

CORPORATE GOVERNANCE REPORT

STOCK CODE : 6139
COMPANY NAME : SYARIKAT TAKAFUL MALAYSIA KELUARGA BERHAD
FINANCIAL YEAR : December 31, 2018

OUTLINE:

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PERSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

SECTION A – DISCLOSURE ON MALAYSIAN CODE ON CORPORATE GOVERNANCE

Disclosures in this section are pursuant to Paragraph 15.25 of Bursa Malaysia Listing Requirements.

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.1

The board should set the company's strategic aims, ensure that the necessary resources are in place for the company to meet its objectives and review management performance. The board should set the company's values and standards, and ensure that its obligations to its shareholders and other stakeholders are understood and met.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is guided by its Terms of Reference (TOR)/Board Charter (Board Charter) and its responsibilities are included in the Board Charter which is available on the Company's website at www.takaful-malaysia.com.my.</p> <p>The Board is responsible for the overall corporate governance of the Group and is also entrusted with the responsibility of exercising reasonable care of the Company as well as the Group's resources in enhancing the shareholders' long-term value while taking into account of other stakeholders. The Board understands that upholding corporate governance values is not merely achieving the desired financial performance; but also promoting ethical, professional and sustainable culture.</p> <p>The Board has the overall responsibility of ensuring that the Company operates as intended in the declared objectives of the Company. Consequently, it has the power to decide on all matters pertaining to the Company's business as empowered by the Company's Constitution, Companies Act 2016 and all relevant guidelines of Bank Negara Malaysia (BNM), Securities Commission and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, and if required, to delegate these powers accordingly. Some of the specific powers of the Board would include the following:</p> <ul style="list-style-type: none">• To establish and approve policies on the future direction of the Company within the general objective of attaining progress in its overall corporate missions which cover all aspects of operations, including strategic planning, credit administration and control, asset and liability management encompassing the management of liquidity risk, return on investment risk and market risk, accounting system and control, service quality, automation plan, prevention of money laundering, risk management, profit planning and budgeting, adequacy of capital and human resource development;

	<ul style="list-style-type: none"> • To approve new investments, divestments and acquisitions, including the setting up of new subsidiaries/associated companies and the participation in new business activities locally or overseas; • To review and approve the annual business plan and budget, and monitoring the quantitative and qualitative performance of the Company, both at the Company and Group levels, against target and objectives; • To ensure that the business operations of the Company are conducted in accordance with the Shariah principles; • Succession planning, including appointing, training, fixing the compensation of and where appropriate, replacement of Management; and • Reviewing the adequacy and integrity of the Company’s internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines. <p>To enable the Board to discharge its duties effectively whilst enhancing business and operational efficacy, the Board delegates certain responsibilities to four Committees, namely:</p> <ul style="list-style-type: none"> • Audit Committee (AC); • Nomination & Remuneration Committee (NRC); • Board Risk Committee (BRC);and • Investment Committee (IC). <p>All Committees have clear written terms of reference and the Board receives reports of their proceedings and deliberations. The Chairman of the various Committees will report to the Board the outcome of their meetings and such reports are incorporated in the minutes of the Board meeting.</p> <p>To operate effectively in a dynamic environment, the Board’s responsibilities are delegated to the Management of the Company headed by the Group Chief Executive Officer. The Management through the Management Committee/Group Chief Executive Officer is responsible for broad aspects of the day-to-day operations of the Company including financial stewardship and compliance to laws, regulations, policies and procedures. In this regard, Management is accountable to the Board for the overall functions and activities of the Company amongst others the implementation of the policies and strategies as approved by the Board, always in line with Shariah principles and guided by regulatory requirement as well as industry best practices.</p>
<p>Explanation for departure</p>	<p>: None</p>

Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.

Measure	:		
Timeframe	:		

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.2

A Chairman of the board who is responsible for instilling good corporate governance practices, leadership and effectiveness of the board is appointed.

Application	:	Applied
Explanation on application of the practice	:	<p>The roles and responsibilities of the Chairman of the Board have been clearly specified in Paragraph 3.2 of the Board Charter, which is available on the Company's website at www.takaful-malaysia.com.my.</p> <p>There is a clear division of responsibilities between the Chairman and the Group Chief Executive Officer to ensure that there is a balance of power and authority. The roles and responsibilities of the Chairman and Group Chief Executive Officer are distinct and separate, in accordance with the relevant best practice. The Chairman is responsible for running the Board to achieve its objectives and lead the discussion at the Board level to encourage a healthy level of deliberation whilst the Group Chief Executive Officer is responsible for managing the Company and the Group as well as the implementation of the Board's policies and decisions.</p>
Explanation for departure	:	None
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company’s leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.3

The positions of Chairman and CEO are held by different individuals.

