

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019**

#### **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 interest of other stakeholders.

The Board also reviewed the manner in which the Bank Negara Malaysia ("BNM") policy document on Corporate Governance ("BNM CG Policy") 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 has 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 was reviewed periodically by the Board. The Board Charter is published on the Company's website. The key roles and responsibilities of the Board broadly cover 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 as specified in the 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 her 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 and internal controls to the Group Board Audit Committee ("GBAC") under HLA Holdings Sdn Bhd ("HLAH"); and risk management to the Group Board Risk Management Committee ("GBRMC") under HLAH. 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **A. Board (cont'd)**

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

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.

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](http://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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **A. Board (cont'd)**

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

The Board currently comprises seven (7) Directors. The seven (7) Directors are made up of one (1) Executive Director and six (6) Non-Executive Directors, of whom four (4) are independent.

The Company is guided by BNM CG Policy 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 to 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.

Based on the review of the Board composition in July 2019, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **A. Board (cont'd)**

##### **III Board Meetings**

The Board met five (5) times during the financial year ended 30 June 2019 with timely notices of issues to be discussed. Details of attendance of each directors are as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri Quek Leng Chan (Chairman)	5/5
Mr Tan Kong Khoon	5/5
Mr Masakatsu Komaita	5/5
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
YBhg Datin Ngiam Pick Ngoh	5/5
Ms Shalet Marian	5/5

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

##### **A. Board (cont'd)**

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

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

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

**Age 76, 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 HLA and was appointed to the Board of HLA on 20 December 1982. He is a member of the Remuneration Committee ("RC") of HLA.

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

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **A. Board (cont'd)**

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

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

**Executive Director/Non-Independent**

**Age 62, 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. He is a Chartered Banker of the Asian Institute of Chartered Bankers.

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 DBS Bank Ltd ("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 & Chief Executive Officer of Bank of Ayudhya, the fifth largest financial group in Thailand listed on the Thailand Stock Exchange. The group businesses included commercial and investment banking, life and non-life insurance, stock broking, asset management and consumer finance subsidiaries.

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

Mr Tan is the Chairman of Hong Leong Capital Berhad and a Director of HLFG and HLB, both companies listed on the Main Market of Bursa Malaysia Securities Berhad; and a Director of Hong Leong Investment Bank Berhad, a public company. He is also the Chairman of Hong Leong Bank (Cambodia) PLC and Chief Controller on the Board of Controllers of Hong Leong Bank Vietnam Limited.

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

##### **A. Board (cont'd)**

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

###### **MR MASAKATSU KOMAITA**

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

**Age 57, Male, Japanese**

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 32 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 Mitsui Sumitomo Insurance Company, Limited ("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 ("HLMT"), a public company.

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

##### **A. Board (cont'd)**

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

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

**Non-Executive Director/Independent**

**Age 69, 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 was appointed to the Board of HLA on 30 September 2011. He is a member of the RC of HLA and also a member of the GBAC and the GBRMC of HLAH.

YBhg Dato' Siow is currently the Chairman to the Board of HLAH and is a board member of EITA Resources Berhad, Eco World International Berhad, Sunway Construction Group Berhad, MainStreet Advisers Sdn Bhd and Radiant Globaltech Berhad.



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

##### **A. Board (cont'd)**

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

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

**Non-Executive Director/Independent**

**Age 61, 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 Fellow of the Institute of Corporate Directors Malaysia, 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 NC and a member of the RC of HLA. He is also a member of the GBAC and GBRMC of HLAH.

YM Tunku Dato' Mahmood Fawzy is the Chairman of HLMT and an Independent Director of Hong Leong Asset Management Bhd and also the Chairman of Deutsche Bank (Malaysia) Berhad.

He was previously the Chairman of VADS Berhad, a wholly-owned subsidiary of Telekom Malaysia Berhad ("TM"), the Senior Independent Director of TM, an Independent Non-Executive Director of Hong Leong Islamic Bank Berhad and SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad and a Non-Independent Non-Executive Director of Malaysia Airport Holdings Berhad and Pos Malaysia Berhad. He was also a Director of Ethos Capital One Sdn Berhad, Federation of Investment Managers Malaysia, Webe Digital Sdn Bhd, a subsidiary of TM Group of companies, Energy Africa Limited and Engen Limited in South Africa.

