

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2016

As an Insurer licensed under Financial Services Act 2013 and regulated by Bank Negara Malaysia, the Company is subject to Corporate Governance Policy Document issued by Bank Negara Malaysia.

BOARD OF DIRECTORS

The Board consists of six (6) Directors, as follows:

1. Dato' Thomas Mun Lung Lee (Chairman)
Independent Non-Executive Director

Dato' Thomas is a Barrister at Law (England) and holds a Master of Arts (MA) and Master of Laws (LLM) from Cambridge University, UK. Dato' Thomas has been in legal practice as an Advocate and Solicitor for more than 50 years. Dato' Thomas is an arbitrator with the Court of Arbitration for Sport, Lausanne, Switzerland and is currently the Senior Partner of Lee Hishammuddin Allen & Gledhill. He has over 40 years of experience in Banking, Finance and Corporate Law.

2. Mohd Daruis bin Zainuddin
Independent Non-Executive Director

Encik Mohd Daruis is a Fellow of the Association of Chartered Certified Accountants as well as a Member of the Malaysian Institute of Certified Public Accountants, Malaysian Institute of Accountants and Chartered Tax Institute of Malaysia. He is the Sole Practitioner in an audit firm MDZ & Co. Encik Daruis was with Pricewaterhouse Coopers Malaysia between 1974 and 2004, when he held the position of Senior Partner. He was also a Member of the ACCA Malaysian Advisory Committee and Dewan Perniagaan Islam Malaysia Negeri Johor.

3. Anusha a/p Thavarajah
Executive Director/Chief Executive Officer

Ms Anusha was appointed Chief Executive Officer ("CEO") of AIA Bhd. in June 2015. She joined AIA in 2002 as Vice President of Actuarial and later took on the role of Appointed Actuary & Head of Product Development in ING Insurance Berhad, where she went on to become Deputy CEO. Anusha returned to AIA in 2011 as Deputy General Manager of Operations, Finance & Actuarial. Prior to becoming CEO, Ms Anusha was appointed as the Regional Business Development Director of AIA Group Limited. She holds a First Class Honours in Mathematics & Statistics from the UK's University of Birmingham and is also a Fellow of the Institute of Actuaries, UK.

4. Dato' Wee Hoe Soon @ Gooi Hoe Soon
Independent Non-Executive Director

Dato' Gooi is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants. He has over 30 years of experience in accounting and corporate finance. Apart from being the Finance Director of several private and public listed companies, Dato' Gooi also assumed the Chairmanship in EON Bank Berhad (until May 2012) and Amity Bond Berhad, where he continues to helm the Board. He has also been instrumental in the successful implementation of several corporate exercises by public listed companies.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

5. Ching Yew Chye @ Chng Yew Chye
Independent Non-Executive Director

Mr Ching holds a Bachelor of Science (Honours) degree from the University of London, UK. Mr Ching has extensive experience in retail and commercial banking as well as capital markets. Between 1997 and 2007, Mr. Ching assumed various regional senior management roles in Accenture, including the roles of Managing Partner of the Financial Services Industry Group-Asia, Geographic Council Chairman-Asia and Managing Partner for the South Asia Region.

6. William (Bill) Lisle
Executive Director

Mr. Lisle is the Regional Chief Executive for AIA's businesses in Malaysia, Korea, Sri Lanka, India and Cambodia. He is also a director of AIA Co. and AIA International. Mr. Lisle was CEO of AIA Bhd. between December 2012 and May 2015, during which time he led the complex integration of the AIA and ING businesses in Malaysia. Mr. Lisle joined AIA Group in 2011 as the Group Chief Distribution Officer. Prior to that, he held various senior positions in Aviva and Prudential Corporation Asia, including CEO of Prudential Malaysia (2008-2009), CEO of Prudential Korea (2005-2008) Chief Agency Officer of ICICI Prudential (2002-2004) and Director of Agency Development, South Asia in 2001.

In promoting independent oversight by the Board, the tenure limit for Independent Directors is nine (9) years from the date of the Director's initial appointment. The Board is also discouraged from having more than eight (8) Directors. However, a maximum of ten (10) Directors may be allowed provided the additional Directors are Independent Directors.

During the financial year, a total number of twenty (20) Board and Board Committee Meetings were held, as set out below:

	Audit Committee	Risk Management Committee	Nominating Committee	Remuneration Committee	Board
Number of meetings	5	4	2	2	7

The Chairman and Members of each Board Committees during the financial year were as follows:

Name of Director	Audit Committee Member	Risk Management Committee Member	Nominating Committee Member	Remuneration Committee Member	Board Member
Dato' Thomas Mun Lung Lee	Yes	Yes	Yes	Yes	Yes (Chairman)
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Yes	Yes	Yes (Chairman)	Yes	Yes
Mohd Daruis bin Zainuddin	Yes (Chairman)	Yes (Chairman)	Yes	Yes	Yes
Ching Yew Chye @ Chng Yew Chye	Yes	Yes	Yes	Yes (Chairman)	Yes

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Name of Director	Audit Committee Member	Risk Management Committee Member	Nominating Committee Member	Remuneration Committee Member	Board Member
William (Bill) Lisle	No	No	Yes	No	Yes
Anusha a/p Thavarajah	No	No	Yes	No	Yes

The roles and responsibilities of the Board and the Board Committees as well as the attendance of each Director at Board and the Board Committee meetings during the financial year are as set out in the Directors' Report of the Company's Audited Financial Statements for the financial year ended 30 November 2016.

BOARD RESPONSIBILITIES AND OVERSIGHT

The Board is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Financial Services Act 2013 and Corporate Governance Policy Document issued by Bank Negara Malaysia and other directives, in addition to adopting other best practices on corporate governance.

The Board has an overall responsibility to lead the Company, including setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

The Board comprises of four (4) Independent Non-Executive Directors and two (2) Executive Directors to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

The Board met seven (7) times during the financial year. All Directors in office at the end of the financial year complied with the 75% minimum attendance requirement at such meeting.

