

Statutory Financial Statement

For The Financial Period From
15 December 2017 (Date of Incorporation) to
31 December 2018



About Zurich General Takaful in Malaysia

Zurich General Takaful Malaysia Berhad (ZGTMB) is one of Malaysia's leading general takaful operators. It is a member of Zurich Insurance Group and the sole provider of shariah-compliant general takaful products within Zurich. With more than a decade of Takaful market expertise, ZGTMB offers an extensive range of general takaful solutions spanning motor, travel, property, financial and personal lines, small to medium enterprises as well as large industrial risks. Together with its dedicated employees, agency force, distributors and partners, supported by its nationwide branch network, ZGTMB is committed to help its customers understand and protect their valuable assets and businesses from risks.

Company No.

1260157

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

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CORPORATE GOVERNANCE STATEMENT

Introduction

Zurich General Takaful Malaysia Berhad ("ZGTMB" or "the Company") is committed to effective corporate governance for the benefit of its shareholders, customers, employees and other stakeholders based on the principles of fairness, transparency and accountability.

The Board of Directors ("the Board") is satisfied that the Company has complied with all prescriptive requirements of including the principles of Shariah, and adopts the Corporate Governance policy document (BNM/RH/PD 029-9) issued by Bank Negara Malaysia ("BNM") since the commencement of the business of the Company on 1 June 2018. The Board has continued its commitment in ensuring that the highest principles and best practices in corporate governance are practised as a fundamental part of discharging its responsibilities to protect and enhance shareholders value and the financial performance of the Company.

The Board

The Board is responsible for the overall governance of the Company by ensuring strategic guidance, internal control, risk management and reporting procedure are in place. The Board exercises due diligence and care in discharging its duties and responsibilities to ensure compliance with relevant rules, regulations directives and guidelines in addition to adopting best practices and act in the best interest of its shareholders.

The Board Charter

The Board Charter set out the Board's roles, responsibilities and procedures of the Board and the Board Committees of the Company in accordance with the principles of corporate governance prescribed in the Corporate Governance Policy Document issued by BNM. The Board regularly reviews the Charter and ensure it remains consistent and relevance to the Board's objectives and responsibilities, and all regulations/laws in connection thereto.

Composition of the Board

The Directors of the Company in office since the date of incorporation to the date of the report are as follows:

Name of Directors	Designations
Nabil Nazih El-Hage (appointed on 1 June 2018)	Chairman, Independent Non-Executive Director
David Jerry Fike (First Director [^])	Executive Director
Wan Zamri bin Wan Zain (First Director) (resigned on 24 May 2018)	Independent Non-Executive Director
Dr Md Khalil bin Ruslan (appointed on 15 March 2018)	Independent Non-Executive Director
Onn Kien Hoe (appointed on 1 June 2018)	Independent Non-Executive Director
Dr Mohd Nordin bin Mohd Zain (appointed on 1 June 2018)	Independent Non-Executive Director

[^]appointment took effect on 1 June 2018 subsequent to the approval from BNM on 30 May 2018.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Composition of the Board (continued)

The Board comprises four (4) Independent Non-Executive Directors and one (1) Executive Director, each from diverse backgrounds and qualifications and bring a wide range of professional skills and operational experience to the Board. Collectively, they provide the necessary business acumen, knowledge, capabilities and competencies to the Company. The roles and activities of the Chairman and Chief Executive Officer ("CEO") are distinct and separate.

The appointments to the Board were approved by BNM. All appointments and reappointments of Board members are subject to evaluation and review by the Nomination and Remuneration Committee, and approved by the Board before the applications are submitted to BNM for approval.

Roles and Responsibilities of the Board

The Board sets the strategic direction and vision of the Company. It has an overall responsibility for promoting the sustainable growth and financial soundness of the Company, and for ensuring reasonable standards of fair dealing, without undue influence from any party. This includes a consideration of long-term implications of the Board's decisions on the Company and its customers, officers and general public. In fulfilling this role, the Board shall:

- (a) to approve the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile;
- (b) to oversee the selection, performance, remuneration and succession plans of the CEO, control function heads and other members of senior management, such that the Board is satisfied with the collective competence of senior management to effectively lead the operations of the Company;
- (c) to oversee the implementation of the Company's governance framework and internal control framework, and periodically review whether these remain appropriate in light of material changes to the size, nature and complexity of the Company's operations;
- (d) to promote, together with senior management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behavior;
- (e) to promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;
- (f) to oversee and approve the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, and maintain or preserve critical operations and critical services when it comes under stress;
- (g) to promote timely and effective communication between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company; and
- (h) to promote Shariah compliance in accordance with expectations set out in the policy document on Shariah Governance Framework for Islamic Financial Institutions (BNM/RH/GL 012-3).

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer

Nabil Nazih El-Hage

American, Male

Independent Non-Executive Director / Chairman

Mr. Nabil Nazih El-Hage graduated 'cum laude' in Electronic Engineering from Yale University in 1980. He then earned his Master of Business Administration ("MBA") with the highest honours – as a Baker Scholar – from Harvard Business School in 1984, where he was awarded the Henry Ford Foundation Award for the Best First-Year academic record, the Loeb-Rhoades Fellowship for Excellence in Finance, the Copeland (Marketing) Award nomination, and a Dean's Doctoral Fellowship.

Mr. Nabil is the founder and chairman of the AEE International, dba Academy of Executive Education ("AEE"), which provides high-quality executive education programmes to corporate clients. AEE (and its predecessor companies) also developed a highly-acclaimed corporate governance programme for Malaysian financial institutions, as commissioned by Bank Negara Malaysia. He is also the Programme Director for Bank Negara Malaysia's Financial Institutions Directors' Education ("FIDE") programme.

Mr. Nabil has served on several boards of directors of private and public listed companies. From 2003 to 2010, Mr. Nabil was on the faculty of Harvard Business School, where he was, at various times, Professor of Management Practice, Thomas Henry Carroll / Ford Foundation Adjunct Professor of Business Administration, and Senior Associate Dean for External Relations. At Harvard Business School, Mr. Nabil taught courses on Private Equity, Corporate Finance, and Corporate Governance.

Mr. Nabil also serves as the Contracts Committee Chairman of the MassMutual mutual fund group (USD35 billion under management), member of its Audit Committee, and designated "Financial Expert". His previous appointments include chairman of the Audit Committee of an NYSE-listed Property and Casualty insurance company. He has served on the boards of directors of over 15 companies, including six public listed ones. He has also served on the Audit Committee of several companies and was a past president of The Yale Club of Boston.

Mr. Nabil is also the Independent Non-Executive Director/Chairman of Zurich General Insurance Malaysia Berhad.

Mr Nabil resigned as a member of the Audit Committee, Risk Management Committee and Nomination and Remuneration Committee of the Company on 1 January 2019.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

David Jerry Fike

American, Male

Executive Director

Mr. David Jerry Fike was educated in United States of America where he pursued qualifications in Liberal Arts and Economics. He received his Bachelor of Science in Economics from Allegheny College, Meadville, Pennsylvania in year 1988.

Mr. Fike is an experienced insurance professional with over 30 years of experience in the financial services sector across the United States of America, Europe (Turkey) as well as the Asia Pacific ("APAC") region, including Singapore, Hong Kong and Malaysia. He also possesses a high degree of familiarity with other APAC markets such as China and Japan.

Mr. Fike has a solid executive management background with cross-functional experience in Marketing, Distribution, Business Development, Operations and Product Development. Prior to joining Zurich in Malaysia, Mr Fike was the Chief Executive Officer and General Manager of Cigna Finans Emeklilik, a joint venture between Cigna and Finansbank (Turkey's fifth largest private bank). In that role, he managed employees and direct retail sales force advisors across 8 regional offices in the development and sales of life insurance and private pension products through retail channels as well as Finansbank's distribution channels.

Mr. Fike is, additionally, the Chief Executive Officer and Executive Director of Zurich General Insurance Malaysia Berhad. He also holds a position within the Management Committee of the Persatuan Insurans Am Malaysia ("PIAM") and serves as the Convenor of the Distribution Management sub-committee.

Dr. Md Khalil bin Ruslan (Dr Khalil)

Malaysian, Male

Independent Non-Executive Director

Chairman of Nomination and Remuneration Committee

Chairman of Shariah Committee

Member of Audit Committee

Member of Risk Management Committee

Dr. Khalil obtained his Bachelor of Shariah from University of Malaya in 1985 and Masters of Comparative Law (MCL) in 1988 from International Islamic University. Subsequently in year 2000, he attained his PHD (Islamic Commercial Transaction) from University of Edinburgh, Scotland, United Kingdom. He is currently an Associate Professor at Law Faculty, University of Malaya, Kuala Lumpur.

Dr. Khalil also serves as an Independent Non-Executive Director at Zurich Takaful Malaysia Berhad.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Onn Kien Hoe

Malaysian, Male

Independent Non-Executive Director

Chairman of Audit Committee

Member of Risk Management Committee

Member of Nomination and Remuneration Committee

Mr. Onn completed his professional qualification with the Association of Chartered Certified Accountants (U.K.) in 1988 and has been in the accounting profession since then. He is also a member of the Malaysian Institute of Accountants and Malaysian Institute of Certified Public Accountants.

Mr. Onn is a partner with Crowe Malaysia, an internationally affiliated accounting firm which is the fifth largest in Malaysia. His role includes acting as the Co-Head of the Corporate Advisory Division of Crowe Malaysia. Mr Onn has served as an examiner for the Malaysian Institute of Certified Public Accountants and as a member of the Interpretation Committee of the Malaysian Accounting Standards Board.

Mr. Onn currently sits on the Boards of Avillion Berhad, Reliance Pacific Berhad, MAA Group Berhad, MAA International Group Ltd, Zurich Takaful Malaysia Berhad and several private limited companies.

Mr. Onn is also the General Committee member of Malaysian International Chamber of Commerce and Industrial for year 2018/2019.

Dr. Mohd Nordin bin Mohd Zain

Malaysian, Male

Independent Non-Executive Director

Chairman of Risk Management Committee

Member of Audit Committee

Member of Nomination and Remuneration Committee

Dr. Nordin obtained his doctorate degree in Strategic Management from Strathclyde University, United Kingdom in 1995 and Masters and Bachelor degrees in Accounting from the USA in 1983 and 1981 respectively.

Dr. Nordin has 34 years of experience in various capacities in banking, education, regulatory agency and professional practice. He started his career in internal audit and corporate banking for 6 years, in academic for 10 years, as a Chief Executive Officer for the Malaysian Accounting Standards Board ("MASB") for 10 years and as a Partner in Deloitte for 8 years. He is a Chartered Accountant member of MIA, a Fellow member of CPA Australia (FCPA), a Fellow of IPA Australia (FIPA) and was serving as a council member of MIA, a council member of CPA Australia, as well as a founding board member of MASB. He also served as a member of Corporate Law Reforms Committee of the Registrar of Companies.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Profile of Directors and Chief Executive Officer (continued)

Dr. Nordin currently sits on the board of international bodies such as Accounting and Auditing Organization for Islamic Financial Institution (“AAOIFI”) in Bahrain UAE, the Institute of Public Accountants Australia in Melbourne, and serves as an investment committee member of a subsidiary of AIA Berhad. He used to serve as a member of Public Accountants Oversight Committee in Brunei.

Dr. Nordin also serves as an Independent Non-Executive Director at AmBank Islamic Berhad.

Encik Zuhairi bin Ismail

Malaysian, Male

Chief Executive Officer

Encik Zuhairi was educated in United Kingdom where he pursued qualifications in Accounting and Finance. He obtained his professional membership as a Certified Internal Auditor and Chartered Member of IIA Malaysia in 2006 and 2003 respectively. Encik Zuhairi is also a Panel Assessor of Finance Accreditation Agency, an international and independent quality assurance and accreditation body supported by BNM and Securities Commission of Malaysia.

Encik Zuhairi is an experienced insurance professional with vast work experience and possesses a high degree of familiarity in the Insurance and Takaful sector in the Malaysia. Encik Zuhairi has over 22 years of experience in Life, General Insurance and Takaful business comprising few companies in Malaysia.

Encik Zuhairi has solid executive management with cross-functional experience as an Internal Auditors, Compliance Officer, Risk Management and Finance background, capable of performing in a broad range of executive, financial and commercially oriented positions.

Encik Zuhairi has held a number of diverse roles in other financial institutions such as the Chief Internal Auditor at Uni.Asia General Insurance Berhad (currently known as Liberty Insurance, subsidiary of the DRB-Hicom Group) and Head of Compliance.

Prior to that, Encik Zuhairi was at CIMB Group of Companies as Head of Financial Business Solutions at CIMB Aviva Assurance Berhad (subsidiary of CIMB Group, previously known as BCHB Group), Group Internal Auditor at Bumiputra-Commerce Bank Berhad (currently known as CIMB Bank) and Acting Head Internal Audit at AMI Insurans Berhad.

Previously, Encik Zuhairi was also in MBF Group as an Assistant Manager, Internal Audit to MBF Finance Berhad.

Other than Mr. David Jerry Fike, none of the Directors hold shares in the Company and/or its holding companies.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Directors' Training

All Directors have attended a formal induction programme to familiarise themselves with the Company's strategy and operations, financial highlights, risk management strategy, internal control environment, legal and compliance requirements, and human resource initiatives. The induction programme is conducted by the Chief Executive Officer and various Head of Departments. The Directors are also informed of their duties under the Companies Act, Board Charter, Constitution and Board Committees' Terms of Reference.

As required by BNM, the Directors have also attended the Financial Institutions Directors' Education (FIDE) Programme accredited by The ICLIF Leadership and Governance Centre.

The Directors are encouraged to attend programmes and seminars to keep abreast with the latest developments in the industry and marketplace and to enhance the discharge of their duties.

Board Meetings

The Board is scheduled to meet at least six (6) times a year with additional meetings being convened as necessary. For the financial period from 15 December 2017 (date of incorporation) to 31 December 2018, the Board met five (5) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings.

The number of meetings attended by each member of the Board is as follows:

Name of Directors	No. of Board Meetings Attended
Nabil Nazih El-Hage, Chairman	3/3
David Jerry Fike	5/5
Wan Zamri bin Wan Zain (resigned on 24 May 2019)	2/2
Dr Md Khalil bin Ruslan	4/4
Onn Kien Hoe	3/3
Dr Mohd Nordin bin Mohd Zain	3/3

Board Committees

The Board delegates specific responsibilities to a number of Board Committees. The Board Committees are the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Shariah Committee. The Board Committees are chaired by an Independent Non-Executive Director.