Application	:	Applied	
Explanation on application of the practice	:	<p>The positions of Chairman and GCEO are held by different individuals since the inception of the Company. This is also provided in Paragraph 3.1 of the Board Charter.</p> <p>There is a clear division of responsibilities between the Chairman and the GCEO to ensure balance of power and authority. The roles and responsibilities of the Chairman and GCEO are distinct and separate, in accordance with the relevant best practice.</p>	
Explanation for departure	:	None.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.4

The board is supported by a suitably qualified and competent Company Secretary to provide sound governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company Secretary of the Company is qualified to act pursuant to Section 235(2) of the Companies Act 2016.</p> <p>The Company Secretary ensures that all the legal and regulatory requirements are met. The Company Secretary provide governance advice, ensure adherence to rules and procedures, and advocate adoption of corporate governance best practices.</p> <p>All Directors have unrestricted access to timely and accurate information and access to the advice and services of the Company Secretary, who is responsible for ensuring that Board meetings' procedures are followed and that all applicable rules and regulations are complied with. He is also responsible for advising the Directors of their obligations and duties, disclosure of their interest in securities, disclosure of any conflict of interest in a transaction involving the Company, prohibition on dealing in securities and restrictions on disclosure of price-sensitive information. The Directors may seek independent professional advice in furtherance of their duties, at the Company's expense.</p> <p>The Board is also regularly updated from time to time by the Company Secretary and/or Management on updates to the regulations and guidelines, as well as any amendments thereto issued by BNM, Bursa Securities, Securities Commission, Companies Commission of Malaysia and other relevant regulatory authorities.</p>
Explanation for departure	:	None
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	

Timeframe	:		
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Intended Outcome

Every company is headed by a board, which assumes responsibility for the company's leadership and is collectively responsible for meeting the objectives and goals of the company.

Practice 1.5

Directors receive meeting materials, which are complete and accurate within a reasonable period prior to the meeting. Upon conclusion of the meeting, the minutes are circulated in a timely manner.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board has full and timely access to information with Board papers distributed in advance of meetings, normally five (5) days prior to the meeting, to enable the Directors to obtain further explanation, where necessary, in order to be properly briefed before the meetings. The Board papers include the minutes of previous Board meeting, minutes of meetings of all Committees of the Board, minutes of the Shariah Advisory Body and reports relevant to the issues of the meetings covering areas such as financial, investment, information technology, operational, human resource and regulatory compliance matters. The GCEO keeps the Board informed, on timely basis, of all material matters affecting the Group's performance and major developments within the Group.</p> <p>The Senior Management are invited to attend the Board meetings to present and brief the Board on matters/reports relating to their areas of responsibility as and when required.</p> <p>A notification email on the meeting date including dateline for meeting materials to be submitted was sent out to the Management a few weeks prior to the meeting date.</p> <p>The deliberations and decisions at Board and Board Committee meetings are well documented in the minutes, including matters where Directors abstained from voting or deliberation. The Company Secretary will communicate to the relevant Management the Board's decisions for appropriate actions to be taken. The Company Secretary will also follow up with the Management on status of actions taken with reference to the previous minutes of meetings for updating the Board. Action items would stay as matters arising in the minutes of meetings until they are resolved.</p>
Explanation for departure	:	None
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		

Measure	:		
Timeframe	:		

Intended Outcome

There is demarcation of responsibilities between the board, board committees and management.

There is clarity in the authority of the board, its committees and individual directors.

Practice 2.1

The board has a board charter which is periodically reviewed and published on the company's website. The board charter clearly identifies–

- the respective roles and responsibilities of the board, board committees, individual directors and management; and
- issues and decisions reserved for the board.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board is mindful of the need to protect the interests of its shareholders and other stakeholders. In discharging its duties effectively, the Board is guided by its Board Charter which sets out the roles and responsibilities of the Board. The Board Charter is reviewed annually or as and when necessary to keep it up to date with changes in regulations and best practices and ensure its effectiveness and relevance to the Board's objectives.</p> <p>The last review was carried out on 19 October 2017. The Board Charter is accessible on our website at www.takaful-malaysia.com.my.</p>
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.1

The board establishes a Code of Conduct and Ethics for the company, and together with management implements its policies and procedures, which include managing conflicts of interest, preventing the abuse of power, corruption, insider trading and money laundering.

The Code of Conduct and Ethics is published on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Directors observe the code of ethics in accordance with the Company Directors' Code of Ethics established by the Companies Commission of Malaysia which provides guidance for proper standards of conduct, sound and prudent business practices as well as standard of ethical behaviour for Directors, based on principles of integrity, responsibility, sincerity and corporate social responsibility.</p> <p>The Directors' Code of Ethics consist of three (3) major areas, namely:</p> <ul style="list-style-type: none"> • Corporate Governance; • Relationship with shareholders, employees, creditors, customers and other stakeholders; and • Social responsibilities and the environment. <p>The Code of Conduct and Ethics is published on the Company's website at www.takaful-malaysia.com.my.</p>
Explanation for departure	:	None
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

The board is committed to promoting good business conduct and maintaining a healthy corporate culture that engenders integrity, transparency and fairness.