The number of meetings attended by each Director during the financial year are as follows:

<u>Name of Directors</u>		<u>No. of attendance</u>
Anusha a/p Thavarajah	Member (Executive)	7/7
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)	7/7
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	7/7
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)	7/7
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)	7/7
William Lisle	Member (Executive)	6/7

To support sound corporate governance and processes, the Board formed various Board Committees namely the Nominating Committee, the Remuneration Committee, the Risk Management Committee and the Audit Committee ("the Committees") in accordance with the requirements of Bank Negara Malaysia's Corporate Governance Policy Document.

The roles and members of the Committees are as provided below.

AIA BHD.

(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Nominating Committee

As at the date of this report, the Nominating Committee (“NC”) comprises six members as follows:

Dato’ Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Dato’ Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)
William Lisle	Member (Executive)
Anusha a/p Thavarajah	Member (Executive)

The objective of the NC is to establish a documented, formal and transparent procedure for the appointment of Directors, CEO and key senior officers (“KSOs”) and to assess the effectiveness of individual directors, the Board as a whole (including various committees of the Board), CEO and KSOs on an on-going basis.

The principal duties and responsibilities of the NC are:

- (a) establishing the minimum requirements of the Directors and senior management at the time of appointment and on a continuing basis;
- (b) establishing and regularly reviewing succession plans for senior management and the Board to promote the Board’s renewal and address any vacancies;
- (c) establishing a rigorous process for the appointment and removal of Directors, CEO and senior officers. The process must involve the assessment of candidates against the minimum requirements as set out in the Corporate Governance Policy Document to maintain the engagement between a candidate and the Committee and to ascertain the suitability of each candidate for the Board;
- (d) assessing against the minimum requirements for each senior management and Director on an annual basis, and as and when the Board becomes aware of information that may materially compromise the individual/Director’s fitness and propriety, or any circumstance that suggests that the Director is ineffective, errant or otherwise unsuited to carry out his responsibilities;
- (e) recommending and assessing the appointment and reappointment of Directors and senior management as per the minimum requirements as set out in the Corporate Governance Policy Document before an application for approval is submitted to Bank Negara Malaysia;
- (f) assessing the Board and the Board Committees in terms of the appropriate size that promotes effective deliberation and encourages the active participation of all Directors and allows the work of the various Board Committees to be discharged without giving rise to an over-extension of Directors that are required to serve on multiple Board Committees; and
- (g) assessing the performance and effectiveness of the Board, the Board Committees and individual Directors. This is important to enable the Board to identify areas for professional development and process improvements, having regard to the changing needs of the Company.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

During the financial year, the NC held two meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the NC are as follows:

<u>Name of members</u>		<u>No. of attendance</u>
Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)	2/2
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	2/2
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)	2/2
William Lisle	Member (Executive)	2/2
Anusha a/p Thavarajah	Member (Executive)	2/2
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)	2/2

Remuneration Committee

As at the date of this report, the Remuneration Committee ("RC") comprises five members as follows:

Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)
William Lisle	Member (Executive)
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO and KSOs and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The principal duties and responsibilities of the RC are to review and assess:

- (a) the remuneration policy of the Company which must be approved by the Board, which must be subject to periodic Board's review, including when material changes are made to the policy.
- (b) the remuneration for each Director, members of senior management and other material risk taker must be approved by the Board annually. The Company must maintain and regularly review a list of officers who fall within the definition of "other material risk takers".
- (c) the overall remuneration system for the Company which must:
 - (i) be subject to the Board's active oversight to ensure that the system operates as intended;
 - (ii) be in line with the business and risk strategies, corporate values and long-term interests of the Company;
 - (iii) promote prudent risk-taking behaviour and encourage individuals to act in the interests of the Company as a whole, taking into account the interests of its customers; and
 - (iv) be designed and implemented with input from the control functions and the Board's Risk Management Committee to ensure that risk exposures and risk outcomes are adequately considered.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

- (d) the remuneration for individuals which must be aligned with prudent risk-taking. Hence, remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:
- (i) remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgment;
 - (ii) the size of the bonus pool is linked to the overall performance of the Company;
 - (iii) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
 - (iv) bonuses are not guaranteed, except in the context of sign-on bonuses; and
 - (v) for members of senior management and other material risk takers:
 - a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
 - the variable portion of remuneration increases along with the individual's level of accountability.
- (e) the remuneration payout schedules which must reflect the time horizon of risks and take account of the potential for financial risks to crystallise over a longer period of time. As such, the Company must adopt a multi-year framework to measure the performance of members of senior management and other material risk takers. Such a framework must provide for:
- (i) the deferment of payment of a portion of variable remuneration to the extent that risks are realised over long periods, with these deferred portions increasing along with the individual's level of accountability;
 - (ii) the calibration of an appropriate mix of cash, shares, share-linked instruments, and other forms of remuneration to reflect risk alignment; and
 - (iii) adjustments to the vested and unvested portions of variable remuneration (through malus, clawbacks and other reversals or downward revaluations of awards) in the event of bad performance of the business unit or institution attributable to the individual or if he commits serious legal, regulatory or internal policy breaches.
- (f) the incentive structure to ensure that:
- (i) variables used to measure risk and performance outcomes of an individual relate closely to the level of accountability of that individual;
 - (ii) the determination of performance measures and variable remuneration considers that certain indicators (such as share prices) may be influenced in the short term by factors like market sentiment or general economic conditions which are not specifically related to the Company's performance or an individual's actions, and the use of such indicators does not create incentives for individuals to take on excessive risk in the short term; and
 - (iii) members of senior management and other material risk takers commit not to undertake activities (such as personal hedging strategies and liability-related insurance) that will undermine the risk alignment effects embedded in their remuneration.

During the financial year, the RC held two meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the RC is as follows:

AIA BHD.

(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

<u>Name of members</u>		<u>No. of attendance</u>
Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)	2/2
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	2/2
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)	2/2
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)	2/2
William Lisle	Member (Executive)	2/2

Risk Management Committee

As at the date of this report, the Risk Management Committee ("RMC") comprises five members as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)
William Lisle	Member (Executive)

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively.