Each Board Committee operates within defined terms of reference. The Board Committees have the authority to examine particular issues, but they report to the Board with their decisions and/or recommendations and the ultimate responsibility on all matters rests with the Board.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Audit Committee ("AC")

The principal objectives of the AC are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The AC meets regularly with senior management, the internal auditors and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The AC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of AC are:

- (i) To approve internal auditors' audit plan, review the adequacy of the scope, functions, resources and competency and that it has the necessary authority to carry out its work;
- (ii) To review the results of internal audit process and ensure that appropriate actions are taken on the recommendations given by the internal auditors;
- (iii) To consider the appointment of the external auditors, the audit fee and any question of resignation or dismissal;
- (iv) To discuss with the external auditors before the audit commences, the nature and scope of audit;
- (v) To provide assurance that the financial information presented by management is relevant, reliable and timely;
- (vi) To oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- (vii) To determine the quality, adequacy and effectiveness of the Company's internal control environment.

The AC meets at least once every quarter, or more frequently as circumstances dictate. During the financial period from 15 December 2017 (date of incorporation) to 31 December 2018, the AC held three (3) meetings to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The members and number of meetings attended by each member of the AC is as follows:

Members	No. of AC Meetings Attended
Onn Kien Hoe, Chairman	3/3
Nabil Nazih El-Hage	3/3
Dr Md Khalil bin Ruslan	3/3
Dr Mohd Nordin bin Mohd Zain	3/3

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Nomination and Remuneration Committee (“NRC”)

The NRC assist the Board in fulfilling its fiduciary responsibilities relating to assessment of the nomination and selection process of Board members and Senior Management, review of the remuneration framework of Board members and Senior Management, annual review of the effectiveness of the Board, Board Committees, individual Director and Chief Executive Officer. In considering the right candidate for appointment to the Board, the NRC takes into account the required mix of skills, experience and other core competencies that are necessary to enable the Company to achieve its corporate objectives and fulfill its fiduciary responsibilities.

The NRC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of NRC are:

- (i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer, key senior officers (including the expatriates, if any) and members of Shariah Committee of the Company;
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer, key senior officers (including the expatriates, if any) and members of Shariah Committee of the Company;
- (iii) To ensure that the remuneration for individuals within the Company be aligned with prudent risk-taking and appropriately adjusted for risks. The remuneration outcomes must be symmetric with risk outcomes; and
- (iv) To review and assess the nomination and selection of the Board, Senior Management (including Chief Executive Officer and Expatriates), members of Shariah Committee and Company Secretary, the performance of the Board, Chief Executive Officer and Shariah Committee, fit and proper assessments, succession planning and training and development needs.

The members and number of meetings attended by each member of the NRC during the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 is as follows:

Members	No. of NRC Meetings Attended
Dr Md Khalil bin Ruslan, Chairman	2/2
Nabil Nazih El-Hage	2/2
Onn Kien Hoe	2/2
Dr Mohd Nordin bin Mohd Zain	2/2

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

Risk Management Committee (“RMC”)

The RMC reviews the risk management framework of the Company to ensure risks at all levels are managed effectively. It also reviews risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The RMC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of RMC are as follows:

- (i) To review and recommend risk management strategies, policies and risk tolerance to the Board for approval;
- (ii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks;
- (iii) To ensure that there are adequate infrastructure, resources and systems in place for an effective risk management; and
- (iv) To review the management’s periodic reports on risk exposure, risk portfolio composition and risk management activities.

The members and number of meetings attended by each member of the RMC during the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 is as follows:

Members	No. of RMC Meetings Attended
Dr Mohd Nordin bin Mohd Zain. Chairman	3/3
Nabil Nazih El-Hage	3/3
Dr Md Khalil bin Ruslan	3/3
Onn Kien Hoe	3/3

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)****Shariah Committee (“SC”)**

The SC is entrusted by the Board to ensure that the Company’s operations and products offered are in accordance with the Shariah. All matters which require Shariah Committee’s opinion and decisions are deliberated at the Shariah Committee’s meetings with the attendance of the Management and the representatives from the Shariah Division. Thereon, the said matters are brought to the attention of the Board for an informed decision making.

The SC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of SC are as follows:

1. **Responsibility and accountability**
The SC is expected to understand that in the course of discharging the duties and responsibilities as a SC member, they are responsible and accountable for all Shariah decisions, opinions and views provided by them. The SC is also expected to perform an oversight role on Shariah matters related to the Company’s business operations and activities.
2. **Advise the Board and the Company**
The SC shall advise the board and provide input to the Company on any matters related to Shariah in order for the Company to comply with Shariah principles at all times.
3. **Endorse Shariah policies and procedures**
The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure the contents do not contain any elements which are not in line with Shariah.
4. **Endorse and validate relevant documentations**
To ensure that the products of the Company comply with Shariah principles, the SC must approve:
 - (i) The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - (ii) The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
5. **Assess work carried out by Shariah review and Shariah audit**
To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah principles which forms part of their duties in providing their assessment of Shariah compliance and accurate information in the annual report.
6. **Assist related parties on Shariah matters**
The related parties of the Company such as its legal counsel, auditor or consultant may seek advice on Shariah matters from the SC and the SC is expected to provide the necessary assistance to the requesting party.
7. **Advise on matters to be referred to the Shariah Advisory Council (“SAC”)**
The SC may advise the Company to consult the SAC of Bank Negara Malaysia on Shariah matters that could not be resolved.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)****Shariah Committee ("SC") (continued)**

8. Provide written Shariah opinions
 The SC is required to record any opinion given. In particular, the SC shall prepare written Shariah opinions in the following circumstances:
- (i) Where the Company make reference to the SAC for advice, or
 - (ii) Where the Company submit applications to BNM for new product approval.

The members and number of meetings attended by each member of the SC during the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 is as follows:

Members	No. of SC Meetings Attended
Dr Md Khalil bin Ruslan, Chairman	4/4
Dr Yusri bin Mohamad	4/4
Dr Luqman bin Haji Abdullah	4/4
Dr Mohamad Abdul Hamid	4/4
Dr Zulkifli bin Hasan	4/4

Other Key Elements of Risk Management and Internal Control**Organisational structure and management accountability**

The Company has an organisation structure showing all reporting lines as well as clearly documented job description for all management and executive employees. The officers of the Company have knowledge of their respective authority and operating limits, which are documented in the Company's Internal Control Procedures.

The human resource procedures of the Company provides for the setting of goals and training of each staff. The Company conducts formal appraisals for each staff on an annual basis.

The Company has established procedures to avoid and to deal with any conflict of interest situation. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Part B, paragraph 14 of BNM Guidelines on Corporate Governance, and paragraph 67 of the Islamic Financial Services Act, 2013 ("IFSA").

Corporate independence

The Company has complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL018-6) in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, the Board's prior approval for the transaction has also been obtained. All material related party transactions have been disclosed in the financial statements.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Other Key Elements of Risk Management and Internal Control (Continued)

Internal controls

The responsibility of maintaining a system of internal controls rests with the Board. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner. The internal audit function reports directly to the Board through the Audit Committee, and its findings and recommendations are communicated to the senior management and all levels of staff concerned. The Chief Internal Auditor has unrestricted access to the Chairman and members of the Audit Committee, and the internal audit function performs their duties within the ambit of the Audit Charter approved by the Audit Committee and the Board.

The IT Steering Committee is responsible for establishing effective information technology and information systems plans, authorising information technology ("IT") related expenditure based on authority limits, and monitoring the progress of approved projects. The Company has increased the security controls for the IT systems, and have put in place business resumption and contingency plans to ensure continued operations of mission critical functions. The requirements of BNM's Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3) have been complied.

Risk management

The RMC meets regularly, at least four (4) times a year, to review risk management reports of the Company. The RMC has categorised risks into six (6) risk types affecting the Company namely Property and Casualty Risk, Market Risk, Credit Risk, Operational Risk, Strategic Risk and Reputation Risk and Capital Management / Liquidity Risk.

The Company has established, within its risk management framework, a structural approach to enterprise-wide risk management. The process involves risk identification and assessment process whereby all department heads of the Company are required to assess their operations and identify risks affecting their operations, identify existing controls in place to mitigate those risks and the probability of the risks occurring and its impact severity.

Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff and agents of the Company are required to comply with the Code of Ethics and Conduct.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Other Key Elements of Risk Management and Internal Control (Continued)

Financial reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at the Board, Executive Committee and Management Committee meetings. Financial statements and reports are lodged with the regulatory and supervisory authorities, and annual financial statements prepared in accordance with applicable regulations and approved accounting standards are audited.

REMUNERATION POLICY

The Company's remuneration policy is based on Zurich Insurance Group Limited ("ZIGL")'s remuneration philosophy. The Company operates a balanced and effectively managed remuneration system, which is aligned with risk considerations and provides for competitive total remuneration opportunities to attract, retain, motivate and reward employees to deliver outstanding performance.

The remuneration system is also an important element of the risk management framework and is designed to not encourage inappropriate risk taking through effective governance and a clearly defined performance management process which supports the overall business strategy and plans. Aligned with the Company's corporate governance standards, there are separate responsibilities for the business planning and performance management process and for the implementation of the remuneration system.

The Board of Directors reviews and approves the remuneration rules regularly, at least once a year, and amends them, as necessary, from time to time. The Board of Directors may approve amendments to the remuneration architecture in general or to the applicable plans including exceptions to the short-term incentive plan and/or long-term incentive plan target amounts, to the performance criteria, vesting and/or performance periods and related retention periods.

With respect to the regular review and the oversight of the implementation of the Remuneration Rules, the Board of Directors is supported by the Nomination and Remuneration Committee and respective monitoring process.

The guiding principles of the remuneration philosophy as set out in the Company's Remuneration Rules are as follows:

- The remuneration architecture is simple, transparent and can be put into practice.
- Remuneration is tied to long-term results for individuals who have a material impact on the Company's risk profile.
- The structure and level of total remuneration are aligned with the Company's risk policies and risk-taking capacity.
- A high performance culture is promoted by differentiating total remuneration based on the relative performance of business and individuals.
- Expected performance is clearly defined through a structured system of performance management and this is used as the basis for remuneration decision.
- Variable remuneration awards are linked to key performance factors which include the performance of the Company, business units, functions, as well as individual achievements.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

REMUNERATION POLICY (CONTINUED)

- The Company's Short Term Incentive Plan ("STIP"), General Insurance Performance Plan ("GIPP") and Long Term Incentive Plan ("LTIP"), used for variable remuneration, are linked to appropriate performance criteria and the overall expenditure on variable pay is considered in connection with its long term economic performance.
- The structure of the LTIP links remuneration with the future development of performance and risk by including features for deferred remuneration.
- Employees are provided with a range of benefits based on local market practices, taking into account the ZIGL's risk capacity on pension funding and investments.

Total remuneration and its composition may be influenced by factors such as scope and complexity of the role, level of responsibility, risk exposure, business performance and affordability, individual performance, internal equity, and legal requirements.

Total remuneration can include elements of base salary and variable remuneration.

- Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market medians. Key factors to be taken into account are the individual's overall experience and performance.
- The variable remuneration architecture is aligned with the achievement of the key financial objectives and the execution of the business strategy, risk management framework and operational plans, via short-term and long-term incentive plans. The plan designs are reviewed regularly by the Nomination and Remuneration Committee and the Board of Directors. The incentive plans are discretionary and can be terminated, modified, changed or revised, at any time, except for previously awarded grants.
- Variable remuneration is structured such that on average there is a higher weighting towards the longer term sustainable performance for the most senior employees of the Company, including the individuals with the most impact on the Company's risk profile for key risk takers. This ensures that a significant portion of the variable pay for the senior group is deferred to promote the risk awareness of the participants and to encourage the participants to operate the business in a sustainable manner.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial period from 15 December 2017 (date of incorporation) to 31 December 2018.

PRINCIPAL ACTIVITIES

The Company is a public limited liability company incorporated under the Companies Act, 2016 on 15 December 2017 and domiciled in Malaysia. It commenced its principal activity of underwriting of all classes of general takaful business on 1 June 2018 following the transfer of the general takaful business from Zurich Takaful Malaysia Berhad to the Company pursuant to a Business Transfer Scheme ("Business Transfer") approved and confirmed by the High Court of Malaya in accordance with Islamic Financial Services Act 2013 ("IFSA") on 27 April 2018. Details of the business transfer are as disclosed in Note 3 to the financial statements.

Other than as disclosed above, there has been no significant change in the nature of this principal activity during the financial period.

FINANCIAL RESULTS

Net profit for the financial period

RM'000

15,561

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period other than as disclosed in the financial statements.

In the opinion of the Directors, the results of the operations of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

No dividend was declared or paid by the Company during the financial period. The Directors do not recommend the payment of any dividend for the current financial period.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SHARE CAPITAL

The Company was incorporated with a share capital of RM2.00 being 2 ordinary shares. The Company increased its share capital to RM259,000,002 by the allotment of 259,000,000 new ordinary shares as at 31 December 2018.

The ordinary shares were issued and fully paid by cash as follows:

Date	Share capital RM
15 December 2017	2
7 May 2018	152,000,000
1 June 2018	73,000,000
18 October 2018	34,000,000
	<u>259,000,002</u>

DIRECTORS OF THE COMPANY

Directors who served since the date of incorporation and appointed during the year to date of this report:

Name of Directors

Nabil Nazih El-Hage
(appointed on 1 June 2018)
David Jerry Fike
(First Director[^])
Wan Zamri bin Wan Zain
(First Director)
(resigned on 24 May 2018)
Dr Md Khalil bin Ruslan
(appointed on 15 March 2018)
Onn Kien Hoe
(appointed on 1 June 2018)
Dr Mohd Nordin bin Mohd Zain
(appointed on 1 June 2018)

Designation

Chairman, Independent Non-Executive Director

Executive Director

Independent Non-Executive Director

Independent Non-Executive Director

Independent Non-Executive Director

Independent Non-Executive Director

[^]appointment took effect on 1 June 2018 subsequent to approval from BNM on 30 May 2018

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

Since the date of incorporation, no Director of the Company has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as disclosed in Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with a Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

During and at the end of the financial period, no arrangement subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

INDEMNITY AND INSURANCE COST

The Company through its ultimate holding corporation, Zurich Insurance Group Ltd. ("ZIGL"), has maintained a Directors' and Officers' Liability Insurance ("Group's D&O Insurance") on a group basis up to an aggregate limit of USD350 million against any legal liability incurred by the Directors and Officers in the discharge of their duties while holding office in the Company. The Company has also placed a Directors' and Officers' Liability Insurance with a local insurer up to the deductible amount under the Group's D&O Insurance. The Directors and Officers shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

The total amount paid and payable for indemnity insurance effected for the Directors of the Company for the financial period amounts to RM5,450.

