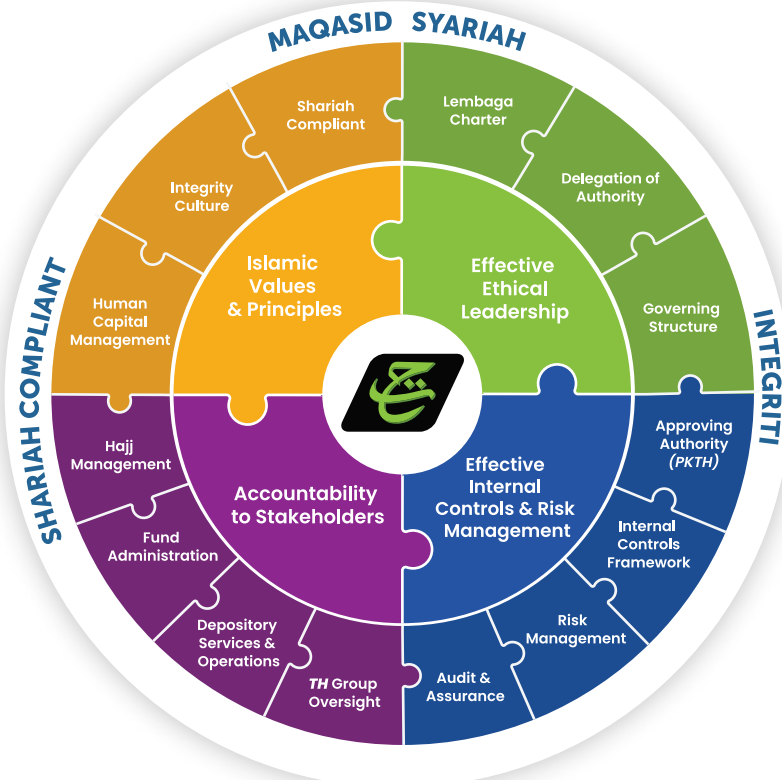


TH STEWARDSHIP FRAMEWORK

“TH: An Islamic Institution Respected for its Performance and Governance”



TH STEWARDSHIP FRAMEWORK



Description of Framework

1. Overall Framework Circle

Maqasid Shariah, Shariah Compliant & Integrity are the objectives or outcome expected from the **TH** Stewardship Framework.

2. Four Quadrants and Components

The quadrants and components within the **TH** Stewardship Framework are connected and not as stand-alone. Specifically, it's the process of something coming full circle.

TH STEWARDSHIP

OBJECTIVES AND PRINCIPLES



The overarching objectives of the **TH** Stewardship Frameworks are:

- 1 Maqasid Shariah** - the higher overarching objectives of the rules of Shariah, which aims to benefit and protect the Ummah generally.
- 2 Shariah Compliant** - conducting business with compliance to the principles of Shariah; and
- 3 Integrity** - strong corporate governance upholding Islamic principles

- At the core of **TH's** Stewardship is Lembaga Tabung Haji and it is upheld by 4 main principles:

- 01** Islamic Values & Principles
- 02** Effective Ethical Leadership
- 03** Effective Internal Controls & Risk Management
- 04** Accountability to Stakeholders

TH STEWARDSHIP

5 PRINCIPLES OF MAQASID SHARIAH



i **PROTECTION OF FAITH/RELIGION** (حفظ الدين)

Avoiding anything that may violate and destroy the fundamentals of Islam.



ii **PROTECTION OF LIFE** (حفظ النفس)

Concerns the protection of dignity, social equality, justice, spiritual, moral and financial betterment, safety, property and respect, freedom, education, the right to be employed, among others.



iii **PROTECTION OF THE MIND** (حفظ العقل)

The mind must be nurtured with noble values and beneficial knowledge.



iv **PROTECTION OF PROPERTY** (حفظ المال)

Protection of property against corruption, ruin, manipulation and other violations which aims towards achieving a better quality of life.



v **PROTECTION OF ANCESTRY** (حفظ النسل)

