (cont'd)**

Mr Tan was appointed to the Board of HLA on 5 April 2016 and is a member of the Nomination Committee of HLA.

Mr Tan is a Director of HLFG, HLB and HLCB, companies listed on the Main Market of Bursa Malaysia Securities Berhad. He is also a Director of Hong Leong Investment Bank Berhad, a public company.

**MR MASAKATSU KOMAITA**

**Non-Executive Director/Non-Independent**

**Age 55, Male, Japanese**

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 30 years of experience in the insurance industry, all of which were in MSIG, and his experience and expertise encompasses sales promotion, sales planning of insurance as well as governance and administration of international business operations.

Mr Masakatsu Komaita first joined MSIJ in 1986, and was promoted to Assistant General Manager, Insurance Planning Department of Ginsen Company Limited, a subsidiary of MSIJ in 2007. In 2010 he was appointed as the Assistant General Manager, Government Business Development Department to lead the bancassurance for life insurance in Japan Post Group before assuming his present position as Assistant General Manager, Corporate Planning of Asian Life Insurance Business Department in 2012. Mr Masakatsu Komaita was promoted to the position of General Manager on 1 April 2014 where he was responsible for business expansion into Asian local insurance business in Malaysia.

Mr Masakatsu Komaita was appointed to the Board of HLA on 1 July 2015.

Mr Masakatsu Komaita is also a Director of Hong Leong MSIG Takaful Berhad, a public company.

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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board of Directors ("Board") (cont'd)**

###### **Directors' Profile (cont'd)**

###### **YBHG DATO' SIOW KIM LUN @ SIOW KIM LIN**

**Non-Executive Director/Independent**

**Age 67, Male, Malaysian**

YBhg Dato' Siow Kim Lun @ Siow Kim Lin holds an MBA from the Catholic University of Leuven, Belgium and a Bachelor of Economics (Hons) from the National University of Malaysia. He has also attended the Advanced Management Program at Harvard Business School.

YBhg Dato' Siow started his career in investment banking with Malaysia International Merchant Bankers Berhad in 1981 and had served as a Manager in its Corporate Finance Division. In 1985, he joined Permata Chartered Merchant Bank Berhad (now known as Affin Investment Bank Berhad) as Manager of Corporate Finance and subsequently became the Divisional Head of its Corporate Finance Division. From 1993 to 2006, YBhg Dato' Siow was with the Securities Commission, where he served as the Director of its Issues and Investment Division and the Director of its Market Supervision Division. He has also served as a member of the Listing Committee of Bursa Malaysia Securities Berhad from May 2007 to May 2009.

YBhg Dato' Siow is currently the Chairman to the Board of HLA Holdings Sdn Bhd ("HLAH") and is a board member of Kumpulan Wang Persaraan (Diperbadankan), Citibank Berhad, UMW Holdings Berhad, EITA Resources Berhad, Eco World International Berhad, Sunway Construction Group Berhad, MainStreet Advisers Sdn Bhd and Radiant Globaltech Berhad. He is also a member of the Land Public Transport Commission.

YBhg Dato' Siow was appointed to the Board of HLA on 30 September 2011 and is the Chairman of the Board Audit and Risk Management Committee and Remuneration Committee of HLA.

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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board of Directors ("Board") (cont'd)**

###### **Directors' Profile (cont'd)**

###### **YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN**

**Non-Executive Director/Independent**

**Age 59, Male, Malaysian**

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin received his BA (Hons) Business Studies from the Polytechnic of Central London, Masters in Business Administration from the University of Warwick, the Diploma in Marketing from the Chartered Institute of Marketing. He is a member of the Australian Institute Of Company Directors, Malaysian Institute of Management, and Malaysian Institute of Corporate Governance.

YM Tunku Dato' Mahmood Fawzy was appointed to the Board of HLA on 3 January 2012 and he is the Chairman of the Nomination Committee and a member of the Board Audit and Risk Management Committee and Remuneration Committee of HLA.