YM Tunku Dato' Mahmood Fawzy draws on a wealth of strategy, 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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#### **CORPORATE GOVERNANCE (CONT'D)**

##### **A. Board (cont'd)**

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

**YBHG DATIN NGIAM PICK NGOH**  
**Non-Executive Director/Independent**  
**Age 64, 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 appointed to the Board of HLA on 1 June 2012 and is a member of the NC of HLA. She is also a member of the GBRMC of HLAH.

Currently, YBhg Datin Ngiam sits on the Board of MUI Properties Berhad and Heineken Malaysia Berhad as an Independent Director; and serves as a trustee of Yayasan Sin Chew and is the Vice-Chairman of Make-A-Wish Malaysia.

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

##### **A. Board (cont'd)**

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

###### **MS SHALET MARIAN**

**Non-Executive Director/Independent**

**Age 63, Female, Malaysian**

Ms Shalet Marian 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. She took an early retirement in 2010 to refresh her skills in people management.

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. She obtained the Human Resources Development Fund (HRDF) Certification in Training in 2017.

Ms Shalet Marian was appointed to the Board of HLA on 16 June 2016 and is a member of the GBAC of HLAH.

Currently, Ms Shalet Marian serves on the Board of 7-Eleven Malaysia Holdings Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad as an 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **A. Board (cont'd)**

###### **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.

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 30 June 2019, the Directors received regular briefings and updates on the Company's businesses, operations, risk management and compliance, 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.

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

##### **A. Board (cont'd)**

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

During the financial year ended 30 June 2019, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Bursa Malaysia - Sustainability Engagement Series for Directors/ Chief Executive Officers 2018
- FIDE Forum - Blockchain in Financial Services Industry by IBM Experts
- ICLIF - FIDE Elective Programme: Emerging Risks, the Future Board and Return on Compliance
- Capital Market Forum - Business Foresight Forum 2018 (BFF 2018)
- Suruhanjaya Syarikat Malaysia (SSM) National Conference 2018 - Doing Business in the Age of Disruption
- FIDE Forum - IBM THINK Malaysia
- Briefing on Cyber Risk Awareness
- AMLATFPUAA 2001 (Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001) - Managing Challenges in Risk Based Approach & Politically Exposed Person
- Khazanah National - Khazanah Megatrends Forum 2018
- Malaysian Institute of Accountants ("MIA") International Conference 2018
- Bursa Malaysia - Independent Directors' Program: The Essence of Independence
- Institute of Corporate Directors Malaysia ("ICDM") - Stakeholders Engagement for Directors
- ICDM - Effective Board in a Volatile, Uncertain, Complex and Ambiguous (VUCA) World
- AMLATFPUAA 2001: Risk, Challenges & Vulnerabilities Towards Risk Based Approach
- University Kebangsaan Malaysia (UKM) - The 3<sup>rd</sup> Chancellor Tuanku Muhriz Lecture
- ICDM - 'Would A Business Judgement Rule Help Directors Sleep Better At Night?'
- ICLIF - Let's Get Real on Anti-Bribery
- KPMG - Audit Committee Institute Breakfast Round Table on Money Laundering & Tax Risk Management
- ICDM - 'Revisiting the Misconception of Board Remuneration by Mark Reid'
- Corporate Liability under the MACC Act 2018
- Malaysia Industrial Development Finance Bhd ("MIDF") - Green Conference Financing for the Future
- Directors' Duties & Powers - Recent Developments in the Law and How It Affects You
- MIDF - Dealing with the Rising Cost of Living
- ICLIF - Kuala Lumpur Islamic Finance Forum
- World Bank & SC - Islamic Finance - Financial Inclusion
- MIA - Integrated Reporting
- ICLIF - CG Watch: How Does Malaysia Rank?

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **B. Board Committees**

Board committees have been established by the Board to assist in the discharge of its duties.

##### **(a) GBAC of HLAH**

The GBAC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Audit Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The Board Audit and Risk Management Committee ("BARMC") of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

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

Ms Lim Tau Kien

(Chairman of GBAC and Independent Non-Executive Director of HLAH)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

Mr Martin Giles Manen

(Independent Non-Executive Director of HLMT)

##### **SECRETARY**

The Secretary(ies) to the GBAC are the Company Secretary(ies) of the Company.

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

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

###### **Terms of Reference**

The primary functions and responsibilities of the GBAC are set out in the TOR as follows:

###### **External Audit**

- To make recommendations to the Board of HLAH and its subsidiaries 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 HLAH and its subsidiaries 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 GBAC 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.

###### **Related Party/Connected Party Transactions**

- To review and update the Board of HLAH and its subsidiaries on any related party transactions that may arise within the Group.
- To monitor compliance with the Board of HLAH and its subsidiaries' conflict of interest policy.