The principal duties and responsibilities of the RMC are:

- (a) ensuring that the Company's corporate objectives are supported by a sound risk strategy and an effective risk management framework that is appropriate to the nature, scale and complexity of its activities;
- (b) providing effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework;
- (c) ensuring senior management oversight in the day-to-day management of the financial institution's activities is consistent with the risk strategy, including the risk appetite and policies approved by the Board;
- (d) ensuring that the risk management framework enables the identification, measurement and continuous monitoring of all relevant and material risks on a group and firm-wide basis, supported by robust management information systems that facilitate the timely and reliable reporting of risks and the integration of information across the institution. The sophistication of the Company's risk management framework must keep pace with any changes in the institution's risk profile (including its business growth and complexity) and the external risk environment;
- (e) ensuring that the risk management is well-integrated throughout the organisation and embedded into the culture and business operations of the institution;

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

- (f) establishing an independent senior risk executive role (chief risk officer or its equivalent) with distinct responsibility for the risk management function and the institution's risk management framework across the entire organisation. The executive must have sufficient stature, authority and seniority within the organisation to meaningfully participate in and be able to influence decisions that affect the Company's exposures to risk;
- (g) establishing and maintaining an effective risk management function with sufficient authority, stature, independence, resources and access to the Board;
- (h) effectively implementing the risk management framework that is reinforced with an effective compliance function and subjected to an independent internal audit review;
- (i) ensuring that the Company has appropriate mechanisms in place for communicating risks across the organisation and for reporting risk developments to the Board and senior management;
- (j) ensuring that the executive remuneration is aligned with prudent risk-taking and appropriately adjusted for risks. The Board must actively oversee the institution's remuneration structure and its implementation, and must monitor and review the remuneration structure to ensure that it operates as intended;
- (k) ensuring that the Board and senior management are aware of and understand the Company's operational and organisational structure and the risks it poses and be satisfied that it is not overly complex or opaque such that it hampers effective risk management by the Company;
- (l) ensuring that the Board and senior management understand the purpose, structure and unique risks of operations when the Company operates through special-purpose structures. Appropriate measures must be undertaken to mitigate the risks identified; and
- (m) exercising oversight over its subsidiaries with appropriate established processes to monitor the subsidiaries' compliance to the Group's risk management policies.

During the financial year, the RMC held four meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the RMC are as follows:

<u>Name of members</u>		<u>No. of attendance</u>
Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)	4/4
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)	4/4
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)	4/4
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)	4/4
William Lisle	Member (Executive)	4/4

AIA BHD.

(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Audit Committee

As at the date of this report, the Audit Committee (“AC”) comprises four members as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato’ Thomas Mun Lung Lee	Member (Independent Non-Executive)
Dato’ Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

The principal duties and responsibilities of the AC are:

- (a) ensuring that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;
- (b) reviewing and concurring the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;
- (c) ensuring that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;
- (d) reviewing and concurring with the appointment, removal and remuneration of the external auditors recommended by Group Audit Committee;
- (e) reviewing various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors’ judgement or independence in respect of the Company;
- (f) maintaining regular, timely, open and honest communication with the external auditors, and require the external auditors to report to the AC on significant matters;
- (g) reviewing with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;
- (h) reviewing with the external auditors on the financial statements, audit reports, including obligation reports to Bank Negara Malaysia and discuss the findings and issues arising from the external audit;
- (i) ensuring that management’s remediation efforts with respect to all findings and recommendations are resolved effectively and in a timely manner;
- (j) approving the provision of non-audit services by the external auditors and ensuring that the level of provision of non-audit services is compatible with maintaining auditor independence;

AIA BHD.

(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

- (k) reviewing the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report;
- (l) reviewing any related party transactions and conflicts of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;
- (m) ensuring that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes;
- (n) monitoring compliance with the Board's conflict of interest policy which would include monitoring the items set out below:
 - (i) identifying circumstances which constitute or may give rise to conflicts of interests;
 - (ii) clearly defining the process for Directors to keep the Board informed on any change of circumstances that may give rise to a conflict of interest;
 - (iii) identifying those responsible for maintaining updated records on each Director's conflicts of interest; and
 - (iv) articulating how any non-compliance with the policy will be addressed.
- (o) reviewing third-party opinions on the design and effectiveness of the Company's internal control framework; and
- (p) submitting to Bank Negara Malaysia annually, a summary of material concerns/weaknesses in the internal control environment of the Company noted during the financial year and the corresponding measures taken to address those weaknesses.

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

During the financial year, the AC held five meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the AC are as follows:

<u>Name of members</u>		<u>No. of attendance</u>
Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)	5/5
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)	5/5
Dato' Wee Hoe Soon @ Gooi Hoe Soon	Member (Independent Non-Executive)	5/5
Ching Yew Chye @ Chng Yew Chye	Member (Independent Non-Executive)	5/5

During the financial year, the AC members have met twice with the external auditors without the presence of the management.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

The Members of the Board had attended briefings, conferences, seminars and trainings during the financial year, which include the following:

No.	Description
1.	Briefing on Financial Institutions Directors' Education (FIDE)'s FORUM: Directors' Register – Briefing Session for Directors
2.	Kuala Lumpur Islamic Finance Forum (KLIFF): Shariah Audit for Islamic Finance
3.	FIDE Core Programme: Module A
4.	FIDE Core Programme: Module B
5.	KLIFF: Accounting for Islamic Finance Institution
6.	FIDE FORUM: 2 nd Distinguished Board Leadership Series Avoiding Financial Myopia
7.	Briefing with Director General on Corporate Governance Concept Paper
8.	Open Consultation on the Draft FSPB Code of Conduct
9.	FIDE Elective Programme: Understanding Evolving Cybersecurity Landscape
10.	In-house Training
11.	Briefing on Whistleblowing Policy

The Members of the Board were also regularly updated on the issuance of new related Acts and regulations as well as the requirements to be observed both by the Company and Directors.

