

CORPORATE GOVERNANCE FRAMEWORK

Standard Insurance Sdn Bhd

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1. Introduction

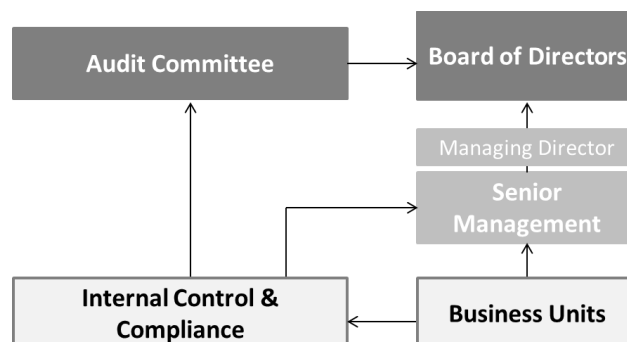
This document describes how Standard Insurance Sdn Bhd (“Standard” or the “Company”) is organised to enable the effective discharge of its corporate governance responsibilities. It describes the guiding principles of Standard’s Corporate Governance Framework (“CG Framework”). These principles inform the Company’s governance structure between the Board, individual directors, Board Committees, the Managing Director (“MD”) and Senior Management, in carrying out duties and pursuing the Company’s objectives.

This document is meant to be read with reference, to the Terms of Reference of the Board and each board committee, Internal Control Framework and the Enterprise Risk Management Framework, which provide further details on how the Board, its committees and Senior Management would conduct their activities.

As a registered non-life insurance company under the Insurance Order, 2006, Standard is required to comply with the requirements in Notice No. TIU/N-3/2017/7 *Notice on Corporate Governance for Insurance Companies and Takaful Operators (the “Notice on Corporate Governance”)*. This document is meant to be read with reference to the regulations.

2. Governance structure

Presently, the Company has the following governing and bodies: the Board of Directors, Audit Committee (a committee of the Board), the MD and the Senior Management



2.1. Key Responsibilities of the Board of Directors

The Board is responsible for promoting the growth and financial soundness of the Company and ensuring business is practiced in the best interest of all stakeholders. The Board's responsibilities include:

- To govern the Company by ensuring that there is a proper governance framework in place to promote and protect the Company's interests for the benefit of its shareholders, and other stakeholders.
- To promote the sustainable growth and financial soundness of the Company, and for ensuring the fair treatment of customers. This includes consideration of the long-term implications of the Board's decisions on the Company, its policyholders/participants, shareholders and other recognised stakeholders.
- To provide stewardship, including direction setting and general oversight of the management and operations of the Company.

Further details on the proceedings and principal duties of the Board are outlined in the *Terms of Reference for the Board*.

2.2. Board committees

Audit Committee

The Board has delegated the responsibility to the AC to provide oversight over the integrity of the financial statements, compliance with laws and regulations, the independence and performance of external auditors, risk management and internal controls frameworks.

The AC shall comprise of a minimum of two independent non-executive directors.

The AC will provide oversight over:

- Integrity of Standard's financial report and financial reporting process, including results of external audits which are conducted annually;
- Compliance with relevant legal and regulatory obligations;
- The work and independence of the external and internal auditors; and
- Risk Management and Internal Controls Framework.

Further details on the proceedings and functions of the Audit Committee are outlined in the *Board and Board Committees Charter and Terms of Reference – 3 Audit Committee*.

2.3. Managing Director

The Board has delegated to the MD authority over the day to day management of the Company. The MD is responsible for directing and overseeing the effective management of the Company, within the authority delegated to him by the Board and in compliance with applicable legislation. The MD is also responsible for ensuring that policies decided by the Board and Board Committees are communicated to the Senior Management and accurately implemented by them.

The MD is also responsible for reporting any weakness reported by Senior Management to the Board.

The MD has the authority to make decisions and take action over operational matters necessary for the day to day management of the Company. However authorities of the MD are limited such that Board's approvals are required for:

- accepting insurance risks with gross premium exceeding BND 100,000;
- operating decisions with an impact greater than BND 500,000; and
- investments greater than BND 500,000

Non-operational matters relating to: company strategy and business plans, organizational structure, financial reporting, capital structure, internal controls, or Board membership, will require Board approval.

Refer to the *Board and Board Committees Chart and Terms of reference - 2.5 Authorities delegated to Senior Management* for further details on responsibilities and authorities.