The board, management, employees and other stakeholders are clear on what is considered acceptable behaviour and practice in the company.

Practice 3.2 (Risk Dept to review)

The board establishes, reviews and together with management implements policies and procedures on whistleblowing.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company has established the Whistle Blowing Policy in response to the Whistleblower Protection Act, 2010 with the following objectives:-</p> <ul style="list-style-type: none">• To enable the employees to raise any concerns of integrity and misconduct as well as to enable the Board to be informed at an early stage of any misconduct or improprieties;• To protect the employees from punishment or unfair treatment for disclosing concerns in good faith in accordance with the Whistle Blowing Policy; and• To develop a culture of openness, accountability and integrity within the Company. <p>The above policy is available on the Company's portal.</p>
Explanation for departure	:	None
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.1

At least half of the board comprises independent directors. For Large Companies, the board comprises a majority independent directors.

Application	:	Applied		
Explanation on application of the practice	:	During the financial year under review, the Board comprises the following:		
		Name	Composition*	Percentage (%)
		Non-Independent Executive Director	-	0
		Non-Independent Non-Executive Directors	2/6	33.3
		Independent Non-Executive Directors	4/6	66.7
<p><i>*Excluding Datuk Rozaida Omar whose term of appointment as a Non-Independent Non-Executive Director has ended on 15 May 2018.</i></p> <p>During the financial year, majority or 66.7% (4 out of 6) of the Board members are independent.</p>				
Explanation for departure	:	None		
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>				
Measure	:			
Timeframe	:			

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.2

The tenure of an independent director does not exceed a cumulative term limit of nine years. Upon completion of the nine years, an independent director may continue to serve on the board as a non-independent director.

If the board intends to retain an independent director beyond nine years, it should justify and seek annual shareholders' approval. If the board continues to retain the independent director after the twelfth year, the board should seek annual shareholders' approval through a two-tier voting process.

Application	:	Not applicable - Step Up 4.3 adopted	
Explanation on application of the practice	:		
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.3 - Step Up

The board has a policy which limits the tenure of its independent directors to nine years.

Application	:	Adopted
Explanation on adoption of the practice	:	<p>The Board has adopted a nine-year policy for INED in August 2011 before the issuance of MCGG 2012. The tenure of all the four (4) INED does not exceed a cumulative term of nine (9) years as recommended by the MCGG 2017. They continue to fulfill the definition of independence as set out in the MMLR. Upon completion of the nine (9) years, an INED may continue to serve on the Board as a NINED.</p> <p>Pursuant to the above nine-year policy for INED, Mahadzir Azizan has been redesignated as a NINED on 1 September 2016 upon completion of cumulative term of nine (9) years as INED on 31 August 2016. In relation to this, the Board has identified and appointed Dato' Othman Abdullah as the new Senior INED to whom concerns may be conveyed by shareholders and other stakeholders, replacing Mahadzir Azizan effective 1 September 2016. Dato' Othman Abdullah can be reached at datoothman.abdullah@gmail.com.</p>

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.4

Appointment of board and senior management are based on objective criteria, merit and with due regard for diversity in skills, experience, age, cultural background and gender.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board recognizes that diversity is one of the key drivers to enhance Board effectiveness as diversity broadens the debate within the Board, Shariah Advisory Body (SAB) and Senior Management by harnessing different insights and perspectives. The Board will continuously enhance the Board, SAB and Senior Management's composition to encourage diversity in terms of skills, background, knowledge, industry experience, culture, independence, ethnicity, age and gender when appointing new Directors, SAB members and Senior Management as outlined in the MCCG. The profiles of the current Senior Management are mentioned on pages 50 to 52 of the Annual Report.</p> <p>The Board with a diversified background and specialisation, collectively bring with them a wide range of experience and expertise in areas such as finance, insurance, takaful, actuary, accounting, company secretarial, legal, management and banking. The profiles of the Directors are provided on pages 44 to 46 of the Annual Report.</p>
Explanation for departure	:	None
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.5

The board discloses in its annual report the company's policies on gender diversity, its targets and measures to meet those targets. For Large Companies, the board must have at least 30% women directors.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	During the financial year, Datin Sri Azlin Arshad is the sole woman Director out of six (6) members of the Board representing 16.7% after the cessation of office of Datuk Rozaida Omar on 15 May 2018.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	The Company is taking necessary action to have at least 30% women directors required for large companies.
Timeframe	:	Within the next three (3) years.