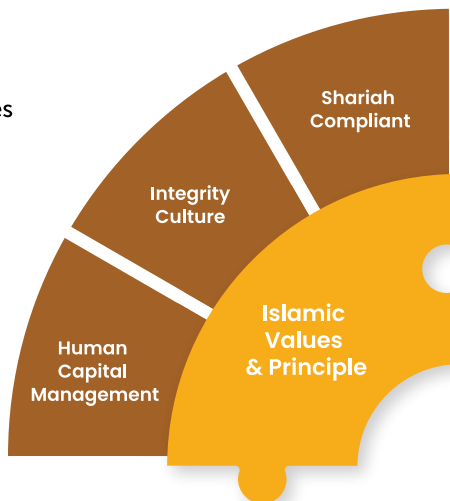
Preservation of lineage for a healthy, productive and effective social structure and community, whilst ensuring the welfare of the people at large.

PRINCIPLE #1

ISLAMIC VALUES & PRINCIPLE

#1 Islamic Values & Principle

- As a respected Islamic Institution, **TH** is subjected to higher overarching objectives that are 'tawhidic' driven with ethical and moral conduct at its center. **TH** is committed to ensure that we adhere to the Islamic Values and Principles, and guided by the Maqasid Shariah.
- Underpinning this principle are the following components:
 - 1 Shariah Compliant
 - 2 Integrity Culture
 - 3 Human Capital Management



TRANSLATION SURAH AL-AHZAB VERSE 72

Indeed, We offered the trust to the heavens and the earth and the mountains, but they "all" declined to bear it, being fearful of it. But humanity assumed it, "for" they are truly wrongful "to themselves" and ignorant "of the consequences",

PRINCIPLE #1

ISLAMIC VALUES & PRINCIPLE

1 Shariah Compliant

- **TH** is a Shariah compliant organization that focuses on six (6) aspects:



- **TH** has an ethical and compliant culture that is defined, measured and improved. This includes Regulatory and Shariah Compliances with all applicable laws and regulations, regulatory obligations and governmental policies.

PRINCIPLE #1

ISLAMIC VALUES & PRINCIPLE

2 Integrity Culture

- Islamic Values are the cornerstone of **TH's** guiding principles and our continued focus is on:
 - i) Strengthening integrity among employees and the way we conduct our work and businesses.
 - ii) Such objectives entail the prohibition of any unethical or unlawful conduct while putting in place the features of an embedded governance that supports the highest level of integrity and good conduct within **TH**.
- Integrity is fundamental to the Lembaga, Management and Committees in its deliberations. This is done with guidance to Maqasid Shariah which provides the frame of reference for properly addressing sensitive and complex issues, requires all employees to report misconduct and outlines our accountabilities if standards of conduct or integrity are not upheld.



PRINCIPLE #1

ISLAMIC VALUES & PRINCIPLE

3 Human Capital Management

- **TH's** set of practices that encompass the end-to-end future-ready talent management processes driven by value-based high performing leaders and positive workplace culture, while providing continuous support for **TH** and guidance for the employees.
- **TH** Code of Ethics sets standards of desired behaviors that apply to Lembaga, senior management and all employees including the responsibility to be truthful, respect others, comply with laws, regulations and our policies, and engage in practices that are fair and ethical based on Islamic Values and Principles.
- The Lembaga closely collaborates with Management to set the tone from above and promote a strong performance and governance culture that influences **TH** at every level and across all our businesses.



PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

#2 Effective Ethical Leadership

- Strong and ethical leadership is critical to value creation.
- The Lembaga and Management set the tone, provide leadership and vision and lead **TH** ethically, effectively and responsibly.
- Underpinning this principle are the following:
 - 1 Lembaga Charter
 - 2 Delegation of Authority
 - 3 Governing Structure



TRANSLATION HADITH SAHIH BUKHARI

Narrated 'Abdullah bin 'Umar: The Messenger of Allah (ﷺ) as saying: Each of you is a shepherd and each of you is responsible for his flock. The amir (ruler) who is over the people is a shepherd and is responsible for his flock ; a man is a shepherd in charge of the inhabitants of his household and he is responsible for his flock ; a woman is a shepherdess in charge of her husband's house and children and she is responsible for them; and a man's slave is a shepherd in charge of his master's property and he is responsible for it. So each of you is a shepherd and each of you is responsible for his flock.

PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

1 Lembaga's Charter (Roles & Responsibilities)

- Functions of Lembaga is clearly defined by the Tabung Haji Act 1995
- The Lembaga Charter further expands the responsibility to include **TH's** governance, strategy, financial performance, sustainability and risk management.
- Responsibilities include:
 - i) Ensuring corporate responsibility and ethical standards underpin the conduct of the organization.
 - ii) Delivery of **TH's** purpose and objectives for the benefit of all stakeholders.
 - iii) Provides sound leadership to CEO and Management.

2 Delegation of Authority by Lembaga (Refer Chart 1)

- **TH** operates a Delegated Authority Structure, which specifies how executive authority is delegated from Lembaga to Board Committees and the Group Managing Director & CEO (GMD & CEO); and onto other senior management in the organization.
- The delegated responsibility is to ensure **TH's** businesses and operations are managed in accordance with Lembaga approved strategies and standards.



PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

DELEGATION OF AUTHORITY (CHART 1)



PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

1 **TH** Governing Structure (Refer Chart 2)

- Provides a comprehensive structure to:
 - i) Enhance accountability to stakeholders;
 - ii) Ensure timely and accurate disclosures of all material matters;
 - iii) Maintain high standards of business ethics and integrity.

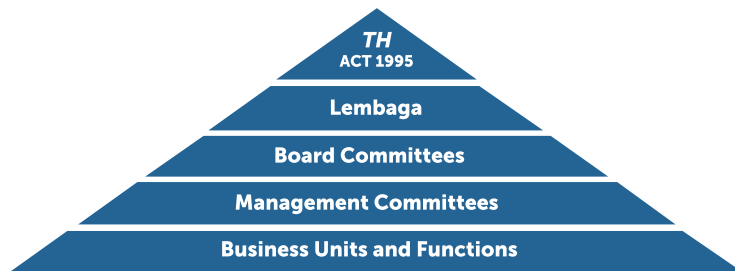
It is specifically designed to enable **TH** to discharge its statutory duty of ensuring risks are managed prudently, while pursuing its business objectives, which helps reinforce **TH** position as a respected Islamic Financial Institution.
- **TH** has an appropriate organizational structure led by functional Senior Leadership members who have clear roles of responsibility and lines of reporting (Refer Chart 3).
- The proper segregation of duties promotes ownership and accountability for risk taking and defines lines of accountability and delegated authority for planning, executing, controlling and monitoring of investments and business operations.

PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

TH GOVERNING STRUCTURE (CHART 2)

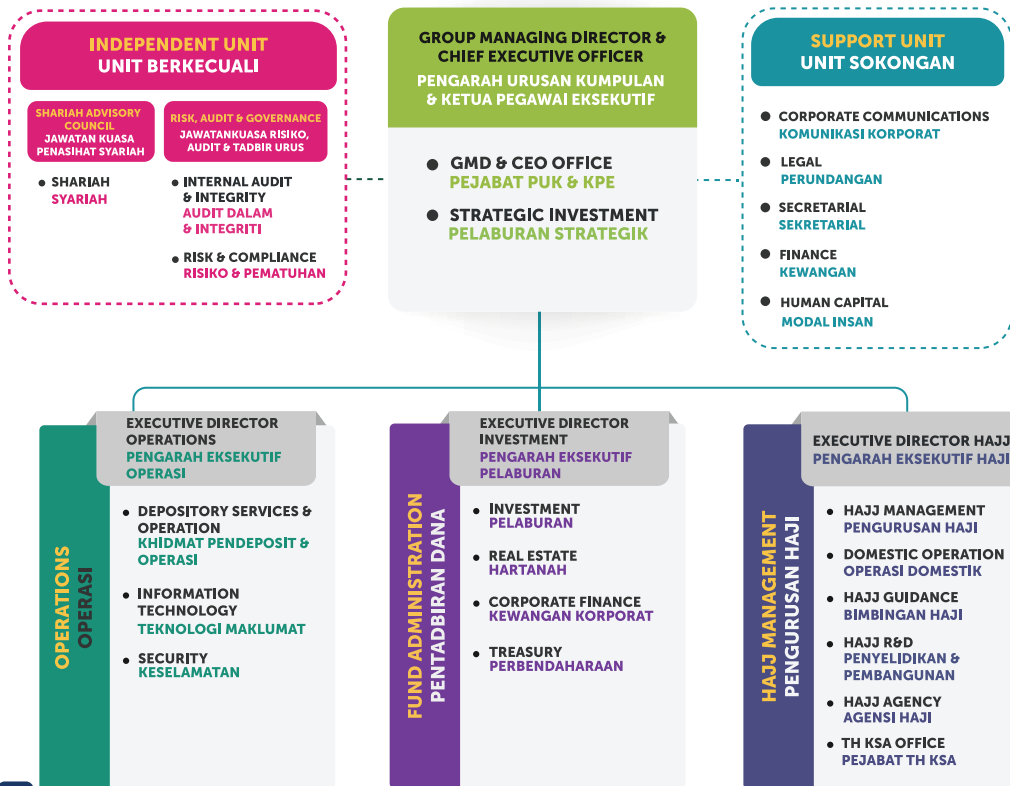
- Customers: Hajj Pilgrims/Depositors
- Employees
- Government and Authorities
- Business Community
- Finance
- Public