There were no indemnity given to, or insurance effected for auditors of the Company during the financial period.

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, the interests of a Director who held office at the end of the financial period in shares in the ultimate holding company is as follows:

	Number of ordinary shares of CHF0.10 each			
	At date of incorporation	Target Share Vested /Acquired	Disposed	At 31.12.2018
<u>Shares in Zurich Insurance Group Ltd.</u>				
Direct interest:				
David Jerry Fike	453	837	(338)	952

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS (CONTINUED)

	Number of deferred restricted/performance share units				
	At date of incorporation	Granted/ reinvested dividends	Vested	Cancelled	At 31.12.2018
<u>Units in Zurich Insurance Group Ltd.</u>					
Direct interest:					
David Jerry Fike	2,870	1,117	(837)	(129)	3,021

ZIGL, the ultimate holding corporation of the Company, has designed a Group Long Term Incentive Plan ("the Plan") for the Group's most senior executives for the accomplishment of key Group performance measures. Participants are granted performance-based target shares under the Plan with the vesting of these target grants subject to specific performance achievements over a three-year period.

Other than as disclosed above, no other directors in office at the end of the financial period held any interests in shares in the Company or its related corporations during the financial period.

By virtue of the above director's interests in the shares of the ultimate holding company, the said director is deemed to have an interest in the shares of the Company to the extent that the immediate holding company and the ultimate holding company have interest.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 23 to the financial statements.

OTHER STATUTORY INFORMATION

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

- (i) the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
- (ii) the values attributed to the current assets in the financial statements of the Company misleading.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION (CONTINUED)

- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Company which has arisen since the end of the financial period which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial period.
- (f) In the opinion of the Directors:
 - (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial period which will or may affect the ability of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period in which this report is made, other than subsequent event as disclosed in Note 39 to the financial statements.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from contracts of takaful underwritten in the ordinary course of business of the Company.

- (g) Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its takaful liabilities in accordance with the valuation methods specified Part D of the Risk-Based Capital ("RBC") Framework for Takaful Operators issued by BNM.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 23 to the financial statements.

IMMEDIATE, PENULTIMATE AND ULTIMATE HOLDING COMPANIES

The Directors regard Zurich Holdings Malaysia Berhad, a company incorporated in Malaysia, as the immediate holding company of the Company. The penultimate holding and ultimate holding corporations are Zurich Insurance Company Ltd. and Zurich Insurance Group Ltd., respectively. Both companies are incorporated in Switzerland.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 25 March 2019. Signed on behalf of the Board of the Directors:



DAVID JERRY FIKE
DIRECTOR

Kuala Lumpur
25 March 2019



ONN KIEN HOE
DIRECTOR

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016

We, David Jerry Fike and Onn Kien Hoe, two of the Directors of Zurich General Takaful Malaysia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 30 to 103 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and the cash flows for the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2019.



DAVID JERRY FIKE
DIRECTOR


ONN KIEN HOE
DIRECTOR

Kuala Lumpur

STATUTORY DECLARATION

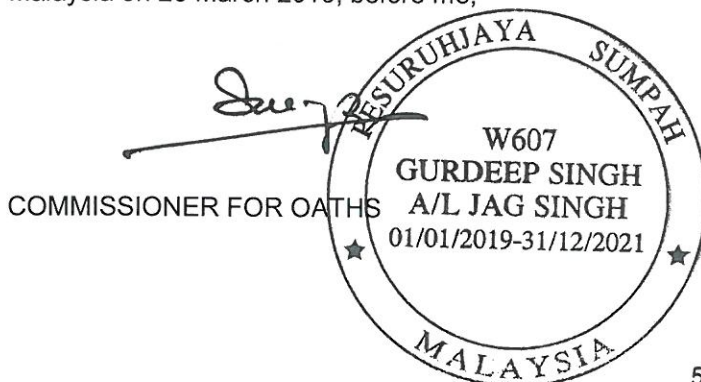
PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016

I, Zuhairi bin Ismail, being the officer primarily responsible for the financial management of Zurich General Takaful Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 30 to 103 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



ZUHAIRI BIN ISMAIL

Subscribed and solemnly declared by the above named Zuhairi bin Ismail at Kuala Lumpur in Malaysia on 25 March 2019, before me,



5B, JALAN RAKYAT
(JALAN TRAVERS)
BRICKFIELDS
50470 KUALA LUMPUR

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

SHARIAH COMMITTEE REPORT

In the name of Allah, the Beneficent, the Merciful

In carrying out the roles and the responsibilities of the ZGTMB's Shariah Committee ("SC") as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia ("BNM") and in compliance with our letter of appointment, we hereby submit our report for the financial period from 15 December 2017 (date of incorporation) to 31 December 2018.

The Management of the Company is responsible to ensure that its conduct of businesses, dealing and activities are in accordance with the Shariah rules, principles and resolution made by the relevant Shariah authorities. Therefore, it is our responsibility to institute an independent opinion based on our review on the conduct and businesses entered by the Company to produce this report.

We had three (3) seating of scheduled meetings and one (1) special meeting during the financial period commencing the establishment of the Company on 15 December 2017 in which we reviewed inter alia products, transactions, services, processes and documents of the Company.

In carrying out our roles and responsibilities, we have obtained all the relevant information and explanations which we consider necessary in order to provide us with fair evidences to give reasonable assurance that the Company has complied with the Shariah rules and principles.

At the management level, the Head of Shariah who reports to us oversees the conduct and effectiveness of the internal Shariah compliance functions i.e. Shariah Advisory, Research and Training and Shariah Review which is further substantiated by Shariah Risk which resides in the Risk Management Department and Shariah Audit that resides in the Internal Audit Department. The roles of these functions are facilitating new research and product development activities, refining existing products and procedures, providing Shariah training, managing Shariah non-compliance risks, conducting Shariah audit and review on departments and/or branches and coordinating with us on any matter that requires our decision.

The following are the major developments that took place during the financial period which comes under our purview:

Shariah Governance

We have approved in our meetings, initiatives in strengthening the Shariah governance of the Company which include the review and update of the Shariah Non-Compliance Event Reporting Guideline, Shariah Framework, Takaful Operational Model, Shariah Charter and Purification Policy that aim, among others, to improve and strengthen the Shariah governance and compliance culture within Zurich Holdings Malaysia Berhad ("ZHMB")'s group of companies via the online learning module (e-learning) on "Takaful 101" which has been launched in December 2018 that was made compulsory to all staff of Zurich Holdings Malaysia Berhad ("ZHMB")'s group of companies.

Shariah Non-Compliance Reporting

Throughout the financial period there was no shariah non-compliance event recorded.

Shariah Review

The Shariah Review function plays a vital role in achieving the objective of ensuring Shariah compliance of the Company by regularly conducting review on the reviewable areas as instructed by us. The exercise as such is to validate the compliance of business activities with Shariah rules and principles in relation to such activities.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

SHARIAH COMMITTEE REPORT (CONTINUED)

Shariah Review (continued)

Shariah Review plan for the financial period were reviewed and approved by us for their implementation. During the period, this continuous review was focusing on Post Implementation Review ("PIR") and the scope of review was to ensure the integration process between the conventional and the takaful businesses are in line with Shariah. The reports were deliberated in our meetings to confirm that the Company has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for investment related matters) as well as our decisions.

Shariah Audit

The Internal Audit function performs independent assessments on the Company's activities and internal control environment, governance processes as well as overall compliance with Shariah. Shariah Audit develops an annual audit plan and scope, and examines on a test basis, the relevant type of transactions, documentations and procedures adopted by the Company. The Shariah audit reports were deliberated in our meetings to assess the Company compliance with the rulings issued by the Shariah Advisory Council ("SAC") of BNM and our decisions.

Business Zakat and Purification

During the financial period, the company has done their responsibility to manage zakat as guided by the Zakat Policy that was approved by us.

We had also reviewed the financial statement of the Company and confirmed that the financial statement is in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Company during the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 that were reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to investment of risk fund account conformed to the basis that has been approved by us in accordance with Shariah principles;
3. The computation of business zakat are in compliance with the Shariah rules and principles; and
4. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles have been considered for disposal to charitable causes.

On that note, we, Assoc. Prof. Dr. Md Khalil Ruslan and Dr. Luqman Haji Abdullah, being two of the members of Shariah Committee of Zurich General Takaful Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Company for the financial period from 15 December 2017 (date of incorporation) to 31 December 2018 have been conducted in conformity with the Shariah rules and principles.

Allah knows best.

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Shariah Committee's Report (continued)

On behalf of the Committee:

Chairman of the Shariah Committee

:


ASSOC. PROF. DR. MD KHALIL RUSLAN

Shariah Committee

:


DR. LUQMAN HAJI ABDULLAH

Kuala Lumpur
25 March 2019



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL TAKAFUL MALAYSIA BERHAD**
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Zurich General Takaful Malaysia Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of the financial performance and the cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statements of cash flows of the Company for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 30 to 103.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my*

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL TAKAFUL MALAYSIA BERHAD
(CONTINUED)**
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL TAKAFUL MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH GENERAL TAKAFUL MALAYSIA BERHAD
(CONTINUED)
(Incorporated in Malaysia)
(Company No. 1249516 V)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers PLT'.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Shirley Goh'.

SHIRLEY GOH
(No. 1778/08/2020 (J))
Chartered Accountant

Kuala Lumpur
25 March 2019

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

				2018
		Takaful Operator	General Takaful Fund	Company
ASSETS	Note	RM'000	RM'000	RM'000
Property, plant and equipment	5	1,035	-	1,035
Intangible assets	6	20,475	-	20,475
Investments	7	78,297	248,229	326,526
Takaful receivables	8	-	43,926	43,926
Retakaful assets	9	-	139,413	139,413
Other receivables	10	37,710	1,720	2,032
Current tax assets		-	752	752
Deferred tax assets	16	1,439	3,289	4,728
Cash and cash equivalents	11	180,576	184,723	365,299
TOTAL ASSETS		319,532	622,052	904,186
LIABILITIES				
Takaful contract liabilities	12	-	510,640	510,640
Takaful payables	13	-	45,316	45,316
Other payables	14	31,034	66,096	59,732
Expense liabilities	15	14,609	-	14,609
Current tax liabilities		1,681	-	1,681
TOTAL LIABILITIES		47,324	622,052	631,978
SHAREHOLDERS' EQUITY				
Share capital	17	259,000	-	259,000
Retained earnings	18(a)	13,125	-	13,125
Available-for-sale reserve	18(b)	83	-	83
		272,208	-	272,208
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		319,532	622,052	904,186

The accompanying notes form an integral part of these financial statements.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL PERIOD FROM 15 DECEMBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

		2018		
		Takaful Operator	General Takaful Fund	Company
	Note	RM'000	RM'000	RM'000
Gross earned contributions	19	-	401,749	401,749
Contribution ceded to retakaful operators	19	-	(62,717)	(62,717)
Net earned contributions	19	-	339,032	339,032
Wakalah fee income		136,361	-	-
Surplus sharing from general takaful fund		4,240	-	-
Investment income	20	7,514	9,131	16,645
Realised gain		-	112	112
Fee and commission income	21	-	8,598	8,598
Other operating income – net		-	1,301	1,301
Other income		148,115	19,142	26,656
Total revenue		148,115	358,174	365,688
Gross benefits and claims paid	22	-	(204,070)	(204,070)
Claims ceded to retakaful operators	22	-	59,328	59,328
Gross change to contract liabilities	22	-	(26,583)	(26,583)
Change in contract liabilities ceded to retakaful operators	22	-	(44,597)	(44,597)
Net benefits and claims		-	(215,922)	(215,922)
Wakalah fee expenses		-	(136,361)	-
Fee and commission expenses	21	(51,694)	-	(51,694)
Management expenses	23	(73,908)	-	(73,908)
Expense liabilities		(3,156)	-	(3,156)
Other operating expenses		(645)	-	(645)
Other expenses		(129,403)	(136,361)	(129,403)
Total underwriting surplus from operations		18,712	5,891	20,363

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS FOR THE FINANCIAL PERIOD FROM 15 DECEMBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018 (CONTINUED)

				2018
		Takaful Operator	General Takaful Fund	Company
	Note	RM'000	RM'000	RM'000
Surplus attributable to participants			(4,240)	(4,240)
Surplus attributable to Takaful Operator		-	(4,240)	-
Zakat		-	-	-
Profit before taxation		18,712	(2,589)	16,123
Taxation	24	(3,151)	2,589	(562)
Net profit for the financial period		15,561	-	15,561

The accompanying notes form an integral part of these financial statements.

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 15 DECEMBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

		2018	
		General	
		Takaful	Company
		Fund	
Note	RM'000	RM'000	RM'000
Net profit for the financial period	15,561	-	15,561
Other comprehensive income:			
<u>Items that may be subsequently reclassified to profit or loss:</u>			
Fair value change on available-for-sale financial assets:			
- Gross fair value change arising during the financial period		109	109
- Gross fair value transferred to statement of profit or loss		-	-
- Deferred tax	16	(26)	(26)
Gross fair value changes, net of tax		83	83
Total comprehensive income for the financial period		15,644	15,644

The accompanying notes form an integral part of these financial statements.

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2018

	Issued and fully paid ordinary shares	Non- distributable Available- for-sale reserve	Distributable Retained earnings	Total
	Share capital			
	RM'000	RM'000	RM'000	RM'000
At date of incorporation	*	-	-	*
Issuance of shares during the financial period (Note 17)	259,000	-	-	259,000
Net profit for the financial period	-	-	15,561	15,561
Reorganisation reserve #	-	-	(2,436)	(2,436)
Other comprehensive income for the financial period	-	83	-	83
At 31 December 2018	259,000	83	13,125	272,208

* Represents 2 ordinary shares.