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.6

In identifying candidates for appointment of directors, the board does not solely rely on recommendations from existing board members, management or major shareholders. The board utilises independent sources to identify suitably qualified candidates.

Application	:	Applied
Explanation on application of the practice	:	In identifying candidates for appointment of Directors, the Nomination and Remuneration Committee (NRC) does not solely rely on recommendations from existing board members, management or major shareholders. The board also utilises independent sources such as FIDE FORUM to identify suitably qualified candidates.
Explanation for departure	:	None
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Board decisions are made objectively in the best interests of the company taking into account diverse perspectives and insights.

Practice 4.7

The Nominating Committee is chaired by an Independent Director or the Senior Independent Director.

Application	:	Applied
Explanation on application of the practice	:	Dato' Othman Abdullah, the current Chairman of NRC is a Senior Independent Non-Executive Director.
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to form an opinion on the overall effectiveness of the board and individual directors.

Practice 5.1

The board should undertake a formal and objective annual evaluation to determine the effectiveness of the board, its committees and each individual director. The board should disclose how the assessment was carried out and its outcome.

For Large Companies, the board engages independent experts periodically to facilitate objective and candid board evaluations.

Application	: Applied								
Explanation on application of the practice	<p data-bbox="539 801 1396 1055">Ernst & Young was appointed in 2005 to develop the assessment forms for individual directors, Board and Board Committees, and the assessment forms were implemented in 2006. In 2013, the Board upon the recommendation of the Nomination Committee agreed to adopt BIMB Holdings Berhad/Bank Islam Malaysia Berhad's format for the Directors' Assessment/Evaluation as suggested by the Chairman of the Board.</p> <p data-bbox="539 1093 1396 1301">The NRC is also empowered to assess the effectiveness of the Board, its Committees including AC, contribution of each individual Director and the performance of the SAB. Directors' performance evaluation, assessment of independence of Independent Directors and performance evaluation for the AC were carried out annually. The areas covered are as follows:</p> <table border="1" data-bbox="555 1339 1385 2018"> <thead> <tr> <th data-bbox="555 1339 815 1375">Annual Evaluation</th> <th data-bbox="815 1339 1385 1375">Assessment Criteria</th> </tr> </thead> <tbody> <tr> <td data-bbox="555 1375 815 1697">Directors' Performance Evaluation</td> <td data-bbox="815 1375 1385 1697"> <p data-bbox="826 1375 1385 1518">Section A - Board evaluation criteria which comprises 3 criteria i.e. Board structure; Board operations and interaction; and Board roles and responsibilities.</p> <p data-bbox="826 1556 1385 1697">Section B - Director Self/Peer Evaluation which comprises 4 criteria i.e. contribution to interaction, quality of input, understanding of role and Chairman's role.</p> </td> </tr> <tr> <td data-bbox="555 1697 815 1809">Assessment of independence of INED</td> <td data-bbox="815 1697 1385 1809">As prescribed under Paragraph 1.01 and Practice Note 13 of MMLR.</td> </tr> <tr> <td data-bbox="555 1809 815 2018">Performance Evaluation for the AC</td> <td data-bbox="815 1809 1385 2018"> <p data-bbox="826 1809 1385 1921">Section 1 comprises 3 sections i.e. quality and composition, skills and competencies, and meeting administration and conduct.</p> <p data-bbox="826 1960 1385 2018">Section 2 comprises AC members' peer evaluation.</p> </td> </tr> </tbody> </table>	Annual Evaluation	Assessment Criteria	Directors' Performance Evaluation	<p data-bbox="826 1375 1385 1518">Section A - Board evaluation criteria which comprises 3 criteria i.e. Board structure; Board operations and interaction; and Board roles and responsibilities.</p> <p data-bbox="826 1556 1385 1697">Section B - Director Self/Peer Evaluation which comprises 4 criteria i.e. contribution to interaction, quality of input, understanding of role and Chairman's role.</p>	Assessment of independence of INED	As prescribed under Paragraph 1.01 and Practice Note 13 of MMLR.	Performance Evaluation for the AC	<p data-bbox="826 1809 1385 1921">Section 1 comprises 3 sections i.e. quality and composition, skills and competencies, and meeting administration and conduct.</p> <p data-bbox="826 1960 1385 2018">Section 2 comprises AC members' peer evaluation.</p>
Annual Evaluation	Assessment Criteria								
Directors' Performance Evaluation	<p data-bbox="826 1375 1385 1518">Section A - Board evaluation criteria which comprises 3 criteria i.e. Board structure; Board operations and interaction; and Board roles and responsibilities.</p> <p data-bbox="826 1556 1385 1697">Section B - Director Self/Peer Evaluation which comprises 4 criteria i.e. contribution to interaction, quality of input, understanding of role and Chairman's role.</p>								
Assessment of independence of INED	As prescribed under Paragraph 1.01 and Practice Note 13 of MMLR.								
Performance Evaluation for the AC	<p data-bbox="826 1809 1385 1921">Section 1 comprises 3 sections i.e. quality and composition, skills and competencies, and meeting administration and conduct.</p> <p data-bbox="826 1960 1385 2018">Section 2 comprises AC members' peer evaluation.</p>								