YM Tunku Dato' Mahmood Fawzy is currently the Chairman of Deutsche Bank (Malaysia) Berhad and Hong Leong MSIG Takaful Berhad. He is the Senior Independent Director of Telekom Malaysia Berhad. He also sits as a board member of Webe Digital Sdn Berhad, and Hong Leong Asset Management Bhd.

He was previously a board member of Malaysia Airports Holdings Berhad, Hong Leong Islamic Bank Berhad, Pos Malaysia Berhad, SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad, and Ethos Capital One Sdn Berhad, Federation of Investment Managers Malaysia, Energy Africa Limited, and Engen Limited in South Africa.

YM Tunku Dato' Mahmood Fawzy draws on a wealth of governance, management, and cross border experience in telecommunications, investment management and private equity activity, oil and gas, marine and aviation logistics, corporate advisory, banking and financial services, across several international locations including the United Kingdom, New Zealand, South Africa and Malaysia.

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**Non-Executive Director/Independent**

**Age 62, Female, Malaysian**

YBhg Datin Ngiam Pick Ngoh holds a Bachelor of Arts (Hons) in Social Sciences from the University of Malaya and a Diploma in Advertising and Marketing from the Institute of Communication, Advertising and Marketing (CAM), United Kingdom.

YBhg Datin Ngiam was the Group Managing Director/Chief Executive Officer of Star Publications (M) Bhd ("The Star") from 1 July 2008 to 30 June 2011. She was first employed in The Star as Advertising Sales Promotions Manager in 1985 before serving as General Manager, Advertising & Business Development in 1995. In 2004, she was appointed as Deputy Group General Manager and in 2007 she was promoted to Executive Director/Group Chief Operating Officer before assuming the office as Group Managing Director/Chief Executive Officer of The Star in 2008, a position she held till her retirement in 2011.

YBhg Datin Ngiam was a Board Member of the Audit Bureau of Circulations ("ABC") Malaysia and Chairman of the ABC Content & Communications Committee. She represented The Star on the Malaysian Newspaper Publishers Association (MNPA) as its Honorary Secretary and was a Board Member of the Advertising Standards Authority (ASA) Malaysia.

Currently, YBhg Datin Ngiam sits on the Board of Star Media Group Berhad, MUI Properties Berhad and Heineken Malaysia Berhad as an Independent Director and she also serves as a trustee of Yayasan Sin Chew.

YBhg Datin Ngiam was appointed to the Board of HLA on 1 June 2012 and is a member of the Board Audit and Risk Management Committee and Nomination Committee of HLA.

**MS SHALET MARIAN**

**Non-Executive Director/Independent**

**Age 61, Female, Malaysian**

Ms Shalet Marian is an accountant and is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants.

Ms Shalet Marian's career as a public accountant with a specialization in tax spanned over 30 years. In addition, she has a wealth of experience in finance and risk management. In KPMG Malaysia, she held various senior positions including Head of Corporate Tax, Head of Indirect Tax, Head of Finance and Administration and Country Risk Manager being her last position before she took an early retirement in 2010 to refresh her skills in people management.



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**Non-Executive Director/Independent**

**Age 61, Female, Malaysian (cont'd)**

She had expanded her repertoire into the field of human and personal development. She is certified in Neuro Linguistic Programming, Lifeline Techniques, Cognitive Behaviour Models and Aubrey Daniels Institute's certification in behavioural based performance management technologies incorporating Performance Management and Coaching for Rapid Change in Business. She also gained certification in Malaysian Goods and Services Tax ("GST") from the Royal Malaysian Customs Department in 2013.

Ms Shalet Marian was appointed to the Board of HLA on 16 June 2016.

Ms Shalet Marian currently serves on 7 Eleven Malaysia Holdings Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad as Independent Director. She also acted as an advisor and consultant in technical matters to MustaphaRaj Sdn Bhd, a consultancy firm until 31 December 2015 and is the Chief Executive of Lejadi Foundation, a non-profit organization.