The Company provides an in-house orientation to newly appointed Directors and the Directors may request trainings on specific subjects in facilitating the Directors to discharge their duties effectively. On an annual basis, the NC will conduct annual review of trainings attended by the Directors during each financial year.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK

The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and risk management and for reviewing its effectiveness. Risk Management, Compliance and Internal Audit functions, among others, provide assessment, reporting and assurance on the effectiveness of the Company's policies and operations as well as its compliance with legal and regulatory obligations.

Such processes are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The criteria applied by the directors in judging the effectiveness of these controls are that they allow the maximisation of shareholder value by exploiting business opportunities whilst ensuring that risks are properly identified and managed. The controls are regularly reviewed to ensure that they enable the proper management of business risks without so restricting efficiency and entrepreneurial nature that they inhibit proper running of the business.

The Company has a management structure with clear lines of responsibility and accountability, staffed by appropriate personnel. The Board is responsible for setting the overall strategy and reviewing the performance of the Company.

The day to day running of Company's operations is managed by the Company's Executive Committee, chaired by the CEO. This team is also responsible for the recommendation to the Board of the Company's strategy and its subsequent implementation, for ensuring that appropriate internal controls are in place to manage and assess risk and that they are fully complied with.

The fundamental elements of the Group's internal control and risk management framework are described below:

1. Structure and reporting

A clear organisational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Company can meet its future management requirements.

2. Approval procedures

The Company has delegated authority structures that ensure that decisions are taken at an appropriate level, with an appropriate level of input by internal and external expert advisers. The delegated authority structure prescribes financial limits of approval at each level and requires decisions with significant financial, legal or reputational impact for the Company to be approved by the Board.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

3. Operating Philosophy

The Company has identified and adopted the following Operating Philosophy as being about “Doing the Right Thing, in the Right Way, with the Right People.....and the results will come”. Underlying this Operating Philosophy are 12 Operating Principles that help guide and shape our employees’ actions and behaviours, informing how we interact with one another and how we behave externally with our customers, shareholders and other stakeholders, including the community at large.

4. Corporate policies, values and compliance

There are various policies and procedures in place as internal control to govern the operations of the Company. The following policies have been adopted by the Company:

- (a) AIA Code of Conduct: This policy lays the foundation for good business decisions and guides staff and agents in conducting business honourably, ethically and with utmost professionalism. The Code specifies the standards of behaviour to which every AIA employee and stakeholder is expected to adhere. The Code guides us on compliance, ethics and risk issues and allows us to contribute positively to the societies where we operate.
- (b) Whistleblower Protection Policy: This policy aims to establish corporate values and culture that support ethical behavior and to assure confidentiality and non-retaliation to whistleblowers. Every employee has the obligation to report unethical behaviour or suspected violations of law or company policy connected with AIA Group business activities.
- (c) Anti-Fraud Policy: The Company is committed to conducting all of its business with the highest level of ethics and integrity. To uphold this commitment and in particular, a zero-tolerance approach to fraud, the Company requires adherence to this Anti-Fraud Policy. The policy is intended to reinforce management procedures designed to aid in the prevention, detection and investigation of fraud, thereby safeguarding the Company’s assets and providing protection from the legal and reputational consequences of fraudulent activities.
- (d) Anti-Corruption Policy: The Company is committed to conducting all of its business in an honest and ethical manner. Bribery or any improper payment to gain an advantage in any situation is never acceptable and may have serious legal, reputation and regulatory implications for the Company. The Policy also makes good business sense.

These controls that are embedded in the Company as a result of the adoption of the policies are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

RISK MANAGEMENT OVERVIEW

The Company recognizes the importance of sound risk management in every aspect of our business and for all our stakeholders. For our policyholders, it provides the security of knowing that we will always be there for them; for our investors, it is key to protecting and enhancing the long-term value of their investment. Also for our regulators it is supportive of industry growth and the public's trust in the industry.

While effective risk management is vital to any organization, it goes to the core of a life insurance business where it is a main driver of value. AIA's Risk Management Framework ("RMF") does not seek to eliminate all risks but rather to identify, understand and manage them within acceptable limits in order to support the creation of long-term value.

AIA's RMF is built around developing an appropriate and mindful risk culture at every level of the organization in support of our strategic objectives. The RMF provides the Company with appropriate tools, processes and capabilities for the identification, assessment and where requires, upward referral of identified material risks for further evaluation.

The RMF consists of the following components:

1. Risk Culture

The RMF recognizes the importance of risk culture in the effective management of risks. Risk Culture defines the Company's attitude to risks and ensures its remuneration structure promotes the right behavior.