	The results of the evaluation were tabled to the NRC and the Board of Directors for their notification.	
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	The Board will evaluate on the need to engage independent experts again to facilitate objective and candid board evaluations.
Timeframe	:	Within the next two (2) years.

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.1

The board has in place policies and procedures to determine the remuneration of directors and senior management, which takes into account the demands, complexities and performance of the company as well as skills and experience required. The policies and procedures are periodically reviewed and made available on the company's website.

Application :	Applied
Explanation on application of the practice :	<p>STMKB's Remuneration Policy (Policy) serves to reflect the Group's objectives in promoting good corporate governance to sustain a long-term value creation for our shareholders. The Board has approved the remuneration policy at the recommendation of the NRC. Some entities within the Group may have remuneration policies that differ from the Group policy in order to meet the relevant local requirements and practices.</p> <p>The Policy is designed to align the personal objectives of staff with the long term interests of STMKB and the funds under its management. Strategic measures are implemented in order to ensure they are aligned to the interests of the Group and its stakeholders. The policy and the general incentive structure are designed to meet the following objectives:</p> <ul style="list-style-type: none">• To be in line with the business strategy, objectives, values, long-term goals and interests of STMKB;• To be aligned with the principle of protection of customers and investors as well as prevention of conflict of interests;• To enable the Group to attract, develop and retain high-performing and motivated staff;• To offer a competitive remuneration package which is aligned with the industry; and• To encourage the staff to continue to perform and create sustainable results and ensure that there is an alignment of interest among the stakeholders i.e. Shareholders, Customers and Staff. <p>The Policy and general incentive structure is consistent with the Group's long term strategy. It is also implemented to ensure transparency in respect of the Group's reward strategy where the staff will have clear and predetermined Key Performance Indicators (KPIs) that are set in accordance with the Group's overall strategy and applicable regulations. Correspondingly, transparency is justified through the Group's disclosure of remuneration and information on paid remuneration disclosed in the Group's annual report.</p> <p>Philosophy or methodology imposed by STMKB to determine an employee's</p>

remuneration is guided as per the following:

- Pay for performance with the notion that there is a direct link between the employee’s remuneration and individual or company’s performance;
- Set the remuneration level to STMKB’s comparative group by performing a market benchmarking exercise on an annual basis; and
- Set a market benchmark of the remuneration against the standard approved by the Board;
- Long Term Incentive Plan (LTIP) granted to key employees based on performance matrix that will drive the growth of the business while simultaneously helping to retain the talent. The detailed features of the LTIP are set out in Note 14 of the Annual Audited Financial Statements of this Annual Report.

STMKB’s performance management aligns the employees’ actions and behaviours with the Company’s strategies and goals which consist of the following:

- Key Result Area (KRA) - key deliverables that create the greatest impact of the job and reflect the core responsibilities;
- Key Performance Indicator (KPI) - a specific measure of performance that is quantifiable/measurable; and
- Competencies - Key behaviours expected to be demonstrated towards achievement of targets or goals.

The performance management process covers the following:

- A business plan and strategy presentation by division heads to the Board on an annual basis for approval;
- Circulation of the approved business plans and strategies to all employees;
- KRA and KPIs of the employees to tie back to the business plans and strategies; and
- Performance of employees to be reviewed during the mid-year and a final assessment will be conducted during the financial year end.

Remuneration and rewards are granted to an employee based on the achievement of the KPIs and subject to the Company’s overall annual financial performance and guided by the following factors:

- The Company’s overall performance and affordability (Profit after Tax & Zakat);
- The performance of the sales divisions;
- The employee’s individual performance;
- Moderated performance rating distribution to align with the Company’s performance;
- Benchmarking with the current market practice;
- The approved remuneration and reward matrix (governed by a specific business rule and requirement);
- The approval matrix for remuneration is determined as per below table:

No	Item	Approving Authorities			Periodic Review
		Shareholders	Board	GCEO	
1	Remuneration for Board of Directors and SAB	✓			Annually