**Directors' Training**

The Company recognises the importance of continuous professional development and training for its Directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as Director of the Company. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board of Directors ("Board") (cont'd)**

###### **Directors' Training (cont'd)**

The Company has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-a-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the financial year ended 2017, the Directors received regular briefings and updates on the Group's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

During the FYE 2017, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Northgate Capital Investment Management
- Grand Challenges Facing The Internet
- How Effective Boards Engage on Succession Planning for the CEO and Top Management
- Securities Industry Development Corporation – Capital Market Director Programme
- Clarification of Audit Rating Methodology
- Khazanah Megatrends
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 : The Law & Compliance
- The Cyber Security Threat and How Board Should Mitigate Risks
- Briefing Session on Shariah Compliance Trading Window
- Sustainability Forum For Directors/CEOs: The Velocity of Global Change & Sustainability
- Invest ASEAN 2017
- Mobile World Congress Barcelona Spain – FinTech, Blockchain in Finance, Financial Services and Various modules related to Technology and Finance
- Financial Institutions Directors' Education (FIDE) Core Programme : Module A
- Bank Negara Malaysia Compliance Conference
- Digital Free Trade Zone

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- Bank Negara Malaysia Annual Report 2016 / Financial Stability and Payments Systems Report 2016 Briefing Session
- Update on Companies Act, 2016
- An Overview of Latest Development of Shariah Standards issued by Bank Negara Malaysia - Investment Account & Investment Account Platform
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Services

**Nomination Committee**

The members of the Nomination Committee are as follows:

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director)

Mr Tan Kong Khoon (Non-Independent Executive Director)

YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director) (resigned w.e.f. 24.11.2016)

YBhg Dato' Siow Kim Lun @ Siow Kim Lin (Independent Non-Executive Director) (resigned w.e.f. 24.11.2016)

The Nomination Committee's responsibilities are as follows:

- (i) Support the Board in carrying out its functions in the following matters concerning the board, senior management and company secretary.
  - (a) appointments and removals;
  - (b) composition;
  - (c) performance evaluation and development; and
  - (d) fit and proper assessments;
- (ii) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- (iii) Review and recommend to the Board all Board appointments, re-appointments and removals including of the Chief Executive Officer.
- (iv) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- (v) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director.

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- (vi) Oversee the appointment and management of succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- (vii) Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2017, three (3) Nomination Committee Meetings were held and the attendance of the Members was as follows:

<u>Members</u>	<u>Attendance</u>
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	3/3
Mr Tan Kong Khoon	3/3
YBhg Datin Ngiam Pick Ngoh	3/3
YBhg Tan Sri Quek Leng Chan (resigned w.e.f. 24.11.2016)	2/2
YBhg Dato' Siow Kim Lun @ Siow Kim Lin (resigned w.e.f. 24.11.2016)	2/2

**B. Directors' Remuneration****Remuneration Committee**

The members of the Remuneration Committee are as follows:

YBhg Dato' Siow Kim Lun @ Siow Kim Lin  
(Chairman, Independent Non-Executive Director)  
YBhg Tan Sri Quek Leng Chan (Non-Independent Non-Executive Director)  
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin  
(Independent Non-Executive Director)

The Remuneration Committee's responsibilities are as follows:

- (i) Recommend to the Board the framework and policies governing the remuneration of the:
  - Directors;
  - Chief Executive Officer;
  - Senior management officers; and
  - Other material risk takers
- (ii) Review and recommend to the Board for approval the specific remuneration packages of executive directors and the Chief Executive Officer.
- (iii) Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.

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During the financial year ended 30 June 2017, one (1) Remuneration Committee Meeting was held and the attendance of Members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	1/1
YBhg Tan Sri Quek Leng Chan	1/1
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	1/1

**Procedure**

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at the Annual General Meeting.

**Disclosure**

The remuneration of the Directors is set out in Note 23(b) to the financial statements.

**Remuneration Policy**

Hong Leong Assurance's rewards strategy is in alignment with the Hong Leong Group's total compensation philosophy which supports and promotes a high performing culture to deliver the company's vision to be a highly digital & innovative company. The rewards strategy focuses on providing a competitive remuneration and benefits package, as well as ample career progression opportunities for employees.

The company's rewards framework focuses on a balanced and right pay mix to achieve the desired long term business performance. The framework includes base pay, cash allowances, performance based variable pay, sales incentive, long term incentives, benefits and other employee programs.