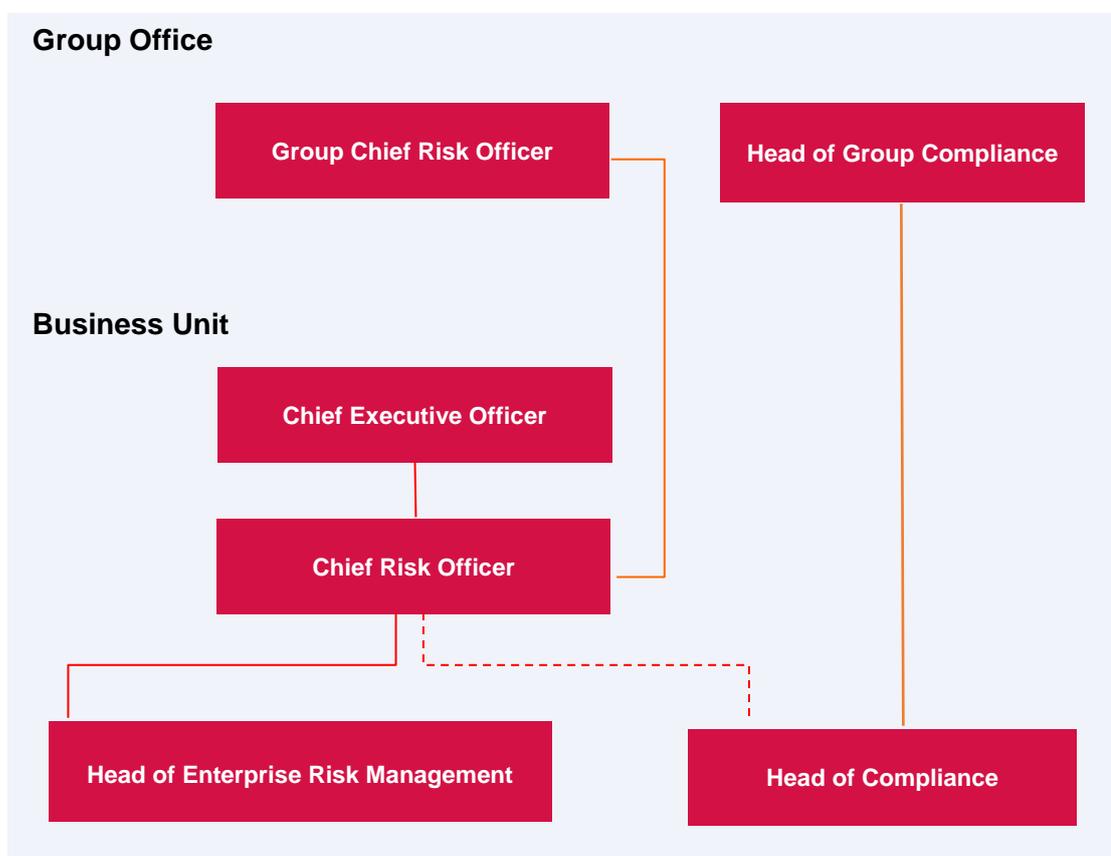
2. Accountability

A key component of the risk culture is accountability. The First Line of Defence (First Line) is responsible for managing risks with Risk Champions appointed to coordinate risk management-related matters. The Chief Risk Officer (CRO) has overall accountability for the Risk Function and has oversight over the Compliance function. The CRO has a primary reporting line into AIA Group CRO and a secondary reporting line to the CEO. This structure ensures independence of the Second Line of Defence (Second Line) and allows the CRO full access to the business discussions so as to provide risk management perspectives and insights. The CRO is a member of the Executive Committee.

The Risk and Compliance Organizational Structure is shown below:

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)



3. Remuneration

The Company's executive remuneration structure ensures appropriate consideration of the RMF within a strong performance-oriented culture. This is supported by a performance management system where all staff are measured on 'how' as well as 'what' they deliver. This structure places significant emphasis on conduct as well as achievement, and is consistent with our fundamental Operating Philosophy of "Doing the Right Thing, in the Right Way, with the Right People.... And the results will come".

4. Risk Management Process

The Company has a robust Risk Management Process that provides sufficient information, capability and tools to manage its key risks. The following key processes have been developed to identify, quantify, manage and monitor the risk exposures.

5. Identification

Timely and complete identification of risks is an essential first step to the risk management process. The Risk and Compliance function has developed a systematic process to identify existing and emerging risks in the Company.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

6. Quantification

Quantification of risk is important in establishing the level of exposure and in determining the appropriate management actions within the Company's Risk Appetite. Specific risk metrics adopted to support the quantification are detailed in the Risk Landscape section.

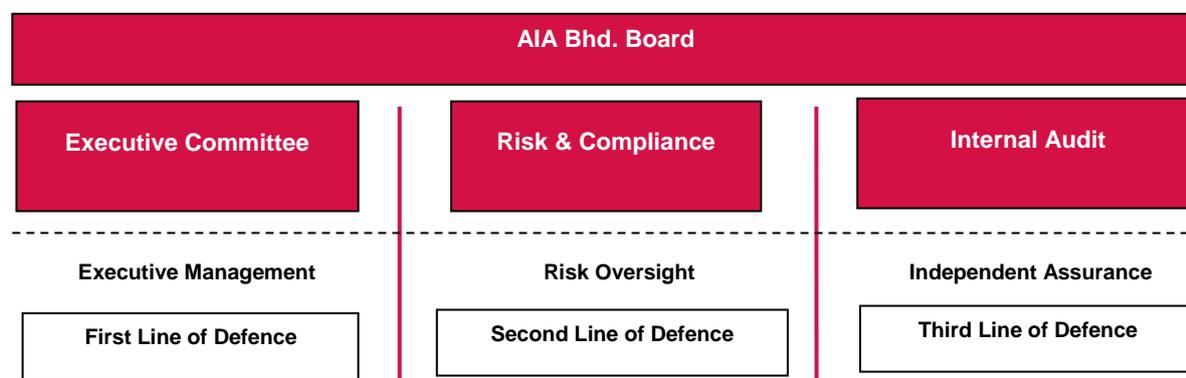
7. Escalation and Mitigation

Following the risk quantification process, the executives working in the First Line are responsible for the timely identification and escalation of material risk developments and for the implementation of risk mitigation actions, as appropriate.

8. Reporting and Monitoring

The Second Line is responsible for monitoring First Line activities and reporting to the appropriate Risk Committees the performance of the First Line against risk metrics and limits defined in the Risk Appetite. In addition, to ensure the effectiveness of the Risk Management Process, an Own Risk and Solvency Assessment is reported to the Risk Committees for annual review.

RISK GOVERNANCE



THREE LINES OF DEFENCE

The Company's Risk Governance framework is built on the "Three Lines of Defence" model. With regard to risk management, the objective is to ensure that an appropriate framework is in place, including an independent system of checks and balances, to provide assurance that risks are identified, assessed, managed and governed properly. The framework clearly defines roles and responsibilities for the management of risk between the Executive Management, Risk & Compliance and Internal Audit functions. While each line of defence is independent from the others, they work closely to ensure effective oversight.

