

# Statutory Financial Statement

For The Financial Year Ended  
31 December 2018



## About Zurich Takaful in Malaysia

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Zurich Takaful Malaysia Berhad (ZTMB) is one of Malaysia's leading family takaful operators. It is a member of Zurich Insurance Group and the sole provider of shariah-compliant family takaful products within Zurich. With more than a decade of Takaful market expertise, ZTMB offers protection, medical and health, savings as well as investments solutions to address its customers' needs at different life stages. Together with its dedicated employees, agency force, distributors and partners, supported by its nationwide branch network, ZTMB is committed to help its customers understand and protect themselves from risks. Additionally, conventional life insurance products are made available to customers through its sister company, Zurich Life Insurance Malaysia Berhad.

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS****31 DECEMBER 2018**

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## CORPORATE GOVERNANCE STATEMENT

### INTRODUCTION

Zurich Takaful Malaysia Berhad ("ZTMB" 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"). 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.

### ROLES AND RESPONSIBILITIES OF THE BOARD

The Board is responsible for the overall governance of the Company by providing guidance, including setting the directions in terms of the Company's corporate objectives and business strategies, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control and reporting procedures.

### COMPOSITION OF THE BOARD

The composition of the Board during the period since the date of the last report is as follows:

Tan Sri Ahmad bin Mohd Don	Chairman (Independent Non-Executive Director)
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Member (Independent Non-Executive Director)
Dr. Md Khalil bin Ruslan	Member (Independent Non-Executive Director)
Onn Kien Hoe	Member (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)
Philip Wallace Smith (Resigned on 1 October 2018)	Member (Executive Director)
Stephen Clark (Appointed on 1 October 2018)	Member (Executive Director)

The Board currently comprises seven (7) Directors with skills and experience in a diverse range of business, financial, technical and public service background. The Board is represented by six (6) Non-Executive Directors and one (1) Executive Director.

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.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER**

#### **Tan Sri Ahmad Bin Mohd Don**

Malaysian  
Independent Non-Executive Director / Chairman  
Member of the Audit Committee  
Member of Risk Management Committee

Tan Sri Ahmad is a Summa cum Laude graduate in Economics and Business from the Aberystwyth University, United Kingdom. He is also a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Malaysian Institute of Certified Public Accountants.

Tan Sri Ahmad has extensive experience in finance and banking, having worked in various capacities with Pernas Securities Sdn Bhd, Permodalan Nasional Berhad and Malayan Banking Berhad. He served as the Group Managing Director and Chief Executive Officer of Malayan Banking Berhad from 1991 to 1994. Tan Sri Ahmad was the Governor of Bank Negara Malaysia from May 1994 to August 1998. He currently serves on the Boards of United Malacca Berhad, Hap Seng Plantations Holdings Berhad and Alliance Bank Malaysia Berhad.

Tan Sri Ahmad is currently serves on the Boards of United Malacca Berhad, Hap Seng Plantations Holdings Berhad and Alliance Bank Malaysia Berhad.

#### **Tan Sri Datuk Seri Razman Md Hashim**

Malaysian  
Independent Non-Executive Director  
Chairman of Nomination and Remuneration Committee  
Member of Audit Committee

Tan Sri Datuk Seri Razman completed his early secondary education in Australia and on completion, studied Accounting and Banking where he became a member of the Australian Institute of Bankers.

Upon his return to Malaysia, Tan Sri Datuk Seri Razman joined Standard Chartered Bank Malaysia Berhad ("SCB") as an Officer Trainee in 1964. Throughout his 34 years of banking experience in SCB, he served with the bank's offices in London, Europe, Hong Kong and Singapore. In 1994, he was appointed as the Executive Director/Deputy Chief Executive of SCB until his retirement in June 1999.

In the same month in 1999, Tan Sri Datuk Seri Razman was appointed as Chairman of MBf Finance Berhad by Bank Negara Malaysia ("BNM") until January 2002 when the finance company was sold to Arab-Malaysian Group. In May 2002 he was appointed as an Independent Non-Executive Director of Affin Bank Berhad by BNM until his retirement in May 2009. He was appointed as Independent Non-Executive Director of Malaysian Assurance Alliance Berhad ("MAA") (now known as Zurich Insurance Malaysia Berhad) on 1 July 2006 until 30 September 2011 when MAA was sold to Zurich Insurance Company Ltd.

Tan Sri Datuk Seri Razman is currently the Executive Deputy Chairman of the Sunway Group of Companies and his current directorships in other public companies include Marine & General Berhad, Berjaya Land Berhad, Sunway Berhad and Mycron Steel Berhad.

Tan Sri Datuk Seri Razman is also a Director of ASLI Foundation and Jeffrey Cheah Foundation as well as the Alternate Director in Perdana Leadership Foundation.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (continued)**

#### **Dr. Md Khalil bin Ruslan**

Malaysian  
Independent Non-Executive Director  
Chairman of the Shariah Committee  
Member of Nomination and Remuneration 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 General Takaful Malaysia Berhad.

#### **Onn Kien Hoe**

Malaysian  
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 5th 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 General 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.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (continued)**

#### **Choy Khai Choon**

Malaysian  
Independent Non-Executive Director  
Member of the Audit Committee  
Member of Risk Management Committee  
Member of Nomination and Remuneration Committee

Mr Choy Khai Choon graduated with Bachelor of Commerce degree from the University of New South Wales, Australia and holds a Master in Business Administration (MBA) from Oklahoma City University, USA. Mr Choy is a member of Malaysian Institute of Accountants and a Fellow of the Australian Certified Public Accountant. Mr Choy served as the President and Chief Executive Officer ("CEO") of Cagamas Berhad from year 2006 to 2012 and was appointed director of Cagamas MBS Berhad, Cagamas SME Berhad, BNM Sukuk Berhad, Cagamas HKMC Berhad and Cagamas SRP Berhad.