		2	Remuneration for Group Managing Director (GMD) / Group Chief Executive Officer (GCEO)		✓		Annually
		3	Remuneration for members of Senior Management & other Material Risk Takers		✓		Annually
		4	Staff Annual Salary Increment / Salary Adjustment / Promotion Budget		✓		Annually
		5	Staff Annual Performance Bonus Budget		✓		Annually
		6	Remuneration for clerical and non clerical employees under the Collective Agreement (CA)		✓		Annually
		7	Remuneration for new hires (excluding General Managers and GMD/GCEO)			✓	NA
	<p>STMKB is applying the transitional arrangements in Part G of Corporate Governance policy document (BNM/RH/PD 029/9) issued by BNM (Corporate Governance Policy Document) relating to remuneration requirements and is currently reviewing the design and structure of the remuneration policy to be fully compliant with the requirements in Part D of the Corporate Governance Policy Document.</p> <p>The above Remuneration Policy is disclosed under STMKB's Corporate Governance Overview Statement as published on STMKB's website at www.takaful-malaysia.com.my.</p>						
Explanation for departure	None.						
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>							
Measure							
Timeframe							

Intended Outcome

The level and composition of remuneration of directors and senior management take into account the company's desire to attract and retain the right talent in the board and senior management to drive the company's long-term objectives.

Remuneration policies and decisions are made through a transparent and independent process.

Practice 6.2

The board has a Remuneration Committee to implement its policies and procedures on remuneration including reviewing and recommending matters relating to the remuneration of board and senior management.

The Committee has written Terms of Reference which deals with its authority and duties and these Terms are disclosed on the company's website.

Application	:	Applied
Explanation on application of the practice	:	<p>The Nomination Committee and Remuneration Committee were combined into one committee known as the NRC effective 1 January 2017. As at the end of the financial year under review, the NRC consists of three (3) Non-Executive Directors, two of whom are INED. The Chairman of the NRC is Dato' Othman Abdullah, a Senior INED, in line with the recommendation of the MCCG.</p> <p>The NRC is responsible in recommending the remuneration framework for the Directors as well as the remuneration package of Shariah Advisory Body members, Group Chief Executive Officer and Senior Management to the Board to ensure that STMKB attracts, motivates and retains the right Directors, Shariah Advisory Body members, Group Chief Executive Officer and Senior Management.</p> <p>The Terms of Reference of the Committee are available on the Company's website at www.takaful-malaysia.com.my.</p>
Explanation for departure	:	None.
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.1

There is detailed disclosure on named basis for the remuneration of individual directors. The remuneration breakdown of individual directors includes fees, salary, bonus, benefits in-kind and other emoluments.

Application	:	Applied
Explanation on application of the practice	:	The detailed disclosure on named basis for individual directors including fees, salary, bonus, benefits in-kind and other emoluments was made in the note 27 to the audited financial statements on pages 204 to 205 of the Annual Report.
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.2

The board discloses on a named basis the top five senior management's remuneration component including salary, bonus, benefits in-kind and other emoluments in bands of RM50,000.

Application	:	Departure
Explanation on application of the practice	:	
Explanation for departure	:	The Company departs from the Practice in view that there would be adverse implication including dissatisfaction and animosity among the staff in the event that STMKB disclose salary, bonus, benefits in-kind and other emoluments of Senior Management on a named basis.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	The Company will review this on a yearly basis in the future.
Timeframe	:	In the future

Intended Outcome

Stakeholders are able to assess whether the remuneration of directors and senior management is commensurate with their individual performance, taking into consideration the company's performance.

Practice 7.3 - Step Up

Companies are encouraged to fully disclose the detailed remuneration of each member of senior management on a named basis.

Application :	Not Adopted
Explanation on adoption of the practice :	

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.1

The Chairman of the Audit Committee is not the Chairman of the board.

Application	:	Applied	
Explanation on application of the practice	:	The Chairman of Audit Committee, Dato' Othman Abdullah, a Senior INED is not the Chairman of the Board.	
Explanation for departure	:	None	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.2

The Audit Committee has a policy that requires a former key audit partner to observe a cooling-off period of at least two years before being appointed as a member of the Audit Committee.

Application	:	Adopted	
Explanation on application of the practice	:	This practice has been incorporated into the Terms of Reference of Audit Committee.	
Explanation for departure	:	None.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.3

The Audit Committee has policies and procedures to assess the suitability, objectivity and independence of the external auditor.

Application	:	Applied	
Explanation on application of the practice	:	This practice has already been incorporated into the Terms of Reference of Audit Committee and was carried out annually during the proposal on the re-appointment of external auditor for the recommendation to the Board prior to submission to BNM and approval by the shareholders at the annual general meeting.	
Explanation for departure	:	None.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.4 - Step Up

The Audit Committee should comprise solely of Independent Directors.

Application	:	Not Adopted
Explanation on application of the practice	:	
Explanation for departure	:	At present, two (2) out of three (3) members of the Audit Committee are Independent Non-Executive Directors. The Company will strive to adopt Practice 8.4 as recommended by the MCCG in future.