Reorganisation reserve represents the difference in net assets and liabilities acquired at the beginning of the financial period and the consideration paid.

The accompanying notes form an integral part of these financial statements.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD
FROM 15 DECEMBER 2017 (DATE OF INCORPORATION) TO 31 DECEMBER
2018**

	Note	2018 RM'000
OPERATING ACTIVITIES		
Cash utilised in operating activities	27	99,246
Investment income received		16,121
Income tax paid		(3,545)
Net cash outflows from operating activities		111,822
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	5	(567)
Purchase of intangible assets	6	(20,000)
Net cash outflows from investing activities		(20,567)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	17	259,000
Repayment of subordinated obligation		(73,000)
Reorganisation reserve		(2,436)
Net cash inflows from financing activities		183,564
Net increase in cash and cash equivalents		274,819
Cash and cash equivalents at the beginning of the financial period		*
Cash and cash equivalents arising from Business Transfer	3	40,647
Cash and cash equivalents arising from General Takaful Portfolio Acquisition	37	49,833
Cash and cash equivalents at the end of the financial period		365,299
Cash and cash equivalents comprise:		
Cash and bank balances		212,387
Fixed deposits with licensed financial institution with maturities less than 3 months		152,912
		365,299

* Represents RM2

The accompanying notes form an integral part of these financial statements.

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 December 2018

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is a public limited liability company incorporated under the Companies Act, 2016 on 15 December 2017 and domiciled in Malaysia. It commenced its principal activity of underwriting of all classes of general takaful business on 1 June 2018 following the transfer of the general takaful business from Zurich Takaful Malaysia Berhad to the Company pursuant to a Business Transfer Scheme ("Business Transfer") approved and confirmed by the High Court of Malaya in accordance with Islamic Financial Services Act 2013 ("IFSA") on 27 April 2018. Details of the business transfer are as disclosed in Note 3 to the financial statements.

Other than as disclosed above, there has been no significant change in the nature of this principal activity during the financial period.

The registered office and principal place of business of the Company are as follows:

Registered office

Level 25, Mercu 3,
No. 3, Jalan Bangsar, KL Eco City,
59200 Kuala Lumpur.

Principal place of business

Level 26 - 28, Mercu 3,
No. 3, Jalan Bangsar, KL Eco City,
59200 Kuala Lumpur.

The Directors regard Zurich Holdings Malaysia Berhad as the immediate holding company, a company incorporated and domiciled in Malaysia. The penultimate holding and ultimate holding companies are Zurich Insurance Company Ltd. and Zurich Insurance Group Ltd., respectively. Both companies are incorporated in Switzerland.

Zurich Insurance Group Ltd. is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 25 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

2.1 Basis of preparation

The financial statements of the Company has been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and comply with the requirements of the Companies Act, 2016 in Malaysia.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)**

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework for Takaful Operators (“the RBCT Framework”) as at the date of the statement of financial position.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires the Directors to exercise their judgement in the process of applying the Company’s accounting policies. Although these estimates and judgement are based on the Directors’ best knowledge of current events and actions, actual results may differ from estimates.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

Financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All the values in these financial statements have been rounded to the nearest thousand (RM’000), except when indicated otherwise.

(a) Standards, amendments to published standards and interpretations

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company’s financial period beginning on 1 January 2018 are as follows:

- Amendments to MFRS 140 “Classification on ‘Change in Use’” – Assets transferred to, or from, Investment Properties” clarify that to transfer to, or from investment properties there must be a change in use. A change in use would involve an assessment of whether a property meets, or has ceased to meet, the definition of investment property. The change must be supported by evidence that the change in use has occurred and a change in management’s intention in isolation is not sufficient to support a transfer of property.

The amendments also clarify the same principle applies to assets under construction.

- IC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the “date of the transaction” to record foreign currency transactions.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective the Company (continued)

IC Interpretation 22 provides guidance how to determine “the date of transaction” when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

- MFRS 9 “Financial Instruments” will replace MFRS 139 “Financial Instruments: Recognition and Measurement”.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classification depends on the entity’s business model and the cash flows characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and profit.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

- for financial liabilities classified as fair value through profit or loss (“FVTPL”), the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss; and
- when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective profit rate, should be recognised immediately in profit or loss.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company (continued)

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

- Amendments to MFRS 4 - Applying MFRS 9 “Financial Instruments” with MFRS 4 “Insurance Contracts”.

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4, the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide 2 different approaches for entities:

- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach.

Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

Based on the analysis performed, the Company was eligible to apply the temporary exemption as the predominance ratio reflecting the share of liabilities connected to insurance to total liabilities exceeded 90 percent. No reassessment of eligibility was required during subsequent annual periods up to and including 2018 as there is no significant change in the activities performed by the Company. Due to the strong interaction between underlying assets held and the measurement of insurance contracts, the Company decided to use the option to defer the full implementation of MFRS 9 until MFRS 17 “Insurance Contracts” becomes effective on 1 January 2021.

For further information on the effects from MFRS 9, Note 38 shows the fair value and carrying value of financial assets separately between financial assets with contractual cash flows that are solely payments of principal and interest (“SPPI”) and other financial assets.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

(i) Standards, amendments to published standards and interpretations to existing standards that are applicable and effective to the Company (continued)

- MFRS 15 “Revenue from Contracts with Customers” replaces MFRS 118 “Revenue” and MFRS 111 “Construction Contracts” and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

A new five-step process is applied before revenue can be recognised:

- identify contracts with customers;
- identify the separate performance obligations;
- determine the transaction price of the contract;
- allocate the transaction price to each of the separate performance obligations; and
- recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

MFRS 15 does not apply to revenues relating to insurance/ takaful contracts, lease contracts and financial instruments. Based on the analysis performed by the Company, there is no material impact on the Company’s financial position or performance.

Other than that, the adoption of these amendments did not have any impact on the current period and is not likely to affect future periods.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

(a) Effective from financial year beginning on or after 1 January 2019

- IC Interpretation 23 “Uncertainty over Income Tax Treatments” provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

- MFRS 16 “Leases” supersedes MFRS 117 “Leases” and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 “Property, Plant and Equipment” and the lease liability is accreted over time with profit expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(a) Effective from financial year beginning on or after 1 January 2019 (continued)

MFRS 16 will have an impact on the accounting for contracts where the Company acts as a lessee (and intermediate lessor), especially on real estate rental contracts, resulting in recognition of almost all leases on the statement of financial position. The Company will apply the modified retrospective approach for transition to MFRS 16 and make use of the optional exemption for short-term leases and leases of low-value assets. Based on the volume of in-force non-cancellable operating leases as at 31 December 2018 (see Note 28), the recognition of a right-of-use asset and a corresponding discounted lease liability under MFRS 16 would result in an increase of both assets and liabilities of approximately RM6 million. Going forward, the finance expense from the lease liability will have a front-loaded effect, whereas the depreciation of the right-of-use asset is typically recognised on the straight-line basis. No material impact is expected in the statement of profit or loss.

- Amendments to MFRS 9 “Prepayment features with negative compensation” allow companies to measure some pre-payable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and profit. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a “held to collect” business model.

The amendments will be applied retrospectively.

- Annual Improvements to MFRSs 2015 – 2017 Cycle:
Amendments to MFRS 112 “Income Taxes” clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)****(a) Standards, amendments to published standards and interpretations (continued)**

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2021

- MFRS 17 “Insurance Contracts” replaces MFRS 4 “Insurance Contracts”.

MFRS 17 applies to insurance/ takaful contracts issued, to all reinsurance/ retakaful contracts and to investment contracts with discretionary participating features if an entity also issues insurance/ takaful contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 “Revenue from Contracts with Customers”. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance/ takaful contracts. Insurance/ takaful contracts, (other than reinsurance/ retakaful) where the entity is the policyholder/ participant are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be “unbundled” and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components are prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance/ takaful coverage:

- Simplified Premium Allocation Approach if the insurance/ takaful coverage period is a year or less; and
- Variable Fee Approach should be applied for insurance/ takaful contracts that specify a link between payments to the policyholders/participants and the returns on the underlying items.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations (continued)

- (ii) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

(b) Effective from financial year beginning on or after 1 January 2021 (continued)

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

Insurers/ Takaful operators are required to disclose information about amounts, judgements and risks arising from insurance/ takaful contracts.

The Company plans to adopt the new standard on the required effective date. The Company started a gap analysis project for the evaluation of the key gaps arising from MFRS 17. The Company expects that the new standard will result in changes to the accounting policies for takaful contract liabilities of the Company and is likely to have a significant impact on its financial position, results and equity, together with significant changes to presentation and disclosure.

In 2019, the focus will be on finalising the implementation efforts, analysing the effects from MFRS 17 on the financial statements.

Other than MFRS 9, MFRS 16 and MFRS 17, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 January 2019 are not relevant to the Company.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies****(a) Capital reorganisation**

Where a newly incorporated entity which does not meet the definition of a business is set up to effect a transfer of business from another entity under common control, such acquisition does not meet the definition of a business combination in accordance with MFRS 3 "Business Combinations".

The transfer of the general takaful business from Zurich Takaful Malaysia Berhad to the Company that is ultimately controlled by the same party has no economic substance. Therefore, this transfer is accounted for as a capital reorganisation in the financial statements of the Company. Accordingly, the business transfer has been accounted for as if it has existed in the Company since the beginning of the financial period. The assets and liabilities of the general takaful business are incorporated at their pre-combination carrying amounts without any fair value changes.

The difference between net assets and liabilities acquired at the beginning of the financial period and the consideration paid is accounted for as a reorganisation reserve.

(b) Property, plant and equipment and depreciation

Property, plant and equipment are initially stated at cost. These include expenditures that are directly attributed to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives. The expected useful lives of the assets are as follows:

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(b) Property, plant and equipment and depreciation (continued)**

Computer hardware	5 years
Motor vehicles	5 to 10 years

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(j) to the financial statements on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to profit or loss.

(c) Intangible assetsComputer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring in use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software systems controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and appropriate portion of relevant overheads to prepare the asset for its intended use.

Computer software costs recognised as assets are amortised using the straight line method over their estimated useful lives for three to five years, with the useful lives being reviewed annually.

Computer software under development is tested for impairment annually.

Other intangible asset

Other intangible asset is in relation to customer relationship acquired through the acquisition of general takaful portfolio from a third party. This asset is measured at cost less any accumulated amortisation and any impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 15 years.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(d) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(i) Accounting by lessee

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on the straight line basis over the lease period.

(e) Investments and other financial assets

The Company classifies its financial assets into the following categories: financial assets measured at fair value through profit or loss ("FVTPL"), financing receivables and available-for-sale ("AFS") financial assets.

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

(i) Financial assets measured at FVTPL

The Company classifies investments acquired for the purpose of selling in the short-term as held-for-trading, as FVTPL. Derivatives are also classified as held-for-trading unless they are designated as hedges.

These investments are initially recorded at fair value and transaction costs are expensed in profit or loss. Subsequent to initial recognition, these assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in profit or loss.

(ii) Financing receivables

Financing receivables category comprises debt instruments that are not quoted in an active market (including fixed deposits with licensed Islamic financial institutions with maturities more than 3 months).

Financial assets categorised as financing receivables are subsequently measured at amortised cost using the effective profit method.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(e) Investments and other financial assets (continued)****(iii) AFS financial assets**

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These investments are initially recognised at fair value. After initial measurement, AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired.

Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and other changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in profit or loss; translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity until the investment is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred through the statement of comprehensive income to profit or loss.

(f) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published (closing) price on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published (closing) price on the date of the statement of financial position.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(f) Fair value of financial instruments (continued)**

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued profit. The fair value of fixed profit/yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instrument or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(g) Recognition of financial assets

All regular way of purchases and sales of financial assets are recognised on trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention of market price.

(h) Financial instrument - Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred, and the Company has also transferred substantially all risks and rewards of ownership. On decognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that was recognised in other comprehensive income is reclassified to the profit or loss.

(i) Impairment of financial assets

The Company assesses at each date of the statement of financial position, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(i) Impairment of financial assets (continued)****(i) Financial assets carried at amortised cost (continued)**

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at date of the statement of financial position.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial assets

In the case of equity investments classified as AFS, a significant or prolonged decline in the fair value of the financial asset below its cost is an objective evidence of impairment, resulting in the recognition of an impairment loss.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the profit or loss, is transferred from equity through the statement of comprehensive income to the profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through the profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(j) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the profit or loss immediately. A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the profit or loss immediately.

(k) Takaful receivables

Takaful receivables are recognised when due and measured at initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognise that impairment loss in the profit or loss. The Company gathers objective evidence that a takaful receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2(i) to the financial statements.

Takaful receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(h) to the financial statements, have been met.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with financial institutions with original maturity of three months or less that are readily convertible to a known amounts of cash and which are subject to an insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(m) Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one of more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(n) Provisions

Provisions are recognised when the Company has a present obligation, either legal or constructive, as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost expense.

(o) Other financial liabilities and takaful payable

Other financial liabilities and takaful payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

A financial liability and a takaful payable are derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(p) Equity instruments**Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Ordinary shares are recorded at nominal value.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid. No provision is made for a proposed dividend.

(q) Takaful product classification

A takaful contract is an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund (General Risk Fund) providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events.

Contracts where insignificant takaful risks are accepted by the Funds are classified as service contracts. The Company defines Takaful risk to be significant by comparing benefits paid with benefits payable if the takaful event did not occur. Based on this definition, all Takaful contracts issued by the Company met the definition of Takaful contracts as at the date of this statement of financial position.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its lifetime, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

(r) General Takaful Fund

The General Takaful Fund is maintained in accordance with the requirements of Islamic Financial Service Act 2013 ("IFSA") and consists of accumulated surplus/deficit and contract liabilities. Any deficit in the General Takaful Fund will be made good by the Takaful Operator via a benevolent loan or Qard. Surplus distributable in each financial year is distributed in accordance with the terms and conditions prescribed by the surplus distribution policy, endorsed by the Shariah Committee and the Board of Directors.