Prior to joining Cagamas Berhad, Mr Choy held key positions in leading financial institutions in the areas of financial management, strategic planning and business development. Key roles held include serving as Regional Finance/Planning Director of Aviva Insurance Asia, CEO of Morley Fund Management Ltd, Aviva Insurance Group, Singapore and Senior General Manager, Group Head of RHB Berhad.

Mr Choy is currently an Independent Director of Deutsche Bank (Malaysia) Berhad, Malaysia Marine and Heavy Engineering Holdings Berhad, RAM Rating Services Berhad, Zurich Life Insurance Malaysia Berhad, Asian Banking School Sdn Berhad and Hap Seng Plantations Holdings Berhad. Mr Choy is also a Board Member of Bond & Sukuk Information Platform Sdn Bhd, a wholly owned subsidiary of the Securities Commission.

#### **Cik Hasnah binti Omar**

Malaysian  
Independent Non-Executive Director  
Chairperson of Risk Management Committee  
Member of Nomination and Remuneration Committee

Cik Hasnah graduated and received her BA (Hons) from University of Malaya in 1981 and holds a Master in Public Administration from Harvard University, USA in 1991. Cik Hasnah also holds a Master in Banking Law (Islamic and Conventional) from International Islamic University of Malaysia in 2010.

Cik Hasnah has vast experience in finance, banking and capital market having worked in various capacities with Bank Negara Malaysia (BNM), Securities Commission (SC), and the Asian Development Bank (ADB), Manila, Philippines.

In 1981, Cik Hasnah joined BNM, where she largely worked in the Bank Examination Department of BNM which was responsible for the examinations of commercial banks, merchant banks, discount houses and finance companies. She led the examinations of a number of financially distressed banks during 1980s. For about one and the half years she served as the Head of Public Affairs Unit of the Bank, among others, assisting Governor and Senior Management in managing the press and public perception of BNM's policies.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (continued)**

Cik Hasnah worked with SC from 1991 until 2013, culminating her career in SC as the Director of Market Oversight Business Group. She was actively involved in the Brokers Monitoring System during the Asian Market Crisis 1997/1998. She was also responsible for the formulation and implementation of the Compliance Function Framework for the industry, as well as the formulation of Risk-based Capital for stockbroking companies. She was primarily responsible for the formulation and implementation of Brokers' Consolidation Policy and together with BNM contributed to the formulation of regulatory framework for Investment Banks. Cik Hasnah represented SC as a member of Financial Stability Committee of Financial Services Authority of Labuan (FSA) and as a Board Member of Capital Market Compensation Fund.

Cik Hasnah spent two years, from January 2009 to December 2010 with the Asian Development Bank (ADB) in Manila on a secondment basis. Among others, she advised ADB on Islamic finance matters, she was a Mission Leader for the Financial Sector and Capital Markets Sovereign Loan Program and Technical Assistance (TA) for Vietnam, and involved in sovereign loan programs and TA for Thailand, Indonesia, and Philippines. She was a Co-Mission Leader for the ASEAN Regional Capital Markets Integration TA. She returned to serve the SC in January 2011 until 2013.

Cik Hasnah currently sits on the Board of Malaysian Industrial Development Finance Berhad (MIDF), MIDF Amanah Assets Management Berhad, and Zurich Life Insurance Malaysia Berhad (formerly known as Zurich Insurance Malaysia Berhad). She also serves as a member of the Appeals Committee of the Securities Industry Dispute Resolution Centre since 2015.

#### **Stephen Clark**

British  
Executive Director

Mr Stephen Clark was educated in the United Kingdom and received his Masters in Business Administration (Major in Marketing) from City University, London in 1997.

Mr Clark was appointed as the Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 1 October 2018.

Mr Clark is an experienced insurance professional with vast work experience in the financial services sector in Asia Pacific and possesses a high degree of familiarity with the South East Asia market. Mr Clark has over 17 years of experience in the Life and General Insurance businesses, over 11 years of which as the CEO of various insurance companies and subsidiaries. Mr Clark has in-depth experience in setting up and running multi-channel life insurance ventures. With solid executive management and cross-functional experience, Mr Clark is capable of performing in a broad range of executive, financial and commercially oriented positions. He has managed strategic development and execution, business development, sales, management of operations as well as team development and leadership.

Mr Clark is, additionally, the Chief Executive Officer and Executive Director of Zurich Life Insurance Malaysia Berhad. He also sits on the Board of Zurich Holdings Malaysia Berhad, a wholly-owned subsidiary of Zurich Insurance Company Ltd.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **DIRECTORS' TRAINING**

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. The training programmes attended by the Directors during the financial year ended 31 December 2018 included areas of leadership, governance, risk management, finance, investment, insurance related matters and information technology.

### **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 year ended 31 December 2018, the Board met eight (8) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2018.

The number of meetings attended by each member of the Board during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Tan Sri Ahmad bin Mohd Don (Chairman)	8/8
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	8/8
Dr. Md Khalil bin Ruslan	8/8
Onn Kien Hoe	7/8
Choy Khai Choon	8/8
Hasnah binti Omar	8/8
Philip Wallace Smith (Resigned on 1 October 2018)	5/5
Stephen Clark (Appointed on 1 October 2018)	3/3

### **BOARD COMMITTEES**

The Board has established a number of Board Committees and Senior Management Committees.