Intended Outcome

There is an effective and independent Audit Committee.

The board is able to objectively review the Audit Committee's findings and recommendations. The company's financial statement is a reliable source of information.

Practice 8.5

Collectively, the Audit Committee should possess a wide range of necessary skills to discharge its duties. All members should be financially literate and are able to understand matters under the purview of the Audit Committee including the financial reporting process.

All members of the Audit Committee should undertake continuous professional development to keep themselves abreast of relevant developments in accounting and auditing standards, practices and rules.

Application	:	Applied
Explanation on application of the practice	:	All Audit Committee members are financially literate and are able to understand matters under the purview of the Audit Committee including financial reporting process. The qualification and experience of the individual Audit Committee members are disclosed in the Profile of Board of Directors in the Annual Report. All member of the Audit Committee undertakes continuous professional development to ensure that they are abreast of relevant developments in accounting and auditing standards, practices and rules. A summary of training programmes, conferences and seminars attended by Audit Committee members during the financial year under review is set out on page 60 of the Annual Report.
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.1

The board should establish an effective risk management and internal control framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board had established an effective risk management and internal control framework as set out in the Statement on Risk Management and Internal Control (SORMIC).</p> <p>The Board acknowledges its responsibility and is committed in maintaining a sound system of internal control and risk management practice. However, such system can only provide reasonable but not absolute assurance against material misstatements or losses.</p> <p>The AC regularly evaluates the adequacy and effectiveness of the Group's internal control systems by reviewing the actions taken on lapses/deficiencies identified in reports provided by both the internal and external auditors. The AC also reviews the internal and external auditors' recommendation and management responses to these recommendations to ensure that they are working adequately and promptly.</p> <p>The Statement on Risk Management and Internal Control which has been reviewed by the external auditors furnished on pages 72 to 76 in the Annual Report provides an overview of the state of risk management and internal control within the Group governed by the Risk Management Framework.</p>
Explanation for departure	:	None.
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.2

The board should disclose the features of its risk management and internal control framework, and the adequacy and effectiveness of this framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The Board discloses the features of its risk management and internal control framework, the adequacy and the effectiveness of this framework are set out in the SORMIC.</p> <p>The Board acknowledges its responsibility and is committed in maintaining a sound system of internal control and risk management practice. However, such system can only provide reasonable but not absolute assurance against material misstatements or losses.</p> <p>The AC regularly evaluates the adequacy and effectiveness of the Group's internal control systems by reviewing the actions taken on lapses/deficiencies identified in reports provided by both the internal and external auditors. The AC also reviews the internal and external auditors' recommendation and management responses to these recommendations to ensure that they are working adequately and promptly.</p> <p>The Statement on Risk Management and Internal Control which has been reviewed by the external auditors furnished on pages 72 to 76 in the Annual Report provides an overview of the state of risk management and internal control within the Group governed by the Risk Management Framework.</p>
Explanation for departure	:	None
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	

Timeframe	:		
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Intended Outcome

Companies make informed decisions about the level of risk they want to take and implement necessary controls to pursue their objectives.

The board is provided with reasonable assurance that adverse impact arising from a foreseeable future event or situation on the company's objectives is mitigated and managed.

Practice 9.3 - Step Up

The board establishes a Risk Management Committee, which comprises a majority of independent directors, to oversee the company's risk management framework and policies.

Application	:	Adopted
Explanation on adoption of the practice	:	<p>The Board Risk Management Committee (BRC) comprise a majority of independent directors i.e. 67% (2 out of 3). The BRC members are Zakaria Ismail (Independent), Datin Sri Azlin Arshad (Independent) and Mohd Tarmidzi Ahmad Nordin (Non Independent).</p> <p>The composition of the Board Risk Committee (BRC) is in compliance with the provisions of the BNM CG Policy:-</p> <ul style="list-style-type: none">(i) has at least 3 members;(ii) has a majority of Independent Directors;(iii) chaired by an Independent Director;(iv) The GCEO is not a member of any of the BRC; and(v) The Chairman of the Board does not chair nor is he a member of the BRC. <p>BRC has clear written terms of reference and the Board receives reports of its proceedings and deliberations. The Chairman of the BRC will report to the Board the outcome of its meetings and such reports are incorporated in the minutes of the Board meeting.</p>

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.1

The Audit Committee should ensure that the internal audit function is effective and able to function independently.