The First Line is made up of the business decision-takers who are responsible for ensuring that effective and appropriate processes are in place at all times to effectively identify, assess and manage risk in a manner consistent with the RMF. In particular, the amount of risk taken at each level of the organisation must be consistent with both the Risk Appetite of the Company and AIA Group.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

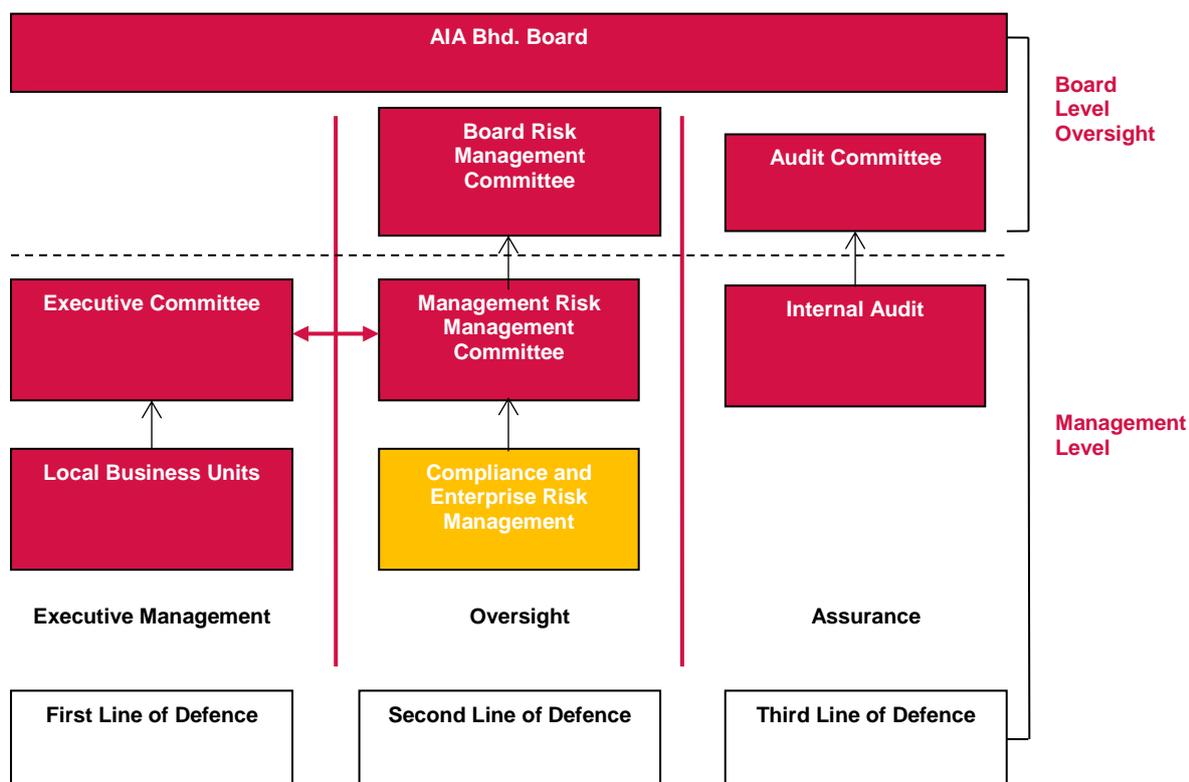
Initial identification, assessment and management of risk is the responsibility of executives operating in the First Line. Decisions regarding activities deemed to have significant risks attached or that are outside the limits of a given level of management are referred to a senior executive or, where appropriate, through the CEO to the Risk Committee of the Board and, where appropriate, to the full Board of Directors.

The Second Line consists of the Risk & Compliance function. This function is independent of the First Line (The CRO has a primary reporting line into AIA Group CRO and a secondary reporting line to the CEO but works closely with the First Line to ensure that risks are being managed appropriately within the Company's Risk Appetite. The Second Line is also responsible for overseeing First Line activities and ensuring the Company adheres to its own high standards.

The Third Line of Defence (Third Line) is Group Internal Audit (GIA) function, which reports to the Audit Committee of the AIA Board. GIA is responsible for providing independent assurance over the effectiveness of key internal controls and makes recommendations based on the audit findings.

The Three Lines of Defence converge at the Board, which retains overall responsibility for the Company's RMF.

RISK COMMITTEE STRUCTURE



AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

The Company's risk committee structure is designed to provide:

- consistent application of the RMF across the Company;
- streamlined processes for the timely identification, assessment and escalation of risk issues;
- objective analysis of risk issues enabling informed decision-making; and
- discussion and challenge in relation to risk issues in suitable forums.

(i) The Board

The Board retains overall responsibility for oversight of the Company's risk management activities. In this regard, the Board sets the Company's Risk Appetite, approves the RMF (including amendments or refinements from time to time) and monitors material Company-wide risks. In fulfilling these responsibilities, the Board is supported and advised by the Risk Committee.

(ii) Risk Committee

The Risk Committee oversees risk management across the Company and advises the Board on all risk-related issues requiring Board attention. The members of the Risk Committee are all Board directors, with the majority of members including the Committee Chairman being Independent Non-executive Directors. The Risk Committee meets at least four (4) times a year.

(iii) Operational Risk ("ORC") and Financial Risk ("FRC") Committees

The Risk Committee is supported by two Executive Risk Committees which, between them, oversee the management of all risks. The ORC is chaired by the Chief Risk Officer and oversees risks associated with failure in internal processes, personnel and systems or from external events. The FRC is chaired by the CEO and oversees risks associated with Financial, Insurance and Investment risks.

The FRC and ORC meet at least four (4) times a year.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION

OBJECTIVES

The Company's executive remuneration policy is based on the principle of providing an equitable, motivating and competitive remuneration package to foster a strong performance-oriented culture within an appropriate risk management framework.

The policy aims to ensure that rewards and incentives relate directly to the performance of individuals, the operations and functions in which they work or for which they are responsible, and the overall performance of the Company. The compensation and benefits arrangements designed under the policy provides incentives that are consistent with the interests of the Company's stakeholders and do not encourage executives to take excessive risks that may threaten the value of the Company and impair the reputation of the brand.