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

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

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

###### **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 of HLAH and its subsidiaries 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 Group 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 of HLAH and its subsidiaries and recommend for respective Board's approval.
- To satisfy itself that the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.
- To ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established when engaging external experts, where the internal audit function lacks the expertise needed to perform the audit of specialized areas.
- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.



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

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

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

###### **Group Governance**

- Noted that :
  - a) Hong Leong Financial Group Berhad (“HLFG”) as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within its group of companies (“HLFG Group”).
  - b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
  - c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG 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 HLFG Group-wide policies.
- The GBAC shall validate that the objectives, strategies, plans, governance framework and policies set at the HLFG 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 HLFG Group-wide policies.
- HLAH, as the financial holding company of the Insurance and Takaful entities of the HLFG Group ("Insurance Group") shall align the responsibilities as set out above for the Insurance Group.

###### **Authority**

The GBAC is authorised by the Board of HLAH and its subsidiaries 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 the management and all employees are directed to co-operate with any request made by the GBAC.

The GBAC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **B. Board Committees (cont'd)**

###### **(a) GBAC of HLAH (cont'd)**

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

###### **Meetings**

The GBAC meets at least six (6) 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 of HLAH and its subsidiaries for approval.

The Group Managing Director/ Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit, other senior management and external auditors may be invited to attend the GBAC meetings, whenever required.

At least twice a year, the GBAC will have separate sessions with the external auditors without the presence of Executive Directors and management.

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

Majority with at least one representative from each of the BNM regulated entities in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

After each GBAC meeting, the GBAC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBAC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

(Incorporated in Malaysia)

### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (a) GBAC of HLAH (cont'd)

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

###### Activities

The GBAC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2019, five (5) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tau Kien	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
Ms Shalet Marian	5/5
Mr Martin Giles Manen	5/5

###### Insurance Audit Department ("IAD")

The Company's internal audit function is carried out by the Insurance 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 GBAC. All internal audit reports which incorporates the management's responses were tabled for discussion at the GBAC meetings.

During the financial year ended 30 June 2019, IAD carried out its duties covering key audit areas on agency, product development, actuarial pricing, investment, information systems, branches, outsourced service providers and regulatory compliance audit. These audits are performed in line with BNM Guidelines on Internal Audit Function.

The cost incurred for the internal audit function in respect of the current financial year was RM803,461 (2018: RM1,091,000).

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **B. Board Committees (cont'd)**

##### **(b) GBRMC of HLAH**

The GBRMC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Risk Management Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The BARMC of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

The risk management and compliance system of the Company is overseen by the GBRMC, which comprises the following members:

Ms Koid Swee Lian

(Chairman of GBRMC and Independent Non-Executive Director of HLAH)

YBhg Dato Siow Kim Lun @ Siow Kim Lin

(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director of HLA)

Encik Zulkiflee bin Hashim

(Independent Non-Executive Director of HLMT)

(Appointed with effect from 28 May 2019)

Dr Aznan bin Hasan

(Independent Non-Executive Director of HLMT)

(Resigned with effect from 16 April 2019)

##### **SECRETARY**

The Secretary to the GBRMC is the Chief Risk Officer of HLA.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

###### Terms of reference

The primary functions and responsibilities of the GBRMC are set out in the TOR as follows:

###### Risk Management

- To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance, Shariah compliance, insurance and IT risks, and the risk management process.
- To review management's reporting to the Board of HLAH and its subsidiaries on measures taken to:
  - a) Identify and examine principal risks faced by HLAH and its subsidiaries.
  - 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 of HLAH and its subsidiaries' 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 of HLAH and its subsidiaries' 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 HLAH and its subsidiaries 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, Approach to Regulating and Supervising Financial Groups, Corporate Governance and Shariah Governance Framework.

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

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

###### Risk Management (cont'd)

- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer/ Head of Risk Management ("CRO").
- To engage privately with the CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.
- 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 GBRMC and the Board of HLAH and its subsidiaries.

###### Compliance

- To assist the Board of HLAH and its subsidiaries 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 HLAH and its subsidiaries' 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 of HLAH and its subsidiaries 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 of HLAH and its subsidiaries 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;

## HONG LEONG ASSURANCE BERHAD

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

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

###### Compliance (cont'd)

- 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;
  - e) where CCO also carries out responsibilities in respect of other control functions, the GBRMC 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 GBRMC and the Board of HLAH and its subsidiaries.