Each Committee operates within defined terms of reference. Board Committees are the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and Shariah Committee. Senior Management Committees include the Asset Liability Management and Investment Committee ("ALMIC"), the Human Resource Committee ("HRC"), the Information Technology Steering Committee ("ITSC"), Business Continuity Management ("BCM"), the Risk and Control Committee ("RCC"), the Occupational Safety and Health Committee ("OSHC") and various Senior Management Committees for Takaful businesses. The Board Committees are chaired by an Independent Non-Executive Director, while the Senior Management Committees are chaired by the Chief Executive Officer or a member of senior management team.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### Audit Committee ("AC")

The members of the Audit Committee are as follows:

Onn Kien Hoe	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Member (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)

The principal objectives are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company. The Audit Committee 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 Audit Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Audit Committee 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 Audit Committee meets at least once every quarter, or more frequently as circumstances dictate. During the financial year ended 31 December 2018, the Audit Committee held five (5) meetings with senior management, 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 number of meetings attended by each member of the Audit Committee during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Onn Kien Hoe	5/5
Tan Sri Ahmad bin Mohd Don	5/5
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	5/5
Choy Khai Choon	5/5

During the financial year ended 31 December 2018, apart from reviewing the quarterly results and annual financial statements, the Audit Committee also approved the annual internal audit plan. The plan is developed to cover key operational areas, financial activities and information systems and regulatory compliance audit that are significant to the overall performance of the Company on a cyclical basis.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### Audit Committee ("AC") (continued)

The Internal Audit Department also conducts audits on an ad-hoc basis based on special requests either by the Board of Directors or the senior management. It also works closely with the external auditors to resolve any internal control issues raised by them, and assists in ensuring appropriate management-based actions are taken. The Audit Committee receives regular reports from the Head of the Internal Audit Department on the audit results.

### Nomination and Remuneration Committee ("NRC")

The members of the Nomination and Remuneration Committee are as follows:

Tan Sri Datuk Seri Razman Md Hashim	Chairman (Independent Non-Executive Director)
bin Che Din Md Hashim	
Dr. Md Khalil bin Ruslan	Member (Independent Non-Executive Director)
Onn Kien Hoe	Member (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)
Hasnah binti Omar	Member (Independent Non-Executive Director)

The Nomination and Remuneration Committee is made up of a majority of Independent Non-Executive Directors. In considering the right candidate for appointment to the Board, the Nomination and Remuneration Committee 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 fulfil its fiduciary responsibilities. The Nomination and Remuneration Committee is also responsible for the annual review of the effectiveness of the Board and individual Directors.

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

- (i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company.
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) 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.
- (iv) To review and assess the nomination and selection of the Board, Senior Management (including Chief Executive Officer and expatriates) and Company Secretary, the performance of the Board and Chief Executive, undertake fit and proper assessments, succession planning and training and development needs.

The number of meetings attended by each member of the Nomination and Remuneration Committee during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	5/5
Dr. Md Khalil bin Ruslan	5/5
Onn Kien Hoe	4/5
Choy Khai Choon	5/5
Hasnah binti Omar	5/5

In the opinion of the Nomination and Remuneration Committee, the Board has a balanced mix of skills and experience required for the businesses of the Company.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### Risk Management Committee ("RMC")

The members of the Risk Management Committee are as follows:

Hasnah binti Omar	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Onn Kien Hoe	Member (Independent Non-Executive Director)
Choy Khai Choon	Member (Independent Non-Executive Director)

The Risk Management Committee is made up of Non-Executive Directors. It reviews the risk management framework of the Company to ensure risks at all levels are managed effectively. It also formulates risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The Risk Management Committee functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of Risk Management Committee 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 number of meetings attended by each member of the Risk Management Committee during the financial year ended 31 December 2018 is as follows:

<u>Name of Directors</u>	<u>No. of Attendance</u>
Hasnah binti Omar	4/4
Tan Sri Ahmad bin Mohd Don	4/4
Onn Kien Hoe	4/4
Choy Khai Choon	4/4

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### Shariah Committee ("SC")

The members of the Shariah Committee are as follows:

Dr Md Khalil bin Ruslan	Chairman
Dr Yusri bin Mohamad	Member
Dr Luqman bin Haji Abdullah	Member
Dr Mohamad Abdul Hamid	Member
Dr Zulkifli bin Hasan	Member

The Shariah Committee 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 number of meetings attended by each member of the Shariah Committee during the financial year ended 31 December 2018 is as follows:

<u>Name of Members</u>	<u>Attendance</u>	<u>No. of Attendance</u>
Dr Md Khalil bin Ruslan		6/6
Dr Yusri bin Mohamad		5/6
Dr Luqman bin Haji Abdullah		5/6
Dr Mohamad Abdul Hamid		5/6
Dr Zulkifli bin Hasan		5/6

The principal duties and responsibilities of Shariah Committee are:

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 forms part of their duties in providing their assessment of Shariah compliance and accurate information in the annual report.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### Shariah Committee ("SC") (continued)

The principal duties and responsibilities of Shariah Committee are (continued) :

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.
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.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **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 provide 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 have, 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").

The Board has approved a communication policy that is applicable to all levels of staff of the Company.

### **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.

### **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 ITSC 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 has 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.

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **RISK MANAGEMENT**

The Risk Management & Control Committee ("RCC") meets regularly, at least every quarter in a financial year, to review risk management reports of the Company. The RCC has categorised risks into six (6) risk types affecting the Company namely Family Takaful business Risk, Market Risk, Credit Risk, Operational Risk, Strategic 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.

### **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 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.

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ZURICH TAKAFUL MALAYSIA BERHAD  
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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **REMUNERATION POLICY (continued)**

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
- The Company's Short Term Incentive Plan ("STIP") 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 policies, taking into account the ZICL'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 objective 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 the key 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 TAKAFUL MALAYSIA BERHAD  
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## DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business.

There have been no significant changes in the nature of the principal activities during the financial year other than the transfer of the General Takaful business as disclosed in Note 33 to the financial statements.

## FINANCIAL RESULTS

	RM'000
Net (loss)/profit for the financial year	
- Continuing operations	(11,399)
- Discontinued operations	<u>2,437</u>
	<u>(8,962)</u>

## RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year 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 year were not substantially affected by any item, transaction or event of a material and unusual nature, other than the significant event as disclosed in Note 33 to the financial statements.

## DIVIDENDS

No dividend was declared or paid since the end of the previous financial year. The Directors do not recommend the payment of any dividend for the current financial year.