PRINCIPLE #2

EFFECTIVE ETHICAL LEADERSHIP

TH ORGANIZATION STRUCTURE (CHART 3)



PRINCIPLE #3

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

#3

Effective Internal Controls and Risk Management

- Ensure **TH**'s activities are effectively controlled so that management's risk responses and policies are carried out as planned towards the achievement of strategic, operational, compliance and reporting objectives.
- Underpinning this principle are the following components:
 - 1 Approving Authority (**PKTH**)
 - 2 Internal Controls Framework
 - 3 Risk Management
 - 4 Audit & Assurance



TRANSLATION

SURAH ALI 'IMRAN VERSE 104

And from among you there must be a party who invite people to all that is good and enjoin the doing of all that is right and forbid the doing of all that is wrong. It is they who will attain true success.

PRINCIPLE #3

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

1 Approving Authority (*PKTH*)

- The **PKTH** provides guidelines for the overall approving authority system for **TH**.
- **PKTH** is an integral part of the management system for internal control in making decisions for delegated authority within the set criteria and boundaries that carries with it the obligation to exercise sound discretion, good business judgment and accountability.

2 Internal Controls Framework

- **TH's** internal controls framework covers financial, operational and compliance, as well as risk management policies.
- Lembaga is assisted by the Risk, Audit & Governance Committee in evaluating the adequacy of risk management in the organization.
 - i) Oversight of financial reporting and internal controls
 - ii) Oversight of Internal Audit, Assurance & Risk Management
- **TH** has three (3) lines of defence when it comes to risk taking, where each line of defence has a clear responsibility (Refer Chart -4).



PRINCIPLE #3

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

Chart 4 – TH's three (3) lines of defence

Board, CEO & Senior Management	Provides oversight of the three (3) lines of defense		
	1 st Line of Defence	2 nd Line of Defence	3 rd Line of Defence
Responsibilities	Strategy, business planning and risk ownership	Development of risk management policies, systems and processes, objective review and challenge	Independent assurance
Functions	Business and supporting units (process owners)	Risk Management, compliance and control functions	Internal & External Audit
Key Activities	Identification and effective management/mitigation of risk	Independent risk oversight, monitoring and reporting	Independent assurance on adequacy and effectiveness of processes and controls

PRINCIPLE #3

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

3 Risk Management

Enterprise Risk Management outlines the principles, policies, methodologies and processes in managing **TH**'s risks.