###### Group Governance

- Noted that :
  - a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within HLFG Group.
  - b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
  - c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG 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 HLFG Group-wide policies.
- The GBRMC 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 subsidiary and to check that the entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **B. Board Committees (cont'd)**

###### **(b) GBRMC of HLAH (cont'd)**

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

###### **Group Governance (cont'd)**

- HLAH, as the financial holding company of the Insurance and Takaful entities of the Insurance Group shall align the responsibilities as set out above for the Insurance Group.

###### **Authority**

The GBRMC is authorised by the Board of HLAH and its subsidiaries to review any activity of HLAH and its subsidiaries within its TOR. It is authorised to seek any information it requires from any Director or member of the management and all employees are directed to co-operate with any request made by the GBRMC.

The GBRMC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

###### **Meetings**

The GBRMC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary.

The Group Managing Director/ Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit and other senior management may be invited to attend the GBRMC meetings, whenever required.

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

Majority with at least one representative from each of the BNM regulated entities in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

After each GBRMC meeting, the GBRMC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBRMC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.



## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (b) GBRMC of HLAH (cont'd)

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

###### Activities

The GBRMC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2019, five (5) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
YBhg Datin Ngiam Pick Ngoh	5/5
Encik Zulkiflee bin Hashim (Appointed with effect from 28 May 2019)	*
Dr Aznan bin Hasan (Resigned with effect from 16 April 2019)	4/4

Note:

\* The GBRMC meetings were held before Encik Zulkiflee bin Hashim's appointment.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

#### **B. Board Committees (cont'd)**

##### **(c) NC**

The composition of the NC is 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)

#### **SECRETARY**

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the NC.

#### **Terms of Reference**

The primary functions and responsibilities of the NC are set out in the TOR as follows:

The NC'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(ies):
  - (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 and Board Committees 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.
- (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.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (c) NC (cont'd)

During the financial year ended 30 June 2019, three (3) NC 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

##### (d) RC

The composition of the RC is 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)

#### SECRETARY

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the RC.

#### Terms of Reference

The primary functions and responsibilities of the RC are set out in the TOR as follows:

The RC'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.

## HONG LEONG ASSURANCE BERHAD

(Company No. 94613-X)

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### B. Board Committees (cont'd)

##### (d) RC (cont'd)

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

- (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.

During the financial year ended 30 June 2019, one (1) RC Meetings were 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

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.

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

##### Disclosure

The detailed remuneration of each Director during the financial year ended 30 June 2019 is set out in Note 22(b) to the financial statements.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **B. Board Committees (cont'd)**

##### **(d) RC (cont'd)**

###### **Remuneration Policy**

HLA's remuneration strategy supports and promotes a high performance culture to deliver HLA's vision to be a highly digital and innovative insurer. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviours, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process which incorporates meritocracy in performance, HLA values, key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

The remuneration framework also reinforces a strong internal governance on performance and remuneration of control functions which are measured and assessed independently from business units/ functions they support to avoid any conflict of interests. The framework stipulates that for effective segregation these staff will be appraised principally based on achievement of their control objectives.

The remuneration process includes strict adherence to regulatory requirements and active oversight by the Board where the remuneration of Chief Executive Officer, senior management officers and other material risk takers are reviewed and approved by the Remuneration Committee and Board annually. HLA maintains and regularly reviews a list of officers who fall within the definition of "other material risk takers".

###### **Key components of remuneration structure**

The overall total compensation for HLA generally includes base salary, fixed allowances, performance-based variable pay and employee benefits.

- **Fixed Pay (Base Salary and Fixed Allowances)**  
Fixed pay is determined based on competency level, skills, experience, performance and market competitive levels; ensuring its competitiveness vis-à-vis comparable institutions for attraction and retention purposes.

**HONG LEONG ASSURANCE BERHAD**

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)****CORPORATE GOVERNANCE (CONT'D)****B. Board Committees (cont'd)****(d) RC (cont'd)****Remuneration Policy (cont'd)****Key components of remuneration structure (cont'd)**

- Variable pay (Cash Bonus, Deferred Cash and Incentive)  
Variable pay is declared based on overall Company's performance, line of business and individual performance. It focuses on the achievement of key objectives which are aligned to value creation for our shareholders and stakeholders. Payout is aligned to time horizon of risk to avoid excessive risk taking and provide for malus, clawback and deferral arrangements.
- Employee Benefits  
Employee benefits are used to foster employees' sense of being valued and sense of well-being, delivering cost-effective programmes that are of value to employees.