## SHARE CAPITAL

The shareholding ownership of the Company has been transferred from Zurich Insurance Company Ltd to Zurich Holdings Malaysia Berhad on 30 November 2018. There was no issuance of new ordinary shares during the financial year.

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ZURICH TAKAFUL MALAYSIA BERHAD  
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## **DIRECTORS' REPORT (CONTINUED)**

### **DIRECTORS**

The Directors of the Company who have held office during the period since the date of the report are as follows:

Tan Sri Ahmad bin Mohd Don (Chairman)

Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim

Dr. Md Khalil bin Ruslan

Onn Kien Hoe

Choy Khai Choon

Hasnah binti Omar

Philip Wallace Smith (Resigned on 1 October 2018)

Stephen Clark (Appointed on 1 October 2018)

Choy Khai Choon retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

Hasnah binti Omar retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

### **DIRECTORS' BENEFITS**

Since the end of the previous financial year, 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 24 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 year, 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.

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ZURICH TAKAFUL MALAYSIA BERHAD  
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## DIRECTORS' REPORT (CONTINUED)

### INSURANCE AND INDEMNITY COST

The Company, through its ultimate holding company, Zurich Insurance Group Ltd. ("ZIGL") has maintained a Director's 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 affected for the Directors of the Company for the financial year amounting to RM1,456.

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

### DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholding required to be kept under Section 59 of the Companies Act, 2016, particulars of interests of Directors in office at the end of the financial year in shares in the ultimate holding company, Zurich Insurance Group Ltd, are as follows:

	<u>Number deferred/restricted/performance share units</u>				
	<u>At date of appointment</u>	<u>Granted/ reinvested dividends</u>	<u>Vested</u>	<u>Cancelled</u>	<u>At 31.12.2018</u>
<u>Units in Zurich Insurance Group Ltd.</u>					
Direct interest:					
Stephen Clark	2,789	-	-	-	2,789

Deferred, restricted and performance share units are granted to the Group's most senior executives under Zurich Insurance Group Ltd's long term incentive plans ("LTIP") entitle the holder to receive cash payment equal to the value of the same number of common shares plus credited dividends upon retirement or termination of employment or as they are vested, subject to any performance conditions.

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

### DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 24 to the financial statements.

### AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 24 to the financial statements. There is no indemnity given to or insurance effected for any auditor of the Company.

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ZURICH TAKAFUL MALAYSIA BERHAD  
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## **DIRECTORS' REPORT (CONTINUED)**

### **OTHER STATUTORY INFORMATION**

- (a) Before the financial statements of the Company were prepared, 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.
- (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 year 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 year.
- (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 year 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 year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made, other than the subsequent event as disclosed in Note 34 to the financial statements.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from insurance contracts 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 was adequate provision for its insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for Takaful Operators issued by BNM.

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ZURICH TAKAFUL MALAYSIA BERHAD  
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## **DIRECTORS' REPORT (CONTINUED)**

### **SIGNIFICANT AND SUBSEQUENT EVENTS**

Details of the significant and subsequent events are disclosed in Note 33 and Note 34 respectively to the financial statements.

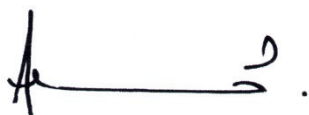
### **IMMEDIATE, PENULTIMATE AND ULTIMATE HOLDING CORPORATIONS**

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

### **AUDITORS**

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 15 March 2019.



TAN SRI AHMAD BIN MOHD DON  
CHAIRMAN



STEPHEN CLARK  
DIRECTOR

Kuala Lumpur  
15 March 2019

ZURICH TAKAFUL MALAYSIA BERHAD  
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**STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 251(2) OF THE COMPANIES ACT, 2016**

We, Tan Sri Ahmad bin Mohd Don and Stephen Clark, being two of the Directors of Zurich Takaful Malaysia Berhad, do hereby state that, in the opinion of the Directors, the financial statements set out on pages 28 to 131 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and the financial performance and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 15 March 2019.



TAN SRI AHMAD BIN MOHD DON  
DIRECTOR



STEPHEN CLARK  
DIRECTOR

Kuala Lumpur  
15 March 2019

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

I, Mukesh Dhawan, the Officer primarily responsible for the financial management of Zurich Takaful Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 131 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.



MUKESH DHAWAN

Subscribed and solemnly declared by the above named Mukesh Dhawan at Kuala Lumpur in Wilayah Persekutuan on 15 March 2019.

Before me,

COMMISSIONER FOR OATHS  
15 March 2019



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### **Shariah Committee's Report**

*In the name of Allah, the Beneficent, the Merciful*

In carrying out the roles and the responsibilities of the Zurich Takaful'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 year ended 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 six (6) seating of scheduled meetings and three (3) special meetings during the financial year 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 & 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 & product development activities, refining existing products & procedures, providing Shariah training, managing Shariah non-compliance risks, conducting Shariah audit & 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 year 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 in Zurich Malaysia.

#### **Shariah Training & Awareness**

During the financial year, seventeen (17) Shariah trainings and briefing sessions were held covering more than 463 participants among the Company's employees and agents nationwide. All new recruits were briefed on Shariah and Takaful during the induction programme. In addition, an online learning module (e-learning) on "Takaful 101" has been launched in December that was made compulsory to all the staff of Zurich Insurance and Takaful Malaysia.

#### **Shariah Non-Compliance Reporting**

Throughout the financial year, there were one (1) Shariah non-compliance (SNC) incident recorded. The management has taken the necessary action to report the said incident to regulator and ensure the SNC event was closed and rectified accordingly.

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## **Shariah Committee's Report (continued)**

### **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.

Shariah Review plan for the financial year were reviewed and approved by us for their implementation. During the year, the review was focusing on Post Implementation Review (PIR) and the scope of review was to ensure the integration process between Zurich Insurance and Zurich Takaful 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.

The reports were presented to us covering the following products:

- i) **Medica2015**
- ii) **Takaful Seniorgold**
- iii) **Takafulink**

### **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's compliance with the rulings issued by the Shariah Advisory Council ("SAC") of BNM and our decisions.