The General Takaful underwriting results are determined for each class of business after taking into account retakaful, contribution liabilities, claims liabilities and wakalah fees.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(r) General Takaful Fund (continued)**Contribution income

Contribution for direct and co-takaful business is recognised in respect of risks assumed during the particular financial year as soon as the amount can be reliably measured, based on issuance of certificates, and in accordance with the principles of Shariah as advised by the Company's Shariah Committee. Contributions in respect of risks incepted before the reporting date for which certificates are issued subsequent to the end of reporting date are accrued for at the reporting date.

Inward retakaful contributions are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

Outward retakaful contributions are recognised in the same financial year as the original certificate to which the retakaful relates.

Takaful contract liabilities recognition

Takaful Fund's contract liabilities consist of claim liabilities and contribution liabilities are recognised when contracts are entered into and contributions are charged.

(a) Claim liabilities

A liability for outstanding claims is recognised in respect of direct takaful business and co-takaful business. The claim liabilities are the best estimate together with related provision of risk margin for adverse deviation as well as expenses less retakaful recoveries, if any, to settle the present contractual obligations at the reporting date.

Provision for outstanding claims is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate claim costs cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and actuarial assumptions. The liability is not discounted for the time value of money and is derecognised when the contract expired, discharged or cancelled.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(r) General Takaful Fund (continued)****(a) Claim liabilities (continued)**

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions. However, these uncertainties are partly addressed by holding the claim liabilities at 75% confidence level as per required by Bank Negara Malaysia ("BNM") Guidelines on Valuation Basis for Liabilities of General Takaful Business.

(b) Contribution liabilities

The unearned contribution reserves ("UCR") represent contributions received after wakalah fee deduction for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised in statement of profit or loss of the General Takaful Fund.

Contribution liabilities refer to the higher of:-

- I. the aggregate of the Unearned Contribution Reserves ("UCR"); or
- II. the best estimate value of the Operator's Unexpired Risk Reserves ("URR") at the valuation date and the Provision of Risk Margin Deviation ("PRAD") and calculated at the overall fund level.

UCR represents the portion of the contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial period.

In determining the UCR at the date of the statement of financial position, the method that most accurately reflects the actual unearned contribution is used, as follows:

- 25% method for marine cargo, aviation cargo, and transit business; and
- 1/365th method for all other classes of direct and facultative inwards business with a further reduction for wakalah fee expenses to reflect the Wakalah business principle

At each reporting date, the Company assesses whether the UCR is sufficient to cover all expected future cash flows relating to future claims plus the additional risk margin against current takaful contracts. The Company applies a risk margin to achieve the same probability of sufficiency of future claims as is achieved by the estimate of the outstanding claim liability.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(s) Retakaful**

The Company cedes Takaful risk in the normal course of business for all of their businesses. Retakaful assets represent balances due from retakaful companies. Amounts recoverable from retakaful are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful operator's policies and are in accordance with the related retakaful contracts.

Ceded retakaful arrangements do not relieve the Company from their obligations to participants. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

Retakaful assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the retakaful asset that the Company may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the retakaful operators. The impairment loss is recorded in the profit or loss.

The Company also assume retakaful risk in the normal course of business for general takaful contracts when applicable.

Contributions and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the retakaful business. Retakaful liabilities represent balances due to retakaful operator. Amounts payable are estimated in a manner consistent with the related retakaful contract.

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified contributions or fees to be retained by the takaful fund. Investment income on these contracts is accounted for using the effective yield method when accrued.

(t) Expense Liability

The expense liability of the Takaful Operator's fund consists of expense liability of the General Takaful Fund which is based on estimations performed by a qualified actuary. The expense liability is released over the term of the Takaful certificate and recognised in the profit or loss.

The expenses liability is reported at the higher of the aggregate of Unearned Wakalah Fee ("UWF") and Unexpired Expense Risk ("UER") together with related provision of risk margin for adverse deviation as at the end of the financial period.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(t) Expense Liability (continued)**Unearned Wakalah Fee ("UWF")

The UWF reserves represent the portion of wakalah fee income allocated for management expenses of General Takaful certificates that relate to the unexpired periods of certificates at the end of the financial year. The method used in computing UWF is consistent with the calculation of UCR.

Unexpired Expense Risk ("UER")

The UER reserve is the estimated expenses costs to service all in-force certificates as well as to process all outstanding claims and future incurred losses as at valuation date. In estimating the UER, each selected ratio is applied on the corresponding basis as follows:

- Unallocated adjustment expenses with respect to the claim liability;
- Unallocated adjustment expenses with respect to the UCR; and
- On-going certificate servicing cost arising from the unearned portion of the contribution collected.

The Company applies a risk margin to achieve the same probability of sufficiency of future claims as is achieved by the estimate of the outstanding claim liability.

(u) Wakalah Fee

The wakalah fee is defined as a fee arranged under wakalah contract where the Takaful Operator is entitled to receive fees for carrying out the authorised task that have been delegated to the Takaful Operator. The wakalah fee is an income to the Takaful Operator and is charged to the participant and correspondingly recognised as an expense in the respective funds' profit or loss. The fee can be a fixed amount or as a percentage ratio of the contribution or fund value. The manner of payment can be in one lump sum or in several payments. This is in accordance with the principal of wakalah as approved by the Shariah Committee and the fee is determined and agreed between the participant and the Takaful Operator at the time of entering into the contract.

Commission, acquisition costs and management expenses of the General Takaful Funds are borne by the Takaful Operator and included as a component of wakalah fee income.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(v) Commission and acquisition costs**

Commission and acquisition costs are borne by the Takaful Operator in the Company's profit or loss at an agreed percentage for each certificate underwritten. This is in accordance with the principles of wakalah as approved by the Shariah Committee and is as agreed between the participants and the Company.

Gross commission and agency expenses, which are costs directly incurred in securing contributions on takaful certificates, and income derived from retakaful companies in the course of ceding contributions to retakaful, are charged to profit or loss in the period in which they are incurred.

(w) Other revenue recognition

Investment income is recognised on a time proportion basis that takes into account the effective yield of the asset. Profits including the amount of amortisation of contribution and accretion of discount are recognised on a time proportion basis taking into account the principal outstanding and the effective date over the period to maturity, when it is determined that such income will accrue to the Company.

Dividend income is recognised in the profit or loss when the right to receive payment is established.

Gain or loss arising on disposals of investments are credited or charged to the profit or loss.

(x) Zakat

Zakat represents alms payable by the Company to comply with the principles of Shariah and as approved by the Shariah Committee of the Company. Zakat is only provided for when obligation exists at the reporting date.

(y) Income taxes

Tax expense for the financial period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is determined according to the tax laws enacted of the jurisdiction in which the Company operates and includes all taxes based upon taxable profit.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(y) Income taxes (continued)**

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided for in full, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(z) Employee benefits**Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial period in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions or variable contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to the employee services in the current and preceding financial period. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF").

Once the contributions have been paid, the Company has no further payment obligations.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**3. BUSINESS TRANSFER**

On 31 May 2018, the Minister of Finance, via BNM's letter granted a licence to the Company to commence general takaful business with effect from 1 June 2018 pursuant to a Business Transfer Scheme ("Business Transfer" or "the Scheme") which was approved and confirmed by the High Court of Malaya on 27 April 2018 in accordance with Part VII of the Islamic Financial Services Act 2013 ("IFSA").

The consideration for the transfer of the assets and liabilities of the general takaful business as at 1 June 2018 was RM1. The business transfer was accounted for as capital reorganisation as described in Note 2.2(a) of the financial statements. On 1 June 2018, Zurich Takaful Malaysia Berhad ("ZTMB") transferred the entire assets, liabilities and undertakings of its general takaful business to the Company under the Business Transfer Scheme pursuant to section 112(1) of the IFSA, as presented below. The financial position as at 1 January 2018 is presented below for information purpose as if the general takaful business has existed in the Company since the beginning of the financial period.

	As at 1.6.2018			As at 1.1.2018		
	Takaful Operator	General Takaful Fund	Company	Takaful Operator	General Takaful Fund	Company
ASSETS	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	1,055	-	1,055	369	-	369
Intangible assets	1,045	-	1,045	1,887	-	1,887
Financing receivables	-	1,687	1,687	74,184	321	74,505
AFS financial assets	-	155,175	155,175	-	159,692	159,692
Takaful receivables	-	36,074	36,074	-	45,916	45,916
Retakaful assets	-	168,669	168,669	-	188,794	188,794
Other receivables	-	441	441	12,208	3,530	12,771
Current tax assets	489	-	489	703	-	703
Deferred tax assets	-	2,165	2,165	-	2,434	2,434
Cash and cash equivalents	14,895	111,983	126,878	2,020	38,627	40,647
TOTAL ASSETS	17,484	476,194	493,678	91,371	439,314	527,718
LIABILITIES						
Takaful contract liabilities	-	430,633	430,633	-	390,834	390,834
Takaful payables	-	25,402	25,402	-	30,381	30,381
Other payables	12,727	18,131	30,858	14,702	15,785	27,520
Expense liabilities	4,757	-	4,757	3,669	-	3,669
Current tax liabilities	-	2,028	2,028	-	2,314	2,314
Subordinated obligation	-	-	-	73,000	-	73,000
TOTAL LIABILITIES	17,484	476,194	493,678	91,371	439,314	527,718

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

3. BUSINESS TRANSFER (CONTINUED)

Under the capital reorganisation basis of accounting, the financial results of the general takaful business are presented as if the general takaful business has existed in the Company since the beginning of the financial period (15 December 2017). Hence, the financial results of the general takaful business from the period from 15 December 2017 to 31 May 2018 before the transfer from ZTMB to the Company on 1 June 2018 are included in the Company's statement of profit or loss for the financial period from 15 December 2017 to 31 December 2018. For information and comparison purposes, the Company's statement of profit or loss for the period for 7 months from 1 June 2018 to 31 December 2018, the financial period from 15 December 2017 to 31 December 2018 and its corresponding 2017 comparative figures are presented below.

	1.6.2018 to 31.12.2018			15.12.2017 to 31.12.2018			1.1.2017 to 31.12.2017		
	General			General			General		
	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000
Gross earned contributions	-	258,873	258,873	-	401,749	401,749	-	283,585	283,585
Contribution ceded to retakaful operators	-	(28,161)	(28,161)	-	(62,717)	(62,717)	-	(135,095)	(135,095)
Net earned contributions		230,712	230,712		339,032	339,032		148,490	148,490
Wakalah fee income	89,016	-	-	136,361	-	-	84,194	-	-
Surplus sharing from general takaful fund	4,240	-	-	4,240	-	-	4,835	-	-
Investment income	6,439	5,638	12,077	7,514	9,131	16,645	1,228	7,255	8,483
Fee and commission income	-	3,581	3,581	-	8,598	8,598	-	23,787	23,787
Realised gains and losses	-	-	-	-	112	112	-	(216)	(216)
Other operating income – net	-	187	187	-	1,301	1,301	1	1,053	1,054
Other income	99,695	9,406	15,845	148,115	19,142	26,656	90,258	31,879	33,108
Total revenue	99,695	240,118	246,557	148,115	358,174	365,688	90,258	180,369	181,598

Company No.

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

3. BUSINESS TRANSFER (CONTINUED)

	1.6.2018 to 31.12.2018			15.12.2017 to 31.12.2018			1.1.2017 to 31.12.2017		
	General			General			General		
	Takaful Operator	Takaful Fund	Company	Takaful Operator	Takaful Fund	Company	Takaful Operator	Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross benefits and claims paid	-	(142,568)	(142,568)	-	(204,070)	(204,070)	-	(153,659)	(153,659)
Claims ceded to retakaful operators	-	33,748	33,748	-	59,328	59,328	-	91,462	91,462
Gross change to contract liabilities	-	(568)	(568)	-	(26,583)	(26,583)	-	23,501	23,051
Change in contract liabilities ceded to retakaful operators	-	(36,092)	(36,092)	-	(44,597)	(44,597)	-	(42,227)	(42,227)
Net claims	-	(145,480)	(145,480)	-	(215,922)	(215,922)	-	(81,373)	(81,373)
Wakalah fee expenses	-	(89,016)	-	-	(136,361)	-	-	(84,194)	-
Fee and commission expenses	(33,049)	-	(33,049)	(51,694)	-	(51,694)	(33,678)	-	(33,678)
Management expenses	(50,287)	-	(50,287)	(73,908)	-	(73,908)	(58,453)	-	(58,453)
Expense liabilities	(2,068)	-	(2,068)	(3,156)	-	(3,156)	295	-	295
Other operating expenses	-	-	-	(645)	-	(645)	(735)	(3,052)	(3,787)
Other expenses	(85,404)	(89,016)	(85,404)	(129,403)	(136,361)	(129,403)	(92,571)	(87,246)	(95,623)
Total underwriting surplus from operations	14,291	5,622	15,673	18,712	5,891	20,363	(2,313)	11,750	4,602

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ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

3. BUSINESS TRANSFER (CONTINUED)

	1.6.2018 to 31.12.2018			15.12.2017 to 31.12.2018			1.1.2017 to 31.12.2017		
	General			General			General		
	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Takaful Fund RM'000	Company RM'000
Surplus attributable to participants	-	(4,240)	(4,240)	-	(4,240)	(4,240)	-	(4,835)	(4,835)
Surplus attributable to Takaful Operator	-	(4,240)	-	-	(4,240)	-	-	(4,835)	-
Zakat	-	-	-	-	-	-	-	-	-
Profit before taxation	14,291	(2,858)	11,433	18,712	(2,589)	16,123	(2,313)	2,080	(233)
Taxation	(1,166)	2,858	1,692	(3,151)	2,589	(562)	(2,085)	(2,080)	(4,165)
Net profit for the financial period	13,125	-	13,125	15,561	-	15,561	(4,398)	-	(4,398)

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are outlined below.

(a) The ultimate liability arising from claims incurred under takaful contracts

The estimation of claims “Incurred But Not Reported” (“IBNR”) is subjected to a greater degree of uncertainty than the estimation of cost of notified claims to the Company. IBNR claims may not be apparent to the insured until many years after the event giving rise to the claim. The long-tailed classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR reserves. For the short-tailed classes, claims are generally typically reported soon after the claim event, and hence tend to display lower level of uncertainty.

The Company uses a variety of estimation techniques, generally based upon actuarial analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Due to the fact that the ultimate claims liability is dependent upon the outcome of future events, allowance is made with the following consideration:

- Changes in the Company’s processes which might accelerate or slow down the development claims, compared with the data from previous periods;
- Changes in the legislation environment;
- Changes in the mix of business;
- Impact of large losses;
- The attitudes of claimants towards settlement of their claims;
- The effects of social and economic inflation; and
- Medical and technological developments.