MAIN COMPONENTS OF REMUNERATION

The table below summarizes the Company's remuneration policies regarding the elements of the remuneration structure as it applies to the CEO and Senior Management Team during the year.

Element	Purpose	Basis of determination	Notes on practices
Basic	Fixed cash element of remuneration to recruit and retain talent	Basic salary is determined with reference to the specific roles and responsibilities of the position, internal relativities, market practice, individual experience, performance and other factors to attract and retain employees with required capabilities to achieve the Company's business objectives	The Remuneration Committee reviews salaries annually for the CEO and Senior Management Team against relevant industry survey sources. Salary increases, where applicable, typically take effect from 1 March
Short-term incentive	Short-term incentives are delivered in the form of a performance-based cash award to recognize and reward achievement of the Company's objectives and individual contribution	Short-term incentive target and maximum opportunities are determined with reference to the market appropriateness of total compensation and the roles and responsibilities of the individual	Annual short-term incentive based on the achievement of financial performance measures and relevant strategic objectives, as well as individual contribution
Long-term incentive	Long-term incentive plan focuses key contributors on the long-term success of the Company and is used to align the interest of executives with those of shareholders using a combination of share-based awards and share mix options to deliver a balanced mix of ownership and incentives	Long-term incentive target and maximum opportunities are determined with reference to the total competitiveness of the total compensation package and the roles and responsibilities of the individual	Awards are discretionary and determined on an annual basis Awards are made in restricted share units and / or share options, and generally vest after a three-year period, with the restricted share units subject to pre-defined performance objectives
Benefits	Benefits form part of the long-term employment relationship and contribute to the value of total remuneration provided at market competitive levels	The benefits program is determined such that it is market competitive. It remains fully compliant with local regulations	The CEO and Senior Management Team receive certain benefits, for example, medical and life insurance, use of company car and/ or driver

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION (CONTINUED)

Element	Purpose	Basis of determination	Notes on practices
Employee share purchase plan (ESPP)	Share purchase plan with matching offer to facilitate and encourage AIA share ownership by employees, and provide a long-term retention mechanism	The ESPP is open to all employees who have completed probation and subject to a maximum contribution indicated as a percentage of basic salary or the plan maximum limit	Participants receive matching shares for shares purchased at a rate approved by the Remuneration Committee Matching shares vest after three (3) years

SHORT-TERM INCENTIVE PLAN

The short-term incentive targets were determined and communicated to the CEO and Senior Management Team at the beginning of the financial year. The performance measures for short-term incentives were:

- Value of new business (“VONB”)
- Operating profit after tax (“OPAT”); and
- Excess embedded value growth (“EEVG”).

VONB is an estimate of the economic value of one (1) year’s sales as published by the Company; OPAT is the IFRS operating profit after tax based on the IFRS results published by the Company; and EEVG is the sum of the operating experience variances (current year performance against the operating assumptions for calculating embedded value (EV) and operating assumption changes (value of future operating outperformance considered permanent enough for recognition in the current year) in the EV operating profit.

The weighting of the three (3) performance measures described above is fifty per cent (50%), ten per cent (10%) and twenty-five per cent (25%) for VONB, EEVG and OPAT respectively. The remaining weighting is ten per cent (10%) for Active Agents Growth and five per cent (5%) for Vitality ANP. Based on the level of achievement of the performance measures, short-term incentive awards in respect of the financial year was paid to the CEO and Senior Management Team in March 2017.

The total value of the short-term incentive awards accrued for the CEO and Senior Management Team for the financial year ended 30 November 2016 is MYR 4,870,050.

LONG-TERM INCENTIVE PLAN

The Restricted Share Unit Scheme and the Share Option Scheme were adopted on 28 September 2010 and are effective for a period of ten (10) years from the date of adoption.

These schemes are designed to motivate and reward participants who have not only made an important contribution to AIA’s success but are expected to play a significant role in the future.

Awards made under these schemes are discretionary and are determined on an annual basis with reference to the magnitude of overall variable remuneration, the competitiveness of the total remuneration package, the roles, responsibilities, performance and potential of the individual.

The schemes operate through the award of restricted share units and share options to deliver a balanced mix of incentives and ownership. The rewards are subject to eligibility criteria and generally vest after a three-year period.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION (CONTINUED)

As applicable to other remuneration payments, long-term incentive vesting is subject to the AIA Group's Remuneration Committee's approval and is in compliance with all relevant AIA Group policies.

The schemes are reviewed regularly to ensure that the design, process, structure and governance work together to balance risk and incentives.

Restricted Share Unit Scheme

Under the Restricted Share Unit Scheme, the Company may award restricted share units to selected employees, CEO, Directors (excluding Independent Non-executive Directors) or officers of the Company or any of its subsidiaries. The objectives of the Restricted Share Unit Scheme is to retain participants, align their interests with those of the Company's investors and reward the creation of sustainable value for shareholders through the award of restricted share units to participants.

Performance Measures and Vesting

Vesting of performance-based restricted share unit awards will be contingent on the extent of achievement of three-year performance targets as outlined below for the following AIA Group metrics:

- (i) Value of new business;
- (ii) Equity attributable to shareholders on the embedded value basis; and
- (iii) Total shareholder return.

VONB is an estimate of the economic value of one (1) year's sales as published by the AIA Group.

Equity attributable to shareholders of AIA Group on the embedded value basis ("EV Equity") is the total of embedded value, goodwill and other intangible assets. Embedded value is an estimate of the economic value of in-force life insurance business, including the net worth on the AIA Group's balance sheet but excluding any economic value attributable to future new business.

The VONB and EV Equity performance considered in determining incentive awards are based on the AIA Group VONB and AIA Group EV Equity results published by the AIA Group.

Total shareholder return (TSR) is the compound annual return from the ownership of a share over a period of time, measured by calculating the change in the share price and the gross value of dividends received (and reinvested) during that period. AIA Group's TSR will be calculated in the same way and compared with the TSR of the peer companies in the Dow Jones Insurance Titans 30 Index (DJTINN) over the performance period.