- The principles of an effective risk management are based on:

01

Objectives and expectations around risk

02

Quantification of those risks

03

Process for managing those risks

04

Oversight on the entire process

- A key objective of ERM is to identify, assess, monitor and report the risks to which **TH** may be exposed currently or potentially. To be effective, the ERM has to be cohesive, consistently applied and integrated with business processes.
- The key elements of ERM are:



Methodology and Process



Business Continuity Management



Corporate Risk Scorecard



Event risk monitoring and escalation protocols

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

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graph TD
    A[ESTABLISHING THE CONTEXT] --> B[RISK ASSESSMENT]
    B --> C[Risk Identification]
    C --> D[Risk Analysis]
    D --> E[Risk Evaluation]
    E --> F[Risk Treatment]
    F --> G[Monitor & Review]
    G --> A
    H[Communication & Consultation] <--> B
    I[Monitor & Review] <--> B
    
```

ESTABLISHING THE CONTEXT

RISK ASSESSMENT

Risk Identification

Risk Analysis

Risk Evaluation

Risk Treatment

Communication & Consultation

Monitor & Review

PRINCIPLE #3

EFFECTIVE INTERNAL CONTROLS & RISK MANAGEMENT

- Financial Risk Management would include, among others, the following:
 - 1 Risk Appetite Statements and Investment Risk Criteria for decisions on Strategic Asset Allocation (SAA)
 - 2 Market Risk which include:



- 3 Liquidity Risk

4 Audit & Assurance

- Function to provide independent, objective assurance and advisory role to improve and add value to **TH**'s operations.
- Assists **TH** to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and governance processes.
- Adopts a risk-based approach in its audit and assurance activities. Plan is developed using a structured risk and control assessment framework through which the inherent risk and control effectiveness of each auditable entity in **TH** is assessed.

PRINCIPLE #4

ACCOUNTABILITY TO STAKEHOLDERS

#4

Accountability to Stakeholders

- **TH** as an accountable organization, takes proactive and reactive steps to address the needs of its key stakeholders while delivering its mission.
 - Transparent in its activities and decision-making processes.
 - Engaging with key stakeholders.
 - Evaluating performance, policies and practices in consultation with its key stakeholders.
- **TH** emphasizes the role of governance, the importance of structure and process, and the Islamic Values and Principles in its accountability towards stakeholders.
 - Underpinning this principle are the following components:
 - 1 Hajj Management
 - 2 Fund Administration
 - 3 Depository Services & Operations
 - 4 **TH** Group Oversight



TRANSLATION

SURAH AL ANFAL VERSE 27

O Believers! Do not betray Allah and the Messenger, nor betray your trusts knowingly.

PRINCIPLE #4

ACCOUNTABILITY TO STAKEHOLDERS

1 Hajj Management

- Direct, strategically plan, execute and monitor all Hajj activities to ensure smooth and efficient Hajj operations in the Holy Land.
- **TH** strives to provide innovative and excellent Hajj services to Malaysian pilgrims within reasonable cost.
- **TH** continues to enhance its Hajj operations, at the same time improving pilgrims' convenience and needs.

2 Fund Administration

- Manage overall performance and guided by the Strategic Asset Allocation.
- Deliver sustainable and competitive returns to the depositors from capital gains and dividends at tolerable risk level that commensurate with prevailing market conditions.
- Invest in permissible, prudent and safe investment in order to provide returns that are comparable to the market, while ensuring continuous growth.



PRINCIPLE #4

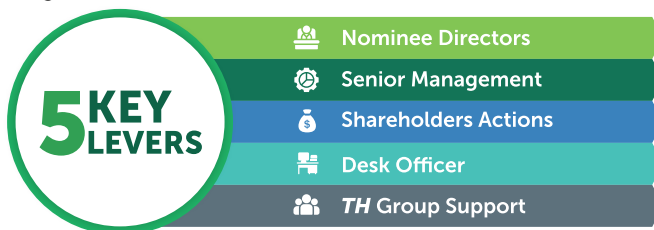
ACCOUNTABILITY TO STAKEHOLDERS

3 Depository Services & Operations

- Establish strong and stable savings base and committed to deliver quality services and platforms in achieving excellent depositor's experience.
- Drive digital adoption through multiple channels to optimize operational performance and provide mobility and scalability of offerings to depositors.

4 TH Group Oversight

- Managing and monitoring **TH**'s strategic investment portfolio with the objectives of increasing shareholders' value and ensuring effective risk mitigation.
- **TH** protects and manages its interests and risks in the investee companies via the following:



- The above is achieved by a combination of convention, policies, and guidelines which are governed under "**TH**'s Stewardship, Management & Monitoring of Strategic Investment Companies Framework (SMM Framework)".