Large and/or significant weather-related events impacting each relevant business class are generally assessed separately (whenever it is deemed as appropriate), being measured on a case by case basis or projected separately in order to allow for the effect of the development and incidence of these claims.

Where possible the Company adopts multiple techniques to estimate the required level of liabilities. The final estimates were selected after due consideration was given to the strengths and weaknesses of the various techniques used and the information available at hand.

Liabilities are evaluated gross of any retakaful. A separate estimate is made of the amounts that will be recoverable based upon the gross liabilities.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(b) Assets arising from retakaful contracts**

Retakaful recoveries are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis so that the balance is reflective of the amounts that will ultimately be received.

(c) Actuarial assumptions and methods

The process for determining the value of outstanding claims liabilities including the cost of claims handling is described below.

The methods used to establish the ultimate cost of claims include the following:

- Projecting ultimate numbers of claims and multiplying by projected ultimate average cost;
- Projecting ultimate claim payments;
- Projecting ultimate incurred claim amounts; and
- Applying plan or forecast loss ratios to earned contributions.

Additional qualitative judgements are also used to assess the extent to which past trends may not apply in the future. Thus, there is uncertainty surrounding changes to these patterns from whatever cause and known facts of individual claims at hand.

Projected retakaful assets are derived using similar methods or applying net to gross ratios.

Projected payments are implicitly allowed for future inflation since any recent inflationary effects are likely to be incorporated in the Company's outstanding claims and hence reflected in the valuation process.

For the above reasons, a risk margin for adverse deviation ("PRAD") is added to the central estimate established above. The establishment of the risk margin takes into account the variability of the outcome of each line of business and the diversification benefit of writing a number of lines of business. In accordance with Bank Negara Malaysia's 'Risk-Based Capital Framework for Takaful Operators', the Company has established the level of risk margin to provide a probability of adequacy of 75%.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**5. PROPERTY, PLANT AND EQUIPMENT**

	Computer hardware	Motor vehicle	Total
	RM'000	RM'000	RM'000
Cost			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	1,269	-	1,269
Additions	190	377	567
Reclassification (Note 6)	580	-	580
Write-offs	(1,211)	-	(1,211)
At 31 December 2018	<u>828</u>	<u>377</u>	<u>1,205</u>
Accumulated depreciation			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	900	-	900
Charge for the financial period (Note 23)	449	32	481
Write-offs	(1,211)	-	(1,211)
At 31 December 2018	<u>138</u>	<u>32</u>	<u>170</u>
Net carrying amount			
At 31 December 2018	<u>690</u>	<u>345</u>	<u>1,035</u>

6. INTANGIBLE ASSETS

	Self- developed software	Other intangible asset	2018 Total
	RM'000	RM'000	RM'000
Cost			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	2,481	-	2,481
Additions	-	20,000	20,000
Reclassification (Note 5)	(580)	-	(580)
Write-offs	(15)	-	(15)
At 31 December 2018	<u>1,886</u>	<u>20,000</u>	<u>21,886</u>
Accumulated amortisation			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	594	-	594
Charge for the financial period (Note 23)	610	222	832
Write-offs	(15)	-	(15)
At 31 December 2018	<u>1,189</u>	<u>222</u>	<u>1,411</u>
Net carrying amount			
At 31 December 2018	<u>697</u>	<u>19,778</u>	<u>20,475</u>

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**6. INTANGIBLE ASSETS (CONTINUED)**

The self-developed software costs are in relation to internal development expenditure incurred for the software systems controlled by the Company that do not form an integral part of the hardware. These systems will generate economic benefits exceeding costs beyond one year.

Other intangible asset relates to the customer relationship arising from the acquisition of general takaful portfolio as disclosed in Note 37 to the financial statements. This asset is amortised over its useful life of 15 years using the straight-line method.

7. INVESTMENTS

The Company's investments are summarised by measurement categories as follows:

		Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>				
Financing receivables	(a)	-	1,500	1,500
Available-for-sale ("AFS") financial assets	(b)	78,297	246,729	325,026
		<u>78,297</u>	<u>248,229</u>	<u>326,526</u>
The following investments mature after 12 months:				
AFS financial assets		<u>73,222</u>	<u>204,837</u>	<u>278,059</u>

(a) Financing receivables

		Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>				
Amortised cost:				
Fixed deposit with licensed financial institutions		-	1,500	1,500
		<u>-</u>	<u>1,500</u>	<u>1,500</u>

As at 31 December 2018, the fixed deposit of RM1,500,000 has a maturity period of more than 3 months placed with a licensed Islamic bank.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**7. INVESTMENTS (CONTINUED)****(b) AFS financial assets**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>			
Fair value:			
Malaysian Government Securities/ Government Investment Issues	-	2,030	2,030
Islamic debt securities, unquoted	78,297	244,699	322,996
	<u>78,297</u>	<u>246,729</u>	<u>325,026</u>

The fair value hierarchy of investments is disclosed in Note 32 to the financial statements.

8. TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>		
Due contributions including agents/brokers and co-insurers	37,317	37,317
Due from retakaful and cedants	16,523	16,523
	<u>53,840</u>	<u>53,840</u>
Allowance for impairment	(9,914)	(9,914)
	<u>43,926</u>	<u>43,926</u>

The carrying amounts disclosed above approximate fair values at the date of the statement of financial position.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**9. RETAKAFUL ASSETS**

<u>At 31 December 2018</u>	General Takaful Fund RM'000	Company RM'000
Retakaful of takaful contracts		
Claims liabilities (Note 12(i))	127,431	127,431
Unearned contribution reserves (Note 12(ii))	11,982	11,982
	<u>139,413</u>	<u>139,413</u>

The carrying amounts approximate fair values at the date of the statement of financial position.

10. OTHER RECEIVABLES

<u>At 31 December 2018</u>	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Other receivables, deposits and prepayments	312	1,720	2,032
	<u>312</u>	<u>1,720</u>	<u>2,032</u>
Inter-fund balances			
Amount due from General Takaful Fund	33,158	-	-
Surplus receivable from General Takaful Fund	4,240	-	-
	<u>37,398</u>	<u>-</u>	<u>-</u>
	<u>37,710</u>	<u>1,720</u>	<u>2,032</u>

The carrying amounts approximate fair values at the date of the statement of financial position.

11. CASH AND CASH EQUIVALENTS

<u>At 31 December 2018</u>	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Cash and bank balances	57,664	154,723	212,387
Fixed deposits with licensed financial institutions with maturities of less than 3 months	122,912	30,000	152,912
	<u>180,576</u>	<u>184,723</u>	<u>365,299</u>

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**12. TAKAFUL CONTRACT LIABILITIES**

The Takaful contract liabilities and movements are further analysed as follows:

	Gross	Re- takaful	Net
<u>At 31 December 2018</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Provision for claims	209,534	(94,159)	115,375
Provision for incurred but not reported claims ("IBNR")	89,562	(20,029)	69,533
Provision for adverse deviation ("PRAD")	27,661	(13,243)	14,418
Claim liabilities (i)	326,757	(127,431)	199,326
Unearned contribution reserves (ii)	170,544	(11,982)	158,562
AFS fair value adjustment (iii)	404	-	404
Unallocated surplus (iv)	12,935	-	12,935
	<u>510,640</u>	<u>(139,413)</u>	<u>371,227</u>
<u>(i) Claims liabilities</u>			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	265,705	(158,941)	106,764
Arising from General Takaful Portfolio Acquisition (Note 37)	22,316	(14,017)	8,299
Claims incurred in the current period	240,127	(16,348)	223,779
Claims paid during the financial period (Note 22(a))	(204,070)	59,328	(144,742)
Movement in PRAD	2,679	2,547	5,226
At 31 December	<u>326,757</u>	<u>(127,431)</u>	<u>199,326</u>
<u>(ii) Unearned contribution reserves</u>			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	114,678	(29,853)	84,825
Arising from General Takaful Portfolio Acquisition (Note 37)	16,845	631	17,476
Contribution written in the financial period (Note 19(a))	440,770	(45,477)	395,293
Contribution earned during the financial period (Note 19(a))	(401,749)	62,717	(339,032)
At 31 December	<u>170,544</u>	<u>(11,982)</u>	<u>158,562</u>

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**12. TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

	Gross	Deferred tax	Net
	RM'000	RM'000	RM'000
<u>(iii) AFS reserve</u>			
Arising from Business Transfer (Note 3)	142	-	142
Fair value movements arising from AFS financial assets	262	-	262
At 31 December	<u>404</u>	<u>-</u>	<u>404</u>
	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000
<u>(iv) Unallocated surplus</u>			
Arising from Business Transfer (Note 3)	10,309	-	10,309
Arising from General Takaful Portfolio Acquisition (Note 37)	14,778	-	14,778
Deficit during the financial year	(3,672)	-	(3,672)
Surplus distributed during the year	(8,480)	-	(8,480)
At 31 December	<u>12,935</u>	<u>-</u>	<u>12,935</u>

13. TAKAFUL PAYABLES

	General Takaful Fund	Company
	RM'000	RM'000
<u>At 31 December 2018</u>		
Due to agents and intermediaries	23,107	23,107
Due to retakaful operators and cedants	22,209	22,209
	<u>45,316</u>	<u>45,316</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**14. OTHER PAYABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>			
Amount due to a related company	9,310	-	9,310
Deposits contribution	-	487	487
Accruals for staff costs	437	-	437
Other payables and accruals	21,287	28,211	49,498
	<u>31,034</u>	<u>28,698</u>	<u>59,732</u>
Inter-fund balances			
Amount due to Takaful Operator	-	33,158	-
Surplus payable to Takaful Operator	-	4,240	-
	<u>-</u>	<u>37,398</u>	<u>-</u>
	<u>31,034</u>	<u>66,096</u>	<u>59,732</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

15. EXPENSE LIABILITIES

	General Takaful Fund RM'000	Company RM'000
Arising from Business Transfer (Note 3)	3,669	3,669
Arising from General Takaful Portfolio Acquisition (Note 37)	7,775	7,775
Expense incurred during the financial period	3,165	3,165
At 31 December	<u>14,609</u>	<u>14,609</u>

At the end of the financial year, the Company's reported higher aggregate of Unearned Wakalah Fee ("UWF") than the Unexpired Expense Risk ("UER") together with related provision of risk margin for adverse deviation as at the end of the financial year.

<u>As at 31 December 2018</u>	RM'000
(a) Unearned wakalah fee ("UWF")	<u>14,609</u>
(b) Unexpired expense risk ("UER")	<u>10,128</u>

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**16. DEFERRED TAXATION**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Net deferred tax assets shown on the statement of financial position have been determined after considering appropriate offsetting as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>As at 31 December 2018</u>			
Deferred tax assets			
- Recoverable within 12 months	-	-	-
- Recoverable after 12 months	(1,439)	(3,289)	(4,728)
	<u>(1,439)</u>	<u>(3,289)</u>	<u>(4,728)</u>
Deferred tax assets			
At date of incorporation	-	-	-
Arising from Business Transfer (Note 3)	-	(2,434)	(2,434)
Arising from General Takaful Portfolio Acquisition (Note 37)	-	(19)	(19)
Credited/(charged) to statement of profit or loss (Note 24)			
- unutilised tax losses		(892)	(892)
- property, plant and equipment	173	-	173
- allowance for impairment loss	-	56	56
- expense liabilities	(1,638)	-	(1,638)
	<u>(1,465)</u>	<u>(3,289)</u>	<u>(4,754)</u>
Charged to comprehensive income:			
- available-for-sale reserve	26	-	26
At 31 December	<u>(1,439)</u>	<u>(3,289)</u>	<u>(4,728)</u>

ZURICH GENERAL TAKAFUL MALAYSIA BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**16. DEFERRED TAXATION (CONTINUED)**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>Subject to income tax:</u>			
Deferred tax assets (before offsetting)			
- allowance for impairment loss	-	(2,378)	(2,378)
- expense liabilities	(1,638)	-	(1,638)
- unutilised tax losses	-	(892)	(892)
- arising from General Takaful Portfolio Acquisition	-	(19)	(19)
	<u>(1,638)</u>	<u>(3,289)</u>	<u>(4,927)</u>
Offsetting	199	-	199
Deferred tax assets after offsetting	<u>(1,439)</u>	<u>(3,289)</u>	<u>(4,728)</u>
Deferred tax liabilities (before offsetting)			
- available-for-sale reserve	26	-	26
- property, plant and equipment	173	-	173
	<u>199</u>	<u>-</u>	<u>199</u>
Offsetting	(199)	-	(199)
Deferred tax liabilities after offsetting	<u>-</u>	<u>-</u>	<u>-</u>

17. SHARE CAPITAL

	Number of shares	Share capital RM'000
<u>Issued and fully paid up</u>		
At date of incorporation	2	*
Issued during the financial period	259,000,000	259,000
At 31 December 2018	<u>259,000,002</u>	<u>259,000</u>

* Represents 2 ordinary shares.

The Company was incorporated with a share capital of RM2 comprises of 2 ordinary shares. The Company increased its share capital to RM259,000,002 by the allotment of 259,000,000 new ordinary shares throughout the financial period. As at 31 December 2018, the issued and paid-up share capital of the Company is RM259,000,002.

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**18. RESERVES****(a) Retained earnings**

Under the single-tier tax system which came into effect from 1 January 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempted in the hand of the shareholders.

As at 31 December 2018, the Company is already under the single-tier tax system. The Company may distribute single-tier exempt dividends to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the Islamic Financial Services Act, 2013, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Takaful Operators, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Available-for-sale reserve

The available-for-sale reserve of the Company represents the fair value gains or losses of the available-for-sale financial assets, net of deferred tax.