### **Business Zakat and Purification**

In the financial year, the Company has done its responsibility to perform zakat 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 statements are 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 year ended 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 account conformed to the basis that has been approved by us in accordance with Shariah principles;
3. The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles;
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.
5. The integration process with the aims to meet the Zurich International Group standard of practice which has been carried out by the management is complied with the Shariah requirements accordingly.

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 Takaful Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Company for the year ended 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  
15 March 2019



**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD**  
(Incorporated in Malaysia)  
(Company No. 731996-H)

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Our opinion

In our opinion, the financial statements of Zurich 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 its financial performance and its cash flows for the year 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 comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 131.

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.

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*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](http://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 MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 731996-H)

**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 MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 731996-H)

**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 represent the underlying transactions and events in a manner that achieves fair presentation.



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 731996-H)

**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  
01778/08/2020 J  
Chartered Accountant

Kuala Lumpur  
15 March 2019

ZURICH TAKAFUL MALAYSIA BERHAD  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018**

		2018			2017		
	Note	Takaful Operator	Family Takaful Fund	Company	Takaful Operator	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>							
Property and equipment	4	4,881	-	4,881	4,039	-	4,039
Intangible assets	5	991	-	991	1,949	-	1,949
Investments:							
Available-for-sale	6(a)	135,953	106,385	242,338	166,336	67,909	234,245
Fair value through profit or loss	6(b)	2,840	364,901	364,901	3,045	429,529	429,529
Takaful receivables	7	-	3,370	3,370	-	3,217	3,217
Qardhul Hassan receivable	8	6,291	-	-	-	-	-
Retakaful assets	9	-	19,144	19,144	-	15,535	15,535
Other receivables	10	28,706	10,461	7,810	24,034	6,244	1,526
Current tax assets		-	1,434	1,434	-	1,200	1,200
Deferred tax assets	15	-	1,534	1,534	664	-	664
Cash and bank balances		30,602	84,329	114,931	16,019	78,269	94,288
Assets of a disposal group classified as held-for-sale :	16						
- Takaful Operator	16	-	-	-	84,233	-	79,398
- General Takaful Fund	16	-	-	-	-	-	435,795
<b>TOTAL ASSETS</b>		210,264	591,558	761,334	300,319	601,903	1,301,385

ZURICH TAKAFUL MALAYSIA BERHAD  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2018 (CONTINUED)**

		2018			2017		
	<u>Note</u>	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<b>LIABILITIES</b>							
Takaful contract liabilities	11	-	551,491	548,651	-	561,560	558,515
Takaful payables	12	-	1,172	1,172	-	3,494	3,494
Qardhul Hassan payable		-	23,942	-	-	17,651	-
Other payables	13	33,960	37,936	40,539	38,284	34,193	43,173
Expense liabilities	14	12,848	-	12,848	2,001	-	2,001
Current tax liabilities		1,424	959	2,383	1,035	753	1,788
Deferred tax liabilities	15	1,695	-	1,695	-	1,903	1,903
Liabilities of a disposal group classified as held-for-sale :							
- Takaful Operator	16	-	-	-	96,206	-	88,403
- General Takaful Fund	16	-	-	-	-	-	439,315
<b>TOTAL LIABILITIES</b>		<b>49,927</b>	<b>615,500</b>	<b>607,288</b>	<b>137,526</b>	<b>619,554</b>	<b>1,138,592</b>
<b>SHAREHOLDERS' EQUITY</b>							
Share capital	17	190,000	-	190,000	190,000	-	190,000
Accumulated losses		(29,831)	(23,942)	(36,122)	(27,160)	(17,651)	(27,160)
Available-for-sale reserve	18	168	-	168	(47)	-	(47)
<b>TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY</b>		<b>210,264</b>	<b>591,558</b>	<b>761,334</b>	<b>300,319</b>	<b>601,903</b>	<b>1,301,385</b>

ZURICH TAKAFUL MALAYSIA BERHAD  
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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Note	2018			2017		
		Takaful Operator	Family Takaful Fund	Company	Takaful Operator	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Continuing Operations</b>							
Gross earned contributions	19(a)	-	354,523	354,523	-	277,687	277,687
Contribution ceded to retakaful operators	19(a)	-	(21,735)	(21,735)	-	(20,051)	(20,051)
<b>Net earned contributions</b>	19(a)	-	332,788	332,788	-	257,636	257,636
Wakalah fee income		125,054	-	-	95,729	-	-
Surplus sharing from Family Takaful Fund		14,500	-	-	13,500	-	-
Investment income	20	6,722	24,131	30,853	6,292	20,432	26,724
Realised (losses)/gains	21	(109)	843	734	-	-	-
Fair value (losses)/gains	22	(205)	(57,395)	(57,600)	245	25,438	25,683
Other operating income – net		296	3,082	3,378	548	3,435	3,983
<b>Other income</b>		146,258	(29,339)	(22,635)	116,314	49,305	56,390
<b>Total revenue</b>		146,258	303,449	310,153	116,314	306,941	314,026
Gross benefits and claims paid	23(a)	-	(194,630)	(194,630)	-	(139,700)	(139,700)
Claims ceded to retakaful operators	23(a)	-	22,556	22,556	-	18,630	18,630
Gross change to contract liabilities	23(a)	-	(3,041)	(3,041)	-	(67,508)	(67,484)
Change in contract liabilities ceded to retakaful operators	23(a)	-	2,842	2,842	-	276	276
<b>Net claims</b>		-	(172,273)	(172,273)	-	(188,302)	(188,278)