Application	:	Applied
Explanation on application of the practice	:	<p>The internal audit function of the Company is effective and remains independent all the time. The internal audit function is set out in the SORMIC and Audit Committee Report.</p> <p>Internal Auditors reports functionally to the Audit Committee (AC) and has unrestricted access to the AC. Its function is independent of the activities or operations of other operating units. Internal Auditors periodically evaluates the effectiveness of the risk management process, reviews the operating effectiveness of the internal controls system and compliance control within the Group. The Head of Internal Audit is invited to attend the AC meetings to facilitate the deliberation of audit reports. The minutes of the AC meetings are tabled to the Board for information and serves as a reference especially when there is pertinent points should any of the Board members wish to highlight or seek clarification.</p>
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Companies have an effective governance, risk management and internal control framework and stakeholders are able to assess the effectiveness of such a framework.

Practice 10.2

The board should disclose–

- whether internal audit personnel are free from any relationships or conflicts of interest, which could impair their objectivity and independence;
- the number of resources in the internal audit department;
- name and qualification of the person responsible for internal audit; and
- whether the internal audit function is carried out in accordance with a recognised framework.

Application	:	Applied
Explanation on application of the practice	:	<p>The audit personnel are free from any relationships or conflicts of interest, which could impair the objectivity and independence.</p> <p>Currently there are 12 personnel in the internal audit department.</p> <p>The name and qualification of the person responsible for internal audit is Haniza Filzah Hayani binti Abu Haniffa, B.Acc (hons), C.A (M), CMIIA, ACIS.</p> <p>The Internal Audit Function is governed by Bank Negara Malaysia requirements on Internal Audit Function and carried out in accordance with the Guidance for an Effective Internal Audit Function (GI AF) (revised in October 2017) by the Internal Audit Association, Malaysia.</p>
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.1

The board ensures there is effective, transparent and regular communication with its stakeholders.

Application	:	Applied
Explanation on application of the practice	:	<p>The Company publishes immediately all the latest information/announcements through the Company's website under "Investor Relations" section.</p> <p>The AGM is the principal forum for dialogues with shareholders. General meetings are important platforms for Directors and Senior Management to engage shareholders to facilitate greater understanding of the Company's business, governance and performance. Shareholders are able to participate, engage the Board and Senior Management effectively and make informed voting decisions at general meetings. Besides the normal agenda for the AGM, the GCEO presents the progress and performance of the business as contained in the Annual Report and provides opportunities for shareholders to raise questions pertaining to the business activities of the Group. Board members, SAB members, Senior Management and the Company's external auditors attend the AGM and are available to respond to shareholders' enquiries during the AGM.</p>
Explanation for departure	:	None.
<p><i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i></p>		
Measure	:	
Timeframe	:	

Intended Outcome

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

Practice 11.2

Large companies are encouraged to adopt integrated reporting based on a globally recognised framework.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	The Company aims to adopt integrated reporting in the future.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:	The Company will take the necessary measures to comply with the requirement in the future.	
Timeframe	:	In the future.	

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.1

Notice for an Annual General Meeting should be given to the shareholders at least 28 days prior to the meeting.

Application	:	Applied	
Explanation on application of the practice	:	The notice for the 34 th Annual General Meeting was given 28 days prior to the Meeting.	
Explanation for departure	:		
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.2

All directors attend General Meetings. The Chair of the Audit, Nominating, Risk Management and other committees provide meaningful response to questions addressed to them.

Application	:	Applied
Explanation on application of the practice	:	All Directors attended the Company's 33 rd AGM in 2018. The Chairman of AC, NRC, BRC and other Board Committees as well as Senior Management and the Company's external auditors attended the 33 rd AGM in 2018 and are available to give response if there are any questions addressed to them.
Explanation for departure	:	None.
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>		
Measure	:	
Timeframe	:	

Intended Outcome

Shareholders are able to participate, engage the board and senior management effectively and make informed voting decisions at General Meetings.

Practice 12.3

Listed companies with a large number of shareholders or which have meetings in remote locations should leverage technology to facilitate–

- including voting in absentia; and
- remote shareholders’ participation at General Meetings.

Application	:	Departure	
Explanation on application of the practice	:		
Explanation for departure	:	Not applicable to the Company in view that the Company does not have large number of shareholders, did not in the past held meetings in remote location and does not intent to have meetings in remote locations in the future.	
<i>Large companies are required to complete the columns below. Non-large companies are encouraged to complete the columns below.</i>			
Measure	:		
Timeframe	:		

SECTION B – DISCLOSURES ON CORPORATE GOVERNANCE PRACTICES PURSUANT CORPORATE GOVERNANCE GUIDELINES ISSUED BY BANK NEGARA MALAYSIA

Disclosures in this section are pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia. This section is only applicable for financial institutions or any other institutions that are listed on the Exchange that are required to comply with the above Guidelines.

Refer to the attached disclosures pursuant to Appendix 4 (Corporate Governance Disclosures) of the Corporate Governance Guidelines issued by Bank Negara Malaysia