2.4. Senior Management

Senior Management includes persons who are directly accountable to the Managing Director. Senior Management includes members of the Company responsible controls and operational departments, to include the General Manager and Heads of Departments. The Board's primary interface with Senior Management is through the MD. The Board and Senior Management are ultimately responsible for management of the Company in compliance with governing legislation. Where the Board sets objectives and goals for the management of the Company, Senior Management is accountable and responsible for implementing the Board's decisions in day-to-day operations. These responsibilities include:

- implementing the business and risk strategies, policies and procedures in accordance with directions of the Board, including communicating policies to relevant business units;
- establishing a management structure that promotes accountability and transparency throughout the Company's operations, and preserves the effectiveness of control functions;
- promoting, together with the Board, a sound corporate culture within the insurer which reinforces ethical, prudent and professional behaviour;
- addressing actual or suspected weaknesses in internal policies or breaches in requirements;
- updating the Board with the material information relevant for oversight responsibilities particularly on matters relating to –

- i) The performance, financial position condition and operating environment of the Company;
- ii) Internal control failures, including breaches of risk limits; and
- iii) Legal and regulatory obligations, including supervisory concerns and the remedial actions taken to address them.

Senior Management delegates some of its responsibilities of oversight to internal control functions. Internal control functions support Senior Management by monitoring business practices and the Company's adherence to approved policies.

Senior Management facilitates the Board's oversight role by providing relevant, accurate and timely information to the Board, enabling it to oversee the management and operations of Standard. Risk management and control functions

The Board, through the Audit Committee, is responsible for ensuring the effectiveness of the Company's compliance, risk management and internal control functions. They are supported by the Compliance department.

The Company's risk management system includes the establishment of policies, strategies, processes, procedures and tools for identifying, measuring, monitoring, managing and reporting of all material risks to which Standard is exposed.

The Enterprise Risk Management Framework sets out the key principles that guide the implementation of risk and capital management at all levels. It provides the necessary foundations and organisational arrangements for managing risk within Standard, and illustrates how risk management should be embedded in all business units to ensure effective risk management strategies are integrated in all work contexts. Further details on the Company's Enterprise Risk Management Framework are provided in Standard's *Enterprise Risk Management ("ERM") Framework document*.

2.5. Internal control system

The internal control system acts as an enabler for the delivery of effective governance and to demonstrate that adequate internal controls are in place and operating satisfactorily.

The Company's internal control system outlines the various elements influencing and contributing to a sound internal control environment to ensure adequate control over operations, compliance and financial reporting.

The internal control system is designed to assist the Board, MD and Senior Management within Standard, and provides reasonable assurance from a control perspective that the business is being operated consistently within the Company's:

- Strategy and risk appetite set;
- Agreed business objectives;
- Agreed policies and procedures and
- Laws and regulations.

Refer to *Internal Control Framework* document for principles of the systems and how Standard assigns roles to effect the system of checks.

2.6. Control functions

The Company, in supporting the Board, has established an effective system of risk management and internal controls which include the risk management, compliance and actuarial.

Risk Management

Risk management oversight is led by the Audit Committee, who is responsible for the review and evaluation on the effectiveness of the Enterprise Risk Management Framework. The Enterprise Risk Management Framework is implemented by the Compliance department, who monitors and assesses risks before reporting to the Audit Committee. Its main activities include to:

- Provide analyses and performing risk reviews to support the Board;
- Identify individual and aggregated risks the insurance operation may face;
- Assess the Company's risk profile and details of risk exposures, and propose mitigating actions;
- Gain and maintain an aggregated view of the risk profile of the Company;
- Establish a forward-looking assessment of the risk profile;
- Evaluate the internal and external risk environment in order to identify and assess potential risks as early as possible; and
- Document and report to the Board material changes affecting the insurer's risk management.

Compliance

In addition to the risk management role, the Compliance function has the role of ensuring the Company:

- Meet its legal, regulatory and supervisory obligations;
- Assess key compliance risks the Company faces, and propose steps to address them; and
- Address compliance shortcomings and violations.

Actuarial

The Actuarial function is outsourced to independent external parties. The Board, through the Audit Committee, appoints the external actuary to provide advice on matters including:

- The Company's claim and premium liabilities, including policy provisions and aggregate claim liabilities;
- Determination of reserves to provide claim and premium liabilities inclusive of allowances for expenses and provision of adverse deviation to produce a 75th confidence level of sufficiency of the total policy liabilities.
- Methods and assumptions used in technical provisions.

3. Governance of frameworks and policies

The development of various other frameworks, policies and methodologies within the Company are to make clear what their aims are, explain how it will achieve them and contribute to the overall direction of the Company. In providing for good governance these documents are finalised after consultation with all impacted management. The policy owner will then ensure that any proposed changes to an existing policy will be submitted to the relevant Board Committee for approval and ultimately to the Board.

The Board is ultimately responsible for setting frameworks and policies. Any proposed changes and amendments to frameworks and policies are to be approved at by the Board. Senior Management

supports policy decisions by communicating and implementing policies throughout the organization. The Compliance department then monitors the effective application of frameworks and policies in the running of the business.

3.1. Development of frameworks and policies

Frameworks and policies will be developed by the respective Senior Management based on their area of responsibilities. These frameworks and policies will be approved by the whole Senior Management or the Board where applicable.