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

	<u>Note</u>	2018			2017		
		Takaful Operator	Family Takaful Fund	Company	Takaful Operator	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Surplus sharing with Takaful Operator		-	(14,500)	-	-	(13,500)	-
Wakalah fee expenses		-	(125,054)	-	-	(95,729)	-
Fee and commission expenses		(77,285)	-	(77,285)	(70,619)	-	(70,619)
Management expenses	24(a)	(57,143)	-	(57,143)	(53,161)	-	(53,161)
Qardhul Hassan impairment		-	-	-	(17,651)	-	-
Other operating expenses	24(b)	(22)	(1,259)	(1,281)	(101)	(15,721)	(15,822)
Expense liabilities		(10,847)	-	(10,847)	1,609	-	1,609
<b>Other expenses</b>		<b>(145,297)</b>	<b>(140,813)</b>	<b>(146,556)</b>	<b>(139,923)</b>	<b>(124,950)</b>	<b>(137,993)</b>
Zakat		-	-	-	-	-	-
<b>Profit/(loss) before taxation</b>		<b>961</b>	<b>(9,637)</b>	<b>(8,676)</b>	<b>(23,609)</b>	<b>(6,311)</b>	<b>(12,245)</b>
Tax income/(expense) attributable to participants		-	3,346	3,346	-	(2,630)	(2,630)
<b>Profit/(loss) before taxation attributable to Takaful Operator</b>		<b>961</b>	<b>(6,291)</b>	<b>(5,330)</b>	<b>(23,609)</b>	<b>(8,941)</b>	<b>(14,875)</b>
Taxation	25	(6,069)	3,346	(2,723)	(2,488)	(2,630)	(7,214)
Tax expense attributable to participants		-	(3,346)	(3,346)	-	2,630	2,630
Tax expense attributable to Takaful Operator		(6,069)	-	(6,069)	(2,488)	-	(4,584)
<b>Net loss for the financial year from continuing operations</b>		<b>(5,108)</b>	<b>(6,291)</b>	<b>(11,399)</b>	<b>(26,097)</b>	<b>(8,941)</b>	<b>(19,459)</b>
Net profit/(loss) for the financial year from discontinued operations :							
- Takaful Operator	29	2,437	-	2,437	(4,398)	-	(4,398)
- General Takaful Fund	29	-	-	-	-	-	-
<b>Net loss for the financial year</b>		<b>(2,671)</b>	<b>(6,291)</b>	<b>(8,962)</b>	<b>(30,495)</b>	<b>(8,941)</b>	<b>(23,857)</b>

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018 (CONTINUED)**

	<u>Note</u>	2018			2017		
		Takaful Operator	Family Takaful Fund	Company	Takaful Operator	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Net loss for the financial year</b>		(2,671)	(6,291)	(8,962)	(30,495)	(8,941)	(23,857)
<b>Other comprehensive (loss)/income:</b>							
<b><u>Items that may be subsequently reclassified to profit or loss:</u></b>							
Fair value changes on available-for-sale investments that may be reclassified to profit or loss:							
- Gross fair value changes	6(c)(i)	288	(315)	(27)	(47)	407	345
- Deferred tax	15	(73)	(60)	(133)	-	(32)	(17)
- Net fair value changes		215	(375)	(160)	(47)	375	328
Changes in Takaful contract liabilities arising from unrealised net fair value changes		-	375	375	-	(375)	(375)
<b>Other comprehensive income/(loss) for the financial year, net of tax</b>		215	-	215	(47)	-	(47)
<b>Total comprehensive loss for the financial year</b>		(2,456)	(6,291)	(8,747)	(30,542)	(8,941)	(23,904)

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

	Share capital	Non- distributable Available-for- sale reserve	Distributable Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000
<b>At 1 January 2018</b>	190,000	(47)	(27,160)	162,793
Issue of share capital during the financial year	-	-	-	-
Net loss for the financial year	-	-	(8,962)	(8,962)
Other comprehensive income for the financial year	-	215	-	215
<b>At 31 December 2018</b>	<b>190,000</b>	<b>168</b>	<b>(36,122)</b>	<b>154,046</b>
<b>At 1 January 2017</b>	160,000	-	(3,303)	156,697
Issue of share capital during the financial year	30,000	-	-	30,000
Net loss for the financial year	-	-	(23,857)	(23,857)
Other comprehensive income for the financial year	-	(47)	-	(47)
<b>At 31 December 2017</b>	<b>190,000</b>	<b>(47)</b>	<b>(27,160)</b>	<b>162,793</b>

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

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**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

	Note	2018 RM'000	2017 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated/(used in) operating activities	26	7,968	(39,157)
Distribution income received		14,426	13,107
Profit income received		19,402	19,780
Income tax paid		(4,747)	(15,331)
<b>Net cash flows generated/(used in) from operating activities</b>		<b>37,049</b>	<b>(21,601)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		75	-
Purchase of property and equipment		(2,835)	-
Purchase of intangible assets		(219)	(2,143)
<b>Net cash flows used in investing activities</b>		<b>(2,979)</b>	<b>(2,143)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of shares		-	30,000
Proceeds from issuance of subordinated obligation		-	73,000
<b>Net cash flows generated from financing activities</b>		<b>-</b>	<b>103,000</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>34,070</b>	<b>79,256</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<b>94,288</b>	<b>55,679</b>
Settlement of interfund balances and equity related to disposal group classified as held-for-sale	29	(552)	-
Transfer to assets of a disposal group classified as held-for-sale		(12,875)	(40,647)
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>		<b>114,931</b>	<b>94,288</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and bank balances		114,931	94,288

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018

### 1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business. There have been no significant changes in the nature of these principal activities during the financial year other than the transfer of the General Takaful business as disclosed in Note 33 to the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are located at:

#### Registered office

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

#### Principal place of business

Level 23A, 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 corporation incorporated and domiciled in Malaysia. The penultimate holding and ultimate holding corporations are Zurich Insurance Company Ltd. and Zurich Insurance Group Ltd., respectively. Both corporations 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 15 March 2019.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Basis of preparation

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

In preparing the Company-level financial statements as a whole, the assets, liabilities, income and expenses of the Takaful funds are combined with those of the Takaful Operator whereby the related inter-fund balances, including Qardhul Hassan, and transactions are eliminated in full.