The rewards framework ensures that employees are paid competitively against the industry and talent market the company is operating in; delivered via a combination of cash and non-cash elements such as shares or share-linked instruments.

Key performance indicators ("KPI") and key results areas of employees are measured and tracked diligently to ensure strong alignment of employee output to the overall business strategy and direction of the company.

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The remuneration for each director, member of senior management and other material risk taker is approved by the board annually.

**Deferred Compensation and Clawbacks**

The deferred compensation is applicable to some of the incentive schemes introduced in the company. These are mostly for sales-type roles with built-in clawback mechanism. The clawback mechanism is introduced to ensure excessive risk taking behavior of staff is minimized and that the system does not induce excessive risk taking and sufficient control is in place. Periodic reviews are carried out to examine the effectiveness of the schemes in driving the right behaviors in achieving business goals and that there are no adverse risk elements in the approved schemes. The clawbacks mechanism is triggered when there are non-compliances to regulations and policies.

The remuneration for Senior Officers and Material Risk Takers for financial year 2016/17 is shown in the table below:

Total value of remuneration awards for the financial year	GMD/CEO		Senior Management and other Material Risk Takers	
	Unrestricted (RM)	Deferred (RM)	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration				
• Cash-based	1,380,000	-	6,823,385	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	1,815,172	-	2,291,057	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****C. Accountability and Audit****Board Audit and Risk Management Committee ("BARMC")**

The financial reporting and internal control system of the Company is overseen by the BARMC, which comprises of the following members:

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Independent Non-Executive Director)

YBhg Datin Ngiam Pick Ngoh (Independent Non-Executive Director)

**Terms of Reference**

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:

**External Audit**

- To make recommendations to the Board on the appointment, removal and remuneration of the external auditor.
- To review the terms of engagement and the audit plan prior to engaging the external auditors and/or re-appointment of the external auditors.
- To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- To review the assistance given by the officers of the Company to the external auditor.
- To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the BARMC on significant matters.
- 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.
- To review third-party opinions on the design and effectiveness of the Company's internal control framework.

**Financial Reporting**

- To review the accuracy and adequacy of the chairman's statement (if any) in the directors' report, corporate governance disclosures, interim financial reports and annual financial statements.

**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Board Audit and Risk Management Committee ("BARMC") (cont'd)**

**Terms of Reference (cont'd)**

**Related Party/Connected Party Transactions**

- To review and update the Board on any related party transactions involving the Company.
- To monitor compliance with the Board's conflict of interest policy.

**Internal Audit**

- To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by internal audit function, 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.
- 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.
- 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".
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Insurance Audit, 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 within the Company to undertake its activities independently and objectively.
- To engage privately with the Head of Insurance Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Insurance Audit to discuss issues faced by the internal audit function.
- To review the Audit Charter and recommend for Board approval.
- Other audit functions as may be agreed to by the BARMC and the Board.



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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****C. Accountability and Audit (cont'd)****Board Audit and Risk Management Committee ("BARMC") (cont'd)****Terms of reference (cont'd)****Risk Management**

- To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance, insurance and IT risks, and the risk management process.
- 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.
- To review management's major risk management strategies, policies and risk tolerance for Board's approval.
- To review management's overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), annual risk appetite, Individual Target Capital Level ("ITCL") and Capital Management Plan for Board's approval.
- To review management's development and effective implementation of the ICAAP.
- To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
- To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of management's internal controls and risk management process.
- 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.
- To review risk management function's infrastructure, resources and systems and that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- To receive reports from pertinent management committee.
- To review management's implementation of risk management as set out in BNM's policy document on Risk Governance and Corporate Governance.
- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer.
- To engage privately with the Chief Risk Officer on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Risk Officer to discuss issues faced by the risk management function.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Board Audit and Risk Management Committee ("BARMC") (cont'd)**

**Terms of reference (cont'd)**

**Risk Management (cont'd)**

- To review management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- Other risk management functions as may be agreed to by the BARMC and the Board.