The following frameworks and policies are to be approved by the Board:

- Corporate Governance Framework
- Enterprise Risk Management Framework
- Internal Controls Framework
- Investment Policy

3.2. Management of frameworks and policies

Day to day management of the application of the frameworks and policies will be by the respective departments. These frameworks and policies are included with the procedures manuals for easy reference.

Responsibility for the management of policies relating to operations rests with department heads and business units, with supervision from Senior Management. These include policies of Underwriting, Claims, Business Development, Finance and Internal Control & Compliance Departments.

For policies and frameworks that involve higher levels of the organization, such as the Corporate Governance Framework and Enterprise Risk Management Framework, Senior Management is responsible for effective implementation while the Board oversees its implementation through support from the Compliance department.

3.3. Monitoring

The Compliance department will be responsible for carrying out periodic audits relating to the staff compliance with the frameworks and policies. The Head of Compliance shall draw out an annual audit plan for the Compliance department for discussion and agreement with the MD.

The results of the audit and recommendations shall be reported to the MD and Senior Management. The report shall also be made available to the Board.

4. Others

4.1. Conflict of interest

The Board has a formal written Conflict of Interest Policy which is included in the Board's Charter. It covers conflicts of interest related matters and possibilities thereof including, but not limited to:

- a member's duty to avoid to the extent possible activities that could create conflicts of interest;
- a member's duty to disclose any matter that may result, or has already resulted, in a conflict of interest;
- Board's approval for any activity which a Board member is engaged in to ensure that such any conflict of interest are understood, assessed and managed to an acceptable level;

- a member's responsibility to abstain from voting on any matter where the member may have a conflict of interest or where the member's objectivity or ability to properly fulfil duties to the bank may be otherwise compromised; and
- adequate procedures for transactions with related parties to be made on an arms-length basis, and the way in which the Board will deal with any non-compliance with the policy.

4.2. Performance Management and Remuneration

The Board actively oversees the design and operation of the Company's remuneration system, and monitors and reviews it to ensure that it is operating as intended. The Company's remuneration practices account for all aspects and components of financial remuneration to reinforce effective risk management in the Company. Company remuneration practices are intended to attract and retain highly qualified, skilled, and knowledgeable professionals while avoiding excessive risk taking.

The Company's remuneration system comprises the following major compensation components:

- Fixed Remuneration,
- Variable Remuneration, which comprises of Short-Term Incentives, and
- End of service payments

The guiding principles in managing remuneration for Senior Management are that:

- All elements should be set at an appropriate level having regard to market practices for roles of similar scope and skill;
- The remuneration should be used to encourage and reward continuous high performance;
- The remuneration should be linked to key business goals as defined by the Board; and
- Any reward should be used to align the interests of Senior Management with shareholders and not encourage excessive risk taking.

The Company's philosophy for Senior Management's remuneration is to reward high levels of sustained performance.

The Company has a formal performance management process for evaluating and measuring staff performance at all levels objectively. The variable remuneration is linked with performance.

4.3. Recruitment

All potential staff for the Senior Management role and responsible for control functions will need to be fit and proper as defined in Guidelines No. TIU/G-1/2017/6 Guidelines on Fit and Proper Criteria for Key Responsible Persons and Key Persons in Control Functions in Insurance and Takaful regardless of their position.

5. Disclosures and transparency

The Company is required by the *Notice on Corporate Governance* to make certain corporate governance disclosures available to the public, including:

- composition of the board,
- function and conduct of the Board and its committees,
- an overview of the Internal Control Framework,
- qualitative disclosures of remuneration policies,

The Company shall comply with these requirements by publishing this Corporate Governance Framework, and its appendices, on the Company's website. In addition, Standard is also required to publish on its website documents including:

- the Company's Articles of Association,
- Board's Terms of Reference and any changes to Board composition.

6. Ownership and Governance of Framework

Ownership of this framework is vested with the Board. Any proposed changes and amendments to the framework are to be approved at the Board. Whilst the Board is responsible for creating this framework, Senior Management is accountable for the implementation of this framework. The Board is accountable for oversight over the framework, and is supported by the Audit Committee in its oversight. The Corporate Governance Framework will be reviewed by the Board annually. Any proposed changes and amendments to the framework are to be approved at the Board level.

7. Non-compliance

Non-compliance with any of Standard's policies, standards, procedures, or the like, could result in disciplinary action and possible dismissal. In the case of non-compliance by Senior Management or persons involved in operations, the severity of disciplinary action will be at the discretion of the MD. In the case of non-compliance by a Director or MD, the severity of disciplinary action will be at the discretion of the Board.

The Company must notify to the Authority within 30 days should a Director or member of Senior Management resign, be suspended or dismissed as a result of disciplinary action.