The inclusion of separate financial information of the Takaful funds and the Takaful Operator together with the Company-level financial statements in the statement of financial position, the statements of comprehensive income, changes in equity and cash flows as well as certain relevant notes to the financial statements represents additional supplementary information presented in accordance with the requirements of BNM pursuant to the Islamic Financial Services Act, 2013 in Malaysia to separate assets, liabilities, income and expenses of the Takaful funds from its own. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for like transactions and events in similar circumstances.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

The preparation of financial statements in conformity with the MFRS requires the use of 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 revenue and expenses during the financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation as specifically disclosed in the accounting policies of the Company.

The preparation of financial statements in conformity of MFRS requires the use of terminology under relevant standards. The use of key terms such as "insurance", "reinsurance" in the financial statements refers to Shariah compliant Takaful or Islamic insurance transactions, assets or liabilities.

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 3 to the financial statements.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

#### (i) Standards, amendments to published standards and interpretations

##### (a) 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 year beginning on 1 January 2018 are as follows:

- MFRS 9 "Financial Instruments" replaces 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 contractual cash flow 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 interest.

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 change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

##### (i) Standards, amendments to published standards and interpretations (continued)

##### (a) 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 Customer” replaces MFRS 118 “Revenue” and MFRS 111 “Construction Contracts”. It establishes the principles that are applied when reporting information about the nature, amount, timing and uncertainty of revenue and cash flows from a contract with a customer.

MFRS 15 does not apply to revenues relating to insurance 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.

- Amendments to MFRS 2 “Share-based Payment – Classification and Measurement of Shared-based Payment Transactions”
- Amendments to MFRS 4 – Applying MFRS 9 “Financial Instruments” with MFRS 4 “Insurance Contracts” includes certain provisions to allow entities which are predominantly operating as an insurance business to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 “Financial Instruments” 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 17 “Insurance Contracts”, the related liabilities from insurance contracts are often measured on amortised cost basis.

The Company’s business activity is predominantly insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2021 when MFRS 17 becomes effective.

- Amendments to MFRS 140 “Investment Property – Transfers of Investment Property” clarifies 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.
- IC Interpretation 22 “Foreign Currency Transactions and Advance Consideration” applies when an entity recognises non-monetary asset and 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 transaction’ to record foreign currency transaction.

IC Interpretation 22 provides guidance on 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.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

##### (i) Standards, amendments to published standards and interpretations (continued)

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

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.

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

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

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

- 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 interest 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.

MFRS 16 "Leases" will have an impact on the accounting for contracts where the Group acts as a lessee (and intermediate lessor), especially on real estate rental contracts, resulting in recognition of almost all leases on the balance sheet. 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 less than RM3.6 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. Both changes will have no material impact to profit or loss.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

##### (i) Standards, amendments to published standards and interpretations (continued)

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

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

- 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.

- Amendments to MFRS 9 “Prepayment features with negative compensation” allow companies to measure some prepayable 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 interest. 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 3 “Business Combinations” clarify that when a party obtains control of a business that is a joint operation, the acquirer should account the transaction as a business combination achieved in stages. Accordingly it should remeasure its previously held interest in the joint operation (rights to the assets and obligations for the liabilities) at fair value on the acquisition date.
- 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.
- Amendments to MFRS 119 “Plan amendment, curtailment or settlement” requires an entity to use the updated actuarial assumptions from remeasurement of its net defined benefit liability or asset arising from plan amendment, curtailment or settlement, to determine current service cost and net interest for the remaining period after the change to the plan. The amendments will be applied prospectively.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

##### (i) Standards, amendments to published standards and interpretations (continued)

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

##### (ii) 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 contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance 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 contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder 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 is 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 coverages:

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

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 are required to disclose information about amounts, judgements and risks arising from insurance contracts.

Other than MFRS 9 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.

The Company has yet to assess the full impact of MFRS 9 and MFRS 17 onto the Company's accounting policies and will complete the process prior to the reporting requirement deadline.

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.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Subsequent cost is 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 item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

The residual values and useful life of assets are reviewed and adjusted if appropriate at each date of the statement of financial position. Depreciation of property and equipment is provided so as to allocate the cost of each asset on a straight line basis over the estimated useful life of the assets. The annual depreciation rates are as follows:

Computer equipment	20%
Furniture and fittings	10%
Motor vehicles	10%
Office equipment	10%
Renovation	10%

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(h) 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 and loss.

#### (c) Intangible asset

##### Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to 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 as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;
- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised using straight line method over their estimated useful lives.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Investments and other financial assets

The Company classifies its investments and other financial assets into the following categories: financial assets measured at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investment at initial recognition.

##### (i) Financial assets measured at fair value through profit or loss ("FVTPL")

The Company classifies assets acquired for the purpose of selling in the short-term as held-for-trading or it is part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Investments held by investment-linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

Financial assets classified as FVTPL are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value and any gain or loss arising from the change in fair values is recognised in profit or loss. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

##### (ii) Loans and receivables ("LAR")

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment loss.

Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Investments and other financial assets (continued)

##### (iii) Available-for-sale ("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 assets 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 asset is derecognised or asset is determined to be impaired, except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities. 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 the 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 except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities until the asset is derecognised.

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

#### (e) 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 bid prices 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 bid values.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. 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 flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. 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 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 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.

The carrying amounts of financial assets and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values. Fair value measurements are classified using a fair value hierarchy based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. 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 inputs are market based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets; (iii) inputs other than quoted prices that are observable and (iv) inputs derived from, or corroborated by, observable market data.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are 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 flow and investment in structured products with fair values obtained via investment bankers and/or fund managers are considered as Level 2 valuation basis.

- Level 3 inputs are unobservable inputs which reflect the Company's own assumptions about market pricing using the best internal and external information available. 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. There are no level 3 valued financial investments held by the Company during the current financial year.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset or group of financial assets is impaired.