19. NET EARNED CONTRIBUTIONS

	2018
	RM'000
(a) Gross earned contributions	
- Takaful contracts (Note 12(ii))	440,770
- Change in gross contribution liabilities	(39,021)
	<u>401,749</u>
(b) Contributions ceded to reinsurers	
- Takaful contracts (Note 12(ii))	(45,477)
- Change in retakaful contribution liabilities	(17,240)
	<u>(62,717)</u>
 Net earned contributions	 <u>339,032</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**20. INVESTMENT INCOME**

	2018		
	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
AFS financial assets			
Hibah/profit income			
- Malaysian Government Securities/Government Investment Issues	-	131	131
- corporate debt securities unquoted in Malaysia	1,176	7,952	9,128
Accretion /Amortisation			
- Malaysian Government Securities/Government Investment Issues	-	(4)	(4)
- corporate debt securities unquoted in Malaysia	(51)	(616)	(667)
	<u>1,125</u>	<u>7,463</u>	<u>8,588</u>
Financing receivables			
Hibah/profit income			
- fixed deposits from licensed Islamic financial institutions	6,389	1,668	8,057
	<u>7,514</u>	<u>9,131</u>	<u>16,645</u>

21. FEE AND COMMISSION

	2018 RM'000
(a) Fee and commission income	
Retakaful commission income recognised in General Takaful Fund	<u>8,598</u>
(b) Fee and commission expenses	
Gross commission expenses recognised in Takaful Operator	<u>(51,694)</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**22. NET CLAIMS INCURRED**

	2018
	RM'000
(a) Gross benefits and claims paid	(204,070)
(b) Claims ceded to retakaful operators	59,328
(c) Gross change in contract liabilities	(26,583)
(d) Change in contract liabilities ceded to retakaful operators	(44,597)

23. MANAGEMENT EXPENSES

	2018
	RM'000
Staff costs (Including Chief Executive Officer):	
- salaries and bonus	2,293
- defined contribution plans	318
- other employee benefits	634
	<u>3,245</u>
Directors' remuneration (Note 23(a))	<u>362</u>
Auditors' remuneration:	
- statutory audit	318
- others	3
Shariah committee remuneration	64
Other professional fees	345
Office rental	1,257
Depreciation of property, plant and equipment (Note 5)	481
Amortisation of intangible assets (Note 6)	832
Training expenses	145
Repairs and maintenance expenses	240
Information technology expenses	2,480
Advertising, promotional and entertainment expenses	4,621
Printing and stationery expenses	2,744
Postage, courier and telephone charges	362
Breakdown service assistance expenses	2,676
Outsourcing costs paid to related party	29,221
Other expenses	24,512
	<u>70,301</u>
Total management expenses	<u>73,908</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**23. MANAGEMENT EXPENSES (CONTINUED)**

The remuneration attributable to the Chief Executive Officer ("CEO") of the Company during the financial period, as included in staff salaries and bonus, amounted to RM398,000.

(a) Directors' remuneration

The Directors' remuneration and other emoluments during current financial period are as follows:

	2018		
	Fees RM'000	Allowance RM'000	Total RM'000
Executive Director	-	-	-
- David Jerry Fike			
Non-Executive Directors			
- Nabil Nazih El-Hage	98	-	98
- Onn Kien Hoe	36	15	51
- Dr Md Khalil bin Ruslan	50	17	67
- Dr Nordin Mohd Zain	36	15	51
	<u>220</u>	<u>47</u>	<u>267</u>
General takaful fund's share of ZTMB's directors' remuneration and other emoluments in respect of financial period from 1 January 2018 to 31 May 2018	<u>72</u>	<u>23</u>	<u>95</u>
	<u>292</u>	<u>70</u>	<u>362</u>

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the current financial period are analysed by the following bands:

	Number of Directors 2018
Executive Director: RM100,000 and below	1
Non-Executive Directors: RM100,000 and below	4

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24. TAXATION

	2018		
	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Current tax:			
Current financial period	2,328	(341)	1,987
Under/(over) provision of tax arising from the Business Transfer	2,288	(1,412)	876
	<u>4,616</u>	<u>(1,753)</u>	<u>2,863</u>
Deferred tax (Note 16)	<u>(1,465)</u>	<u>(836)</u>	<u>(2,301)</u>
Tax expense/(income)	<u>3,151</u>	<u>(2,589)</u>	<u>562</u>

The income tax for the Company is calculated based on the tax rate of 24% of the estimated assessable profit for the financial period.

A reconciliation of income tax expense applicable to profit before taxation at statutory income tax rate to income tax expenses at the effective income tax rate of the Company is as follows:

	2018 RM'000
Profit before taxation	16,123
Taxation at Malaysian statutory tax rate of 24%	3,870
Income not subject to tax	(4,184)
Under-provision of tax arising from the Business Transfer	876
Tax expense	<u>562</u>

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25. DIVIDENDS

The Directors have not recommended the payment of any dividend for the current financial period.

26. EARNINGS PER SHARE

The basic earnings per ordinary share are calculated by dividing the profit for the financial period attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

	2018
	RM'000
Profit attributable to ordinary equity holders	<u>15,561</u>
Weighted average number of shares in issue	<u>152,417</u>
Basic earnings per share (sen)	<u><u>0.10</u></u>

On 18 January 2019, the Board has approved the issuance of 24,369,748 shares for a total consideration of RM58 million from Zurich Holdings Malaysia Berhad as disclosed in Note 39 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**27. CASH FLOWS**

	Note	2018
		RM'000
Net profit for the financial period		15,561
Adjustments for:		
Depreciation of property, plant and equipment	5	481
Amortisation of intangible assets	6	832
Write-back for impairment of takaful receivables		(229)
Investment income	20	(16,645)
Realised gains		(112)
Tax expense		562
Changes in working capital:		
Decrease in retakaful assets		62,767
Increase in investments		(91,322)
Decrease in takaful receivables		2,640
Decrease in other receivables		11,427
Increase in takaful contract liabilities		65,605
Increase in other liabilities		24,649
Increase in takaful payables		12,090
Increase in expense liabilities		10,940
Cash generated from operating activities		99,246

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

28. LEASE COMMITMENTS

(a) The Company as lessee

The Company has operating lease agreements entered in respect of rented premises and hired equipment. The minimum lease payments under non-cancellable operating leases are as follows:

	2018
	RM'000
Not later than 1 year	1,360
Later than 1 year and no later than 5 years	2,267
	<u>3,627</u>

29. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) **Related parties and relationship**

The related parties and their relationship with the Company as at 31 December 2018 are as follows:

<u>Name of company</u>	<u>Relationship</u>
Zurich Holdings Malaysia Berhad ("ZHMB")	Immediate holding company
Zurich Life Insurance Malaysia Berhad	Subsidiary of ZIGL
Zurich Takaful Malaysia Berhad	Subsidiary of ZHMB
Zurich General Insurance Malaysia Berhad	Subsidiary of ZHMB

(b) **Related party transactions**

In the normal course of business, the Company undertakes various transactions with other companies deemed related by virtue of being subsidiary and associated companies of ZIGL, collectively known as ZIGL Group, at agreed terms and prices.

	2018
	RM'000
Outsourcing costs from:	
- Zurich Takaful Malaysia Berhad	861
- Zurich General Insurance Malaysia Berhad	24,284
- Zurich Life Insurance Malaysia Berhad	4,076
Reimbursement costs from:	
- Zurich Takaful Malaysia Berhad	860
- Zurich General Insurance Malaysia Berhad	1,317
- Zurich Life Insurance Malaysia Berhad	625

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

29. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Related party balances

	2018
	RM'000
<u>Included in other payables:</u>	
- Zurich Takaful Malaysia Berhad	1,576
- Zurich General Insurance Malaysia Berhad	5,175
- Zurich Life Insurance Malaysia Berhad	2,559

(d) Key management personnel's remuneration

The remuneration of the key management personnel during the financial period are as follows:

	2018
	RM'000
Salary	636
Defined contribution plans	78
	<u>714</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Company include the Chief Executive Officer and other key responsible persons of the Company.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

30. RISK MANAGEMENT FRAMEWORK

Risk Governance Structure

The Company adopts three lines of defence model approach to governance and enterprise risk management. The Company's risk governance structure and risk reporting requirement are incorporated in the Company's Risk Management Framework. The Framework explains the underlying approach and defines an on-going and consistent process for identifying, analysing, evaluating, treating, monitoring and reporting significant risks faced by the business units, divisions, stakeholders and ultimately, the Company. It also outlines the key aspects of the risks management process and identifies the main reporting procedures.

The adoption of the Framework is the responsibility of the Board with some of the responsibilities delegated to the Risk Management Committee. The Company has established senior management committees which act as platform for two-way communication between the Management and the Board. The Committees are the ALMIC and the various Senior Management Committees for General Businesses. All these committees are chaired by the Chief Executive Officer or a member of key management team.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition, and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

Governance and Regulatory Framework

The Company's is required to comply with the IFSA and BNM Regulations, as applicable.

The Company is also required to comply with all Zurich Group's policies and standards. If there is any conflict with the local laws or regulations, the local laws and regulations have priority while the stricter rules will apply where possible.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

30. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Capital Management

The Company's capital management policy is to create shareholders value, maintain a strong capital position with sufficient buffer to meet policyholders' obligations and regulatory requirements, and make strategic investments for business growth.

The minimum Capital Adequacy Ratio ("CAR") under the RBCT Framework regulated by BNM is 130% for each takaful operator. The Company complied with the minimum CAR as at 31 December 2018.

The regulated capital of the Company as at 31 December 2018 comprised of Available Capital of RM261,040,000.

The capital structure of the Company as at 31 December 2018, as prescribed under the RBCT Framework, is shown below:

	2018
	RM'000
<u>Tier 1 Capital</u>	
Paid-up share capital	259,000
Reserve including retained earnings	26,059
	<u>285,059</u>
<u>Tier 2 Capital</u>	
Available-for-sale reserve	487
Less:	
Other intangible asset	(19,778)
Deferred tax assets	(4,728)
Total Capital Available	<u><u>261,040</u></u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

31. TAKAFUL RISK

The Company underwrites various general takaful contracts, which are mostly on annual coverage and annual contribution basis, the exception being short term contribution such as Marine Cargo which covers the duration in which the cargo is being transported. The Company also underwrites some non-annual certificates with coverage period of more than one year such as Long-Term Fire Homeowner, Contractor's All Risks and Workmen's Compensation. The majority of the takaful business written by the Company is Fire and Motor. Other lines of business include Medical Expenses, Personal Accident, Engineering, Liability, Bond and other Miscellaneous classes.

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome. The underwriting strategy is set out in an annual business plan that establishes the classes of business to be written, and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line of size, class of business, geographically and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse the renewal or to change the terms and condition of the contract at renewal. The Company's Executive Committee meets periodically to review certain management information including contribution income and key ratios by class of business.

The table below sets out the concentration of the general takaful contracts - claims liabilities by type of takaful contracts issued:

	2018		
	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000
Fire	58,276	(43,072)	15,204
Motor	166,624	(32,104)	134,520
Marine, Aviation and Transit	8,622	(5,366)	3,256
Miscellaneous	93,235	(46,889)	46,346
At 31 December	326,757	(127,431)	199,326

Key Assumptions

The principal assumption underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of initial expected loss ratios, average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgements are used to assess the extent to which past trends may apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors, such as judicial decisions and government legislation, may affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in profit rates, delays in settlement and changes in foreign currency rates.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**31. TAKAFUL RISK (CONTINUED)****Sensitivities**

The takaful claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed on the total portfolio for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net claims liabilities, profit before tax and equity. The correlation among assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	<u>Change in assumptions</u>	<u>Impact on gross claims liabilities</u> RM'000	<u>Impact on net claims liabilities</u> RM'000	<u>Impact on profit before tax</u> RM'000	<u>Impact on equity</u> RM'000
<u>31 December 2018</u>					
Average claim cost	+10%	31,220	19,961	19,961	15,170
Average number of claims	+10%	30,132	18,754	18,754	14,253

Claims Development Table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting period, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development, and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

31. TAKAFUL RISK (CONTINUED)

Gross General Takaful Claims Liabilities for 2018:

	Prior RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Accident Year:									
At end of the accident year		75,801	122,510	173,322	153,400	186,898	172,090	254,552	
One year later		73,172	113,516	150,108	140,108	167,895	163,196		
Two years later		71,157	108,045	136,885	137,760	159,460			
Three years later		72,160	109,963	122,018	140,401				
Four years later		77,392	108,039	117,332					
Five years later		70,866	112,723						
Six years later		70,879							
Current estimate of cumulative claims incurred		70,879	112,723	117,332	140,401	159,460	163,196	254,552	
At end of accident year		18,204	33,270	40,160	43,447	53,291	59,301	106,603	
One year later		45,537	67,240	93,627	90,643	115,463	113,620		
Two years later		51,451	85,084	106,477	106,009	130,448			
Three years later		56,490	91,757	106,286	125,668				
Four years later		62,033	94,874	109,182					
Five years later		66,254	96,642						
Six years later		66,562							
Cumulative payments to-date		66,562	96,642	109,182	125,668	130,448	113,620	106,603	
Direct and facultative inwards	9,208	4,317	16,081	8,150	14,733	29,012	49,576	147,949	279,026
Claims liabilities of transferred business	4,927	858	1,335	10,225	575	670	519	961	20,070
									299,096
									27,661
									326,757

Best Estimate of Claim Liabilities
Fund PRAD at 75% Confidence Level
Gross General Takaful Claim Liabilities

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

31. TAKAFUL RISK (CONTINUED)

Net General Takaful Claims Liabilities for 2018:

[illegible]

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**32. FAIR VALUE MEASUREMENTS****(a) Determination of fair value and fair value hierarchy**

The Company classifies fair value measurement using a fair value hierarchy that reflects the significant of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted market price

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 - Valuation Techniques - Market observable input

Financial instruments in this category are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. It includes financial instruments for which pricing is obtained via pricing services, but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flows, the price of the most recent transactions may be used provided that there has not been a significant change in economic circumstances since the time of the transaction, or if the conditions have changed, that price should be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments and investment in unit and property trusts with fair values obtained via investment bankers and/or fund managers.