The remuneration for Senior Officers and Material Risk Takers for the current financial year 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)
<b>Fixed Remuneration</b>				
• Cash-based	1,620,000	-	10,070,064	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
<b>Variable Remuneration</b>				
• Cash-based	1,984,335	-	4,386,994	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **C. Independence**

The Company has in place a policy in relation to the tenure for independent Directors of the Company ("Tenure Policy") under the Fit and Proper Policy of the Company. Pursuant to the Tenure Policy, an independent Director who has served on the Board of the company for a period of 9 years cumulatively shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent Director, upon:-

- (a) the expiry of his term of office approved by BNM; or
- (b) the due date for his retirement by rotation pursuant to the Constitution of the Company.

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the Fit and Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek approval in accordance to BNM CG Policy.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from Directors who have, over time, gained valuable insight into the Company, its market and the industry.

The independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent Directors, have continued to bring objective judgment to the Board deliberations and decision making. The tenure of all the independent directors on the Board does not exceed 9 years.

## **HONG LEONG ASSURANCE BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **D. Commitment**

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically 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 a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman or the Chief Executive Officer of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.



## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **E. 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.

##### **F. Internal Controls Framework**

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective operations and risk management, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interests.

The system of internal controls provides reasonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. In this regard, it is noted that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

The internal control framework comprises among others, the infrastructure in the form of risk oversight committees at the Board and Management level; policies and procedures; self-assessment process for business units to assess and manage the adequacy and effectiveness of their systems of internal controls and the level of compliance with applicable rules and regulations; and a monitoring and reporting process.

###### **(a) Infrastructure**

While the Board is ultimately responsible for the management of risks within the Company, several oversight committees have been established over the years to facilitate in depth review of the risks associated with specific aspects of the business such as NC, RC, GBAC, GBRMC, Executive Committee ("EXCO"), Investment Committee, Information Technology Steering Committee, Strategic Product Committee, Underwriting, Policy Administration and Claims Committee, Asset Liability Committee, etc. The duties and scope of work of these committees are documented in their respective terms of reference.

The Company has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The Company operates their respective business units within the policies, functional, financial and operating reporting standards and control procedures developed by the Company. Such reporting standards and control procedures are supplemented by standard operating procedures developed by the business units.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **F. Internal Controls Framework (cont'd)**

###### **(b) Policies and Procedures**

The Company has established risk management policies that set forth the means by which the Company shall evaluate and manage the risks inherent in the business. The policies outline the common risk management process across key risks types within the Company.

A number of policies and procedures have also been put in place to guide and facilitate consistency in application across the board. These cover key areas of risk such as:

- Whistleblowing Policy
- Code of Conduct and Ethics
- Anti-Money Laundering and Countering Financing of Terrorism Policy
- Internal Capital Adequacy Assessment Process Policy
- Investment Policy
- Management of Participating Life Business Policy
- IT Security Policy
- New Product Approval Policy and Framework
- Management of Customer Information Policy
- Risk Management Policy and Framework
- Compliance Policy
- Audit Charter

Policies and procedures are reviewed regularly to ensure continued relevance and to capture the latest regulatory, statutory and Group requirements. Policies are endorsed by EXCO and GBRMC and subsequently approved by the Board while operating procedures are approved by EXCO, as appropriate, to formalise their application within the Company.

###### **(c) Self-assessment Process**

A Risk Self-Assessment tool is established in the Company. The result of the assessment is reported to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights.

###### **(d) Monitoring and Reporting**

The Company has identified the key risks that have significant impact on its operations - capital adequacy risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk, information technology risk, insurance risk, operational risk, and compliance risk. Each operating unit has a number of functional departments and/or units that will be responsible for managing and monitoring these risks through appropriate limits, control procedures and oversight.

## **HONG LEONG ASSURANCE BERHAD**

(Company No. 94613-X)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONT'D)**

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

##### **F. Internal Controls Framework (cont'd)**

###### **(d) Monitoring and Reporting (cont'd)**

An Enterprise Risk Dashboard that provides holistic view of the Company's risk profile is submitted to EXCO for review and reported to GBRMC for notation.

The Company has a process to collate statistics for Company-wide Key Risk Indicators as well as operational loss events reporting (via ORION) to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights on a regular basis. Both items are also reported to BNM based on a stipulated timeline.

##### **G. 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 27 to the financial statements.

##### **H. 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.

##### **I. 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.

##### **J. Relationship with Auditors**

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