**Compliance**

- 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/Head of Compliance ("CCO") to ensure the compliance function and CCO are provided with 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 CCO;
  - e) updating the Board on all significant compliance matters, including providing its views on (a) to (d) above.
- In relation to the role of the CCO, 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 CCO;
  - b) ensuring that CCO has sufficient stature to allow for effective engagement with the CEO and other members of senior management;
  - c) engaging privately with the CCO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function;
  - d) ensuring that the CCO is supported with sufficient resources to perform his duties effectively;

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**C. Accountability and Audit (cont'd)**

**Board Audit and Risk Management Committee ("BARMC") (cont'd)**

**Terms of reference (cont'd)**

**Compliance (cont'd)**

- e) where CCO also carries out responsibilities in respect of other control functions, the BARMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the CCO.
- Other compliance functions as may be agreed to by the BARMC and the Board.

**Group Governance**

- Noted that :
  - a) Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") are both apex entities ("Apex Entities") and have overall responsibility for ensuring the establishment and operation of a clear governance structure within their respective group of companies ("Group").
  - b) The respective Apex Entities' Boards responsibility is to promote the adoption of sound corporate governance principles throughout the Group.
  - c) The Apex Entities' 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 the Apex Entities 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.
- The BARMC shall validate that the objectives, strategies, plans, governance framework and policies set at the Apex Entities level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and to check that the entity specific risks are adequately addressed in the implementation of Group-wide policies.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **C. Accountability and Audit (cont'd)**

##### **Board Audit and Risk Management Committee ("BARMC") (cont'd)**

During the financial year ended 30 June 2017, six (6) BARMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	6/6
YBhg Datin Ngiam Pick Ngoh	6/6

##### **Group Internal Audit Division ("GIAD")**

The Company's internal audit function is carried out by the Internal Audit Department (IAD). IAD employs a risk-based assessment approach in auditing the Company's business and operational activities. An annual audit plan is developed and approved by the BARMC. All internal audit reports which incorporates the management's responses were tabled for discussion at the BARMC meetings.

During the financial year ended 30 June 2017, GIAD carried out its duties covering audit on market conduct, compliance, actuarial, investment, financial, information technology and systems, and branches. These audits are performed in line with BNM Guidelines on Internal Audit Function and BNM Guidelines on Management of IT Environment.

The cost incurred for the internal audit function in respect of the current financial year was RM891,000 (2016: RM946,000).

##### **Financial Reporting**

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at Board meetings.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****C. Accountability and Audit (cont'd)****Board Audit and Risk Management Committee ("BARMC") (cont'd)****Internal Controls and Operational Risk Management**

The Board has overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Company has established authority limits and internal controls to manage operational risks. Authority limits and the system of internal controls are reviewed regularly to ensure continuous improvement in the control environment.

The Company has put in place adequate security controls for its Information Technology systems and has in place business resumption and contingency plans that can ensure continued operation of critical functions.

**Management Accountability**

The Company operates in an organisational structure and environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. Human resource procedures of the Company provide for the setting of goals and training of each employee. The Company conducts formal appraisals for each employee on an annual basis.

The Company has an office of Corporate Communications to guide its communication policy.

**Corporate Independence**

The Company has complied with BNM's Guidelines on Related Party Transactions (BNM/RH/GL-018-6) in respect of all its related party undertakings. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 28 to the financial statements.

**Public Accountability**

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff of the Company are required to comply with the Code of Ethics and Conduct.

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****C. Accountability and Audit (cont'd)****Board Audit and Risk Management Committee ("BARMC") (cont'd)****Relationship with Auditors**

The external auditors are appointed on the recommendation by the BARMC, which determines the remuneration of the external auditors. The external auditors meet with the BARMC to:

- (i) Present the scope of the audit before the commencement of audit; and
- (ii) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

**DIRECTORS**

The Directors in office during the financial year and during the period from the end of the financial year to the date of the report are:

YBhg Tan Sri Quek Leng Chan (Chairman)

Mr Tan Kong Khoon

Mr Masakatsu Komaita

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

YBhg Datin Ngiam Pick Ngoh

Ms Shalet Marian

Ms Loh Guat Lan (Resigned as Board Member with effect from 1 January 2017)

Mr Quek Kon Sean (Resigned as Board Member with effect from 9 July 2016)