Level 3 - Valuation Techniques - Unobservable input

Non-market observable inputs mean that fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unquoted equity securities, un-rated securities and debt securities from organisations in default. Valuation techniques of these portfolios are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data and judgements.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**32. FAIR VALUE MEASUREMENTS (CONTINUED)****(b) Financial instruments and non-financial assets carried at fair value (continued)**

The following tables show the Company's financial instruments and non-financial assets which are measured at fair value at the reporting date analysed by the various levels within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2018</u>				
AFS financial assets:				
- Malaysian Government Securities/ Government Investment Issues	-	2,030	-	2,030
- Corporate debt securities	-	322,996	-	322,996
	<u>-</u>	<u>325,026</u>	<u>-</u>	<u>325,026</u>

33. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangement and similar arrangement are as follows:

	<u>Gross amount recognised as financial assets/ liabilities</u>	<u>Gross amount offset in the statement of financial position</u>	<u>Amount presented in the statement of financial position</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
<u>31 December 2018</u>			
Financial assets:			
Takaful receivables	<u>44,373</u>	<u>(447)</u>	<u>43,926</u>
Financial liabilities:			
Takaful payables	<u>45,763</u>	<u>(447)</u>	<u>45,316</u>

There are no financial instruments subjected to an enforceable master netting arrangement or financial collateral (including cash collateral) pledged or received as at 31 December 2018.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**34. FINANCIAL RISK**

The Company is exposed to financial risks, including credit risk, liquidity risk, market risk and operational risk during the normal course of its business. The Company has in place, established procedures and guidelines to monitor the risks on an on-going basis.

Credit Risk

The Company has exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Credit risk is assumed through three (3) main mechanisms.

- i) The assumption of credit risk through investment strategies relating to financial assets;
- ii) Credit risk created through retakaful, where a retakaful asset represents an obligation of the retakaful operators to the entity; and
- iii) Receivables within the business, where the entity owed payment or services by a third party. Most typically this is arising from sale of takaful policies.

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A-/A2 (at the date of investment) provided by Malaysian Rating Corporation Berhad ("MARC") and Rating Agency Malaysia Berhad ("RAM") respectively. The Company however intends to maintain an average rating of AA in the overall bond portfolio under current investment strategy and objectives. The Company does not solely depend on the rating report provided but as in all credit assessments/reviews are based on publicly available issuer information together with in-house analysis based on information provided by the borrower/issuer, peer group comparisons, industry comparisons and other quantitative tools.

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary insurer. If a retakaful operator fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of retakaful operator is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company manages its credit risk in respect of receivables by establishing defined tolerance on credit periods, putting in place collection procedures and rigorously monitoring its credit portfolio.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

34. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure

The table below shows the maximum exposure to credit risk for the components on the statement of financial position which are subject to credit risk:

		2018		
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
AFS financial assets:				
- Malaysian Government Securities/ Government Investment Issues	7(b)	-	2,030	2,030
- Islamic debt securities	7(b)	78,297	244,699	322,996
Financing receivables	7(a)	-	1,500	1,500
Takaful receivables	8	-	53,840	53,840
Retakaful assets*		-	127,431	127,431
Other receivables #		37,645	1,720	1,967
Cash and cash equivalents		180,576	184,723	365,299
		<u>296,518</u>	<u>615,943</u>	<u>875,063</u>

*Retakaful assets exclude unearned contribution reserve

#Exclude prepayments

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

34. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties.

	Neither past-due nor impaired			Past due but not impaired	Impaired	Total
	Investment grade	Non-investment grade	Not rated			
	Government Guaranteed (AAA to BBB)	(BB to C)				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2018						
AFS financial assets:						
- Malaysian Government Securities/ Government Investment Issues	2,030	-	-	-	-	2,030
- Islamic debt securities	82,164	240,832	-	-	-	322,996
Financing receivables	-	1,500	-	-	-	1,500
Takaful receivables	-	-	-	41,498	9,914	53,412
Retakaful assets	-	70,642	648	55,208	933	127,431
Other receivables	-	-	-	1,967	-	1,967
Cash and cash equivalents	-	365,299	-	-	-	365,299
	84,194	678,273	648	98,673	10,847	875,063

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

34. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	Government Guaranteed	AAA to AA	A1 to A3	BBB1 to BBB3	BB and below	Not rated	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31 December 2018</u>								
AFS financial assets:								
- Malaysian Government Securities/ Government Investment Issues	2,030	-	-	-	-	-	-	2,030
- Islamic debt securities	82,164	240,832	-	-	-	-	-	322,996
Financing receivables	-	1,500	-	-	-	-	-	1,500
Takaful receivables	-	-	-	-	-	43,926	9,914	53,840
Retakaful assets	-	25,182	45,460	-	648	55,208	933	127,431
Other receivables	-	-	-	-	-	1,967	-	1,967
Cash and cash equivalents	-	253,207	112,092	-	-	-	-	365,299
	<u>84,194</u>	<u>520,721</u>	<u>157,552</u>	<u>-</u>	<u>648</u>	<u>101,101</u>	<u>10,847</u>	<u>875,063</u>

The Company actively manages its investment mix to ensure that there is no significant concentration of credit risk.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**34. FINANCIAL RISK (CONTINUED)****Credit Risk (continued)****Impaired Financial Assets**

At 31 December 2018, based on a combination of collective and individual assessment of receivables, there are impaired takaful receivables of RM9,914,000. For assets to be classified as “past-due and impaired”, contractual payments must be in arrears for more than 90 days. In addition, full impairment is made on takaful receivables exhibiting objective evidence of impairment such as outstanding debts exceeding 180 days. The Company records impairment allowance for takaful receivables in separate “allowance for impairment” accounts.

A reconciliation of the allowance for impairment loss of takaful receivables is as follows:

	2018
	RM'000
At date of incorporation	-
Arising from Business Transfer	10,143
Write-back for the financial period	(229)
At 31 December	<u>9,914</u>

No collateral is held as security for any past due or impaired assets.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected retakaful recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under all conditions.

There are guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet takaful and investment contracts obligations.

The Company's catastrophe excess-of-loss retakaful contract contains clauses permitting the Company to make cash call claims and receive immediate payment for large loss should claims events exceed a certain amount.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

34. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile

The table below summarises the maturity profile of the Company's financial assets and financial liabilities based on remaining undiscounted contractual obligations, including profit payable and receivable.

For takaful contract liabilities and retakaful assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised takaful liabilities. Contribution liabilities and the retakaful's share of contribution liabilities have been excluded from the analysis as they are not contractual obligations.

	<u>Carrying value</u> RM'000	<u>Up to a year</u> RM'000	<u>1 – 3 years</u> RM'000	<u>3 – 5 years</u> RM'000	<u>5 - 15 years</u> RM'000	<u>No maturity date</u> RM'000	<u>Total</u> RM'000
<u>31 December 2018</u>							
Financial assets:							
AFS financial assets	325,026	60,798	107,657	144,467	59,753	-	372,675
Financing receivables	1,500	1,500	-	-	-	-	1,500
Retakaful assets*	127,431	90,811	33,193	3,289	138	-	127,431
Takaful receivables	43,926	43,926	-	-	-	-	43,926
Other receivables#	1,967	1,967	-	-	-	-	1,967
Cash and cash equivalents	365,299	365,299	-	-	-	-	365,299
	<u>865,149</u>	<u>564,301</u>	<u>140,850</u>	<u>147,756</u>	<u>59,891</u>	<u>-</u>	<u>912,798</u>
Financial liabilities:							
Takaful contract liabilities*	326,757	231,733	86,251	8,423	350	-	326,757
Other liabilities	59,732	59,732	-	-	-	-	59,732
Takaful payables	45,316	45,316	-	-	-	-	45,316
	<u>431,805</u>	<u>336,781</u>	<u>86,251</u>	<u>8,423</u>	<u>350</u>	<u>-</u>	<u>431,805</u>

*Exclude unearned contribution reserve, AFS reserve and unallocated surplus

#Exclude prepayments

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**34. FINANCIAL RISK (CONTINUED)****Liquidity Risk (continued)**

The table below summarises the current/non-current classification of assets:

	Current*	Non-current	Total
	RM'000	RM'000	RM'000
<u>31 December 2018</u>			
Property, plant and equipment	-	1,035	1,035
Intangible assets	-	20,475	20,475
AFS financial assets	60,798	264,228	325,026
Financing receivables	1,500	-	1,500
Retakaful assets	139,413	-	139,413
Takaful receivables	43,926	-	43,926
Other receivables	2,032	-	2,032
Current tax assets	752	-	752
Deferred tax assets	-	4,728	4,728
Cash and cash equivalents	365,299	-	365,299
	<u>613,720</u>	<u>290,466</u>	<u>904,186</u>

* Expected recovery or settlement within 12 months from the date of the statement of financial position.

Market Risk

Market risk is the risk of financial loss in the Company investment's valuation due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises three types of risk i.e. foreign exchange rates (currency risk), market interest rates/profit yields and market prices (price risk).

The Company manages market risk through setting of investment policy and asset allocation, approving portfolio limit structure and risk management methodologies, approving hedging, and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**34. FINANCIAL RISK (CONTINUED)****Market Risk (continued)****Profit Rates/Profit Yield Risks**

Profit rate risk is part of market risk as any adverse movements in profit rates/ profit yield may affect the Company investment's fair valuation and reinvestment issues to the Company. ALMIC actively monitors such developments as well as discuss changes in maturity profiles of the assets and liabilities to minimise overall mismatch.

The Company has no significant concentration of profit rate/profit yield risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of profit before tax and takaful contract liabilities (due to changes in fair value of fixed and floating rate/yield financial instruments) and equity (that reflects adjustments to profit before tax and re-valuing fixed rate/yield AFS financial assets).

The sensitivity analysis below illustrates impact of 50bps increase/decrease in profit rate/ profit yield to investment value based on portfolio holdings as at 31 December 2018, holding other variables constant.

		Impact on profit before tax	Impact on equity*	2018 Impact on Takaful contract liabilities
		RM'000	RM'000	RM'000
<u>Takaful</u>	<u>Changes in variables</u>			
<u>Operator</u>				
RM	+50 basis points	-	965	-
RM	-50 basis points	-	(945)	-
<u>General</u>				
<u>Takaful Fund</u>				
RM	+50 basis points	-	-	3,137
RM	-50 basis points	-	-	(3,064)

* Impact on equity/ takaful contract liabilities reflects adjustments for tax, where applicable.

35. OPERATIONAL RISK

Operational risk arises from inadequate or failed performance of business functions or internal processes. Exposure to this risk can cause deficiencies or breakdowns in internal controls or processes, technology and external events such as interruption of business operations due to a breakdown of IT systems, landslide or flood.

The Company has developed comprehensive Standard Operating Procedures ("SOP") to enable all relevant departments to implement measures, monitor and control the risk in order to avoid or reduce future losses. The Risk Management Department is assigned to facilitate the relevant departments in identifying and evaluating their operational risks and control weaknesses via structured risk assessment process.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**36. COMPLIANCE RISK**

Compliance risk is the risk arising from violations of, or non-conformance with business principles, internal policies and procedures, related laws, rules and regulations (i.e. BNM, Malaysian Takaful Association (“MTA”), Perbadanan Insurans Deposit Malaysia (“PIDM”)) governing the takaful industry, products and activities.

Consequently, the exposure to this risk can damage the Company’s reputation, lead to legal or regulatory sanctions and /or financial loss.

The Legal and Compliance Department is assigned to look into all compliance aspects in observing the regulatory requirements (i.e. BNM, MTA, PIDM). It has developed internal policies and procedures (i.e. Anti-Money Laundering Framework, Introduction of New Products Framework, Outsourcing Framework) to align with the laws and guidelines issued by the authorities.

37. GENERAL TAKAFUL PORTFOLIO ACQUISITION

On 1 August 2018, the Company has entered into a Business Transfer Agreement (“BTA”) with HSBC Amanah Takaful (Malaysia) Berhad (“HSBCAT”) to acquire its general takaful portfolio with effect from 3 November 2018. This BTA was approved and confirmed by the High Court of Malaya on 25 September 2018 in accordance with Part VI of the Islamic Financial Services Act 2013.

On 3 November 2018, HSBCAT transferred its entire general takaful business assets together with the assumed liabilities to the Company, as presented below.

	RM’000
ASSETS	
Takaful receivables	421
Retakaful assets	13,386
Other receivables	688
Deferred tax assets	19
Cash and cash equivalents	49,833
TOTAL ASSETS	64,347
LIABILITIES	
Takaful contract liabilities	53,939
Takaful payables	2,845
Other payables	7,563
TOTAL LIABILITIES	64,347

In addition to the above, the Company has also assumed expense liabilities of RM7,775,000 for the portfolio acquired. The above transfer of general takaful portfolio was accounted for as acquisition of separate assets and liabilities.

The Company has also recorded an intangible asset of RM20 million, reflecting the customer relationship acquired. The basis of the intangible asset is described in Note 2.2(b) of the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)**38. ADDITIONAL DISCLOSURE UNDER AMENDMENTS TO MFRS 4 INSURANCE CONTRACT LIABILITIES**

The Company has applied the temporary exemption from the adoption of MFRS 9 “Financial Instruments” from 1 January 2018 to no later than 1 January 2021 (see Note 2.1).

In order to compare with entities applying MFRS 9, the amendments require deferring entities to disclose additional information including contractual cash flows characteristics and credit exposure of the financial assets. The following table presents the Company’s financial assets by their contractual cash flows characteristics, which indicate if they are solely payments of principal and interest on the principal outstanding (“SPPI”).

- a) The following table shows the carrying amount under MFRS 139 for financial assets with SPPI cash flow analysed by credit quality:

	Government Guaranteed	AAA	AA	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2018				
AFS financial assets:				
Malaysian Government Securities/ Government Investment Issues	2,030	-	-	2,030
Islamic debt securities, unquoted	82,164	79,644	161,188	322,996
Fixed deposits with licensed financial institutions with maturities of less than 3 months	-	92,912	60,000	152,912
	-	25,182	45,460	477,938

- b) Fair value / carrying amount:

	Financial assets with SPPI cash flow	Other financial assets	Total
	RM'000	RM'000	RM'000
Fair value at 31 December 2018	477,938	387,211	865,149
Fair value changes during the financial period	371	-	371
Financial assets that do not have low credit risk:			
- Fair value / carrying amount at 31 December 2018 under MFRS 139	-	N/A	N/A

N/A – not applicable

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2018 (CONTINUED)

39. SUBSEQUENT EVENT

On 18 January 2019, the Board of Directors has approved the allotment of 24,369,748 shares for a total consideration of RM58 million to Zurich Holdings Malaysia Berhad.

The ordinary shares were issued and fully paid by cash as follows:

Date	Number of shares	Price per share	Share capital
		RM	RM'000
28 January 2019	7,563,025	2.38	18,000
5 March 2019	16,806,723	2.38	40,000
	<u>24,369,748</u>		<u>58,000</u>