The three (3) performance measures are equally weighted. Achievement of each performance measure will independently determine the vesting of one-third of the award. Threshold performance levels are required for restricted share units to vest; at target performance levels (for TSR, median relative performance measured against the TSR of the peer companies in the DJTINN) fifty per cent (50%) of the restricted share units will vest; and at maximum performance levels (for TSR, seventy fifth (75th) percentile or above relative performance measured against the TSR of the peer companies in the DJTINN) the full allocation of restricted share units will vest.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION (CONTINUED)

Share Option Scheme

The objective of the Share Option Scheme is to align the interests of the Scheme participants with those of the AIA Group's shareholders. Under the Share Option Scheme, AIA Group may award share options to Directors (excluding Independent Non-Executive Directors) or selected officers of the Company or any of its subsidiaries. No amount is payable by the eligible participants on the acceptance of a share option.

During the year end, share options were awarded by AIA Group under the Share Option Scheme to Directors or selected officers of the. The exercise price of such share options was determined by applying the highest of:

- (i) The closing price of the shares on the date of grant,
- (ii) The average closing price of the shares for the five (5) business days immediately preceding the date of grant; or
- (iii) The nominal value of a share.

The total number of share options that can be awarded under the AIA Group scheme is 301,100,000 representing approximately two-point-five per cent (2.5%) of the number of shares in issue as at the date of this report. Unless shareholders' approval is obtained in accordance with the relevant procedural requirements under the Listing Rules, the maximum number of shares that may be awarded to any employee in any twelve (12) month period up to and including a proposed date of grant is point-two-five per cent (0.25%) of the number of shares in issue as of the proposed date of grant. No share options have been awarded to substantial shareholders, or in excess of the individual limit.

Performance Measures and Vesting

Share options awarded under the Share Option Scheme have a life of ten (10) years before expiry. Generally, share options become exercisable three (3) years after the date of grant and remain exercisable for another seven (7) years, subject to participants continued employment in good standing or retirement. There are no performance conditions attached to the vesting of share options. Each share option entitles the eligible participant to subscribe for one (1) ordinary share. Benefits are realized only to the extent that share price exceeds exercise price.

Employee Share Purchase Plan

AIA Group adopted the Employee Share Purchase Plan (ESPP) on 25 July 2011 (ESPP Adoption Date). Under the ESPP, eligible employees of the Group may elect to purchase the AIA Group's shares and receive one (1) matching share for each two (2) shares purchased after having been in the plan for a period of three (3) years through the award of matching restricted stock purchase units (RSPUs). Each eligible employee's participation level is currently capped at a maximum purchase in any plan year of five (5) per cent of his or her base salary or Malaysian Ringgit Four Thousand Five Hundred Ninety-Nine (MYR4,599) equivalent of Hong Kong Dollars Nine Thousand Seven Hundred Fifty (HK\$9,750), whichever is lower. Upon vesting of the matching RSPUs, those employees who are still in employment with the Company will receive one (1) matching share for each RSPU which he or she holds. The matching shares can either be purchased on market by the trustee of the ESPP or through the issuance of new shares by AIA Group. The aggregate number of shares which can be issued by AIA Group under the ESPP for the ten-year period shall not exceed two-point-five per cent (2.5%) of the number of shares in issue on the ESPP Adoption Date.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION (CONTINUED)

REMUNERATION PROCEDURE

The levels of remuneration should be sufficient to attract, retain and motivate all levels of the Management and staff of the quality required to run the Company effectively. In this respect, the Company has an independent, objective and robust review process for assessing the remuneration package for the financial year known as the Total Compensation Review (TCR) process. The TCR process ensures linking remuneration to corporate and individual performance coupled with appropriate consideration of the AIA Risk Management Framework during the annual appraisal.

The Board and its respective Committees provide the necessary oversight in the formulation and implementation of the remuneration practices.

- Nominating Committee reviews the performance of the CEO and Senior Management Team, KSOs and Key Responsible Persons (“KRP”) to ensure alignment with strategies, goals and culture.
- Remuneration Committee reviews policy and practices before recommending remuneration package for Board approval.
- Audit Committee and Risk Committee reviews the relevant KRPs’ performance before approval by the Board.
- At the Management level, the Management Risk Committee reviews the Risk dashboard reports escalated by the Operational Risk Management Committee for all departments.

With effect from 1 June 2017, officers in control functions’ discretionary Short Term Incentive awards will be based on a combination of AIA Group’s business performance and the Company’s business performance; thereby ensuring the impartiality of the actions of the officers in control functions.

QUANTIFICATION OF REMUNERATION

The Directors’ remuneration for the financial year is required to be tabled to the Remuneration Committee, Board and Members of the Company for approval. Set out below the breakdown of the total amount of remuneration for the following Directors during the financial year:

Name of Director	Fixed Remuneration (RM)	Variable Remuneration (RM)	Total Remuneration (RM)
Dato’ Thomas Mun Lung Lee	224,000.00	27,750.00	251,750.00
Chng Yew Chye @ Chng Yew Chye	151,250.00	28,500.00	179,750.00
Mohd Daruis bin Zainuddin	176,000.00	27,750.00	203,750.00
Dato’ Wee Hoe Soon @ Gooi Hoe Soon	151,250.00	27,750.00	179,000.00
TOTAL	702,500.00	111,750.00	814,250.00

Other directors’ interest is as disclosed in the Company’s Audited Financial Statements for the financial year ended 30 November 2016.

AIA BHD.
(Incorporated in Malaysia)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

REMUNERATION (CONTINUED)

The following breakdown provides the remuneration awarded to the CEO and Senior Management Team during the financial year (December 2015 to November 2016):

Total value of remuneration awards for the financial year	Unrestricted (MYR)	Deferred (MYR)
Fixed remuneration		
• Cash-based	10,657,030	
• Shares and share-linked instruments		
• Other		
Variable remuneration		
• Cash-based	4,870,050	
• Shares and share-linked instruments		3,937,800
• Other		