##### (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 impairment loss is recorded in profit or loss.

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 each 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 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

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 profit or loss, is transferred from equity through the statement of comprehensive income or from Takaful contract liabilities to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as AFS are reversed through 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 profit or loss.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to 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 profit or loss immediately.

#### (i) Takaful receivables

Takaful receivables are recognised when due. They are measured at initial recognition at the fair value. Subsequent to initial recognition, Takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the Takaful receivables are impaired, the Company reduces the carrying amount of the Takaful receivables accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that Takaful receivables are impaired using the procedures 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(g) to the financial statements.

#### (j) Employee benefits

##### Short term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits, which are short-term employee benefits, are accrued in the financial year in which the associated services are rendered by employees of the Company.

##### Post employment benefits

The Company has post-employment benefit schemes for eligible employees, which are defined contribution plans.

The Company's contributions to defined contribution plans, including the Employees' Provident Fund, are charged to profit or loss in the financial year to which they relate. 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)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Product classification

The Company issues contracts that transfer Takaful risk or financial risk or both.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is the risk other than financial risk.

Takaful contracts are those contracts that transfer significant Takaful risk. A Takaful contract is a contract under which the Company (the insurer) has accepted significant Takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the insured event) adversely affects the participants. As a general guideline, the Company determines whether it has significant Takaful risk by comparing benefits paid with benefits payable if the Takaful event did not occur. Investment contracts are those contracts that do not transfer significant Takaful risk.

Once a contract has been classified as a Takaful contract, it remains a Takaful contract for the remainder of its life-time, even if the Takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired. Investment contracts can, however, be reclassified as Takaful contracts after inception if Takaful risk becomes significant.

When Takaful contracts contain both a financial risk component and a significant Takaful risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any contributions relating to the Takaful risk component are accounted for on the same bases as Takaful contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

The Company defines Takaful risk to be significant when the ratio of the Takaful risk over the deposit component is not less than 110% of the deposit component at any point of the Takaful contract in force. 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.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (l) Retakaful

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

Ceded retakaful arrangements do not relieve the Company from its 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 profit or loss.

Gains or losses on buying retakaful are recognised in profit or loss immediately at the date of purchase and are not amortised.

The Company also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable. Contribution 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 companies. 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 explicitly identified contribution or fees to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective yield method when accrued.

#### (m) General Takaful underwriting results

The General Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and consists of unearned contribution reserves and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the General Takaful fund distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. The General Takaful underwriting results are determined for each class of General Takaful business after taking into account retakaful, wakalah fee, unearned contributions and claims incurred.

Any deficit in the General takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

#### Contribution income

Contribution income is recognised in a financial year in respect of risks assumed during that particular year. Contributions from direct business are recognised during the financial year upon the issuance of Takaful certificates. Contributions in respect of risks incepted for which Takaful certificates have not been raised as of the date of the statement of financial position are accrued at that date.

Outward retakaful contributions are recognised in the same accounting period as the original certificate to which the retakaful relates.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) General Takaful underwriting results (continued)

##### Unearned contribution reserves

Unearned contribution reserves ("UCR") represent the portion of the net contributions of Takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year.

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:

- 1/365th method for all classes of General Takaful business within Malaysia; and
- Time apportionment method for non-annual certificates and first year annual certificates coverage period of more than one year

with a further reduction for Wakalah fee expenses to reflect the Wakalah business principle.

##### Provision for outstanding claims

A liability for outstanding claims is recognised in respect of both direct Takaful and inward retakaful. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the statement of financial position.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the date of the statement of financial position, based on an actuarial valuation by an independent qualified actuary.

##### Commission and agency expenses

Commission and agency expenses which are costs directly incurred in securing contributions on Takaful certificates, net of commission income derived from retakaful in the course of ceding of contributions, are charged to profit or loss of the General Takaful business as part of Wakalah fees payable to the Takaful Operator (see Note 2(r) to the financial statements) in the financial year in which they are incurred.

##### Deficits/accumulated deficits

Deficits reported by the General Takaful fund during the financial year are reported as a loss in profit or loss of the General Takaful fund to the extent that there are no unallocated surplus balances residing within the General Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the financial statements of the Company.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (n) Family Takaful underwriting results

The Family Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund and is attributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

Any actuarial deficit in the Family Takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

#### Contribution income

Contribution income represents contribution recognised in the Family Takaful and Investment-linked funds.

Contribution income from the Family Takaful fund is recognised as soon as the amount can be reliably measured. First contribution is recognised from inception date and subsequent contribution is recognised when it is due. At the end of the financial year, all contributions are accounted for to the extent that they can be reliably measured.

Outward retakaful contributions are recognised in the same accounting periods as the original certificates to which the retakaful relates.

Contribution income of the Investment-linked fund includes net creation of units, which represent contributions paid by participants as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on receipt basis.

#### Provision for outstanding claims

Claims and settlement costs that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

Recoveries on retakaful claims are accounted for in the same financial year as the original claims are recognised.

Claims and provisions for claims arising on Family Takaful certificates including settlement costs, less retakaful recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a Family Takaful certificate are recognised as follows:

- (i) maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;
- (ii) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

#### Deficits/accumulated deficits

Deficits reported by the Family Takaful fund during the financial year are reported as a loss in profit or loss of the Family Takaful fund to the extent that there are no unallocated surplus balances residing within the Family Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the statement of financial position of the Company.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Takaful contract liabilities

##### Family Takaful contract liabilities

Family Takaful contract liabilities are recognised when contracts are entered into and contributions are charged.

A liability adequacy test is performed at 75 percentile confidence level, in line with BNM's valuation guidelines on Family Takaful business and the requirements of MFRS 4 Insurance Contract. Claim rates, surrender assumptions and other valuation parameters are determined at a 75 percentile confidence level.

For Investment-linked products, the non-unit liabilities were valued on a cash flow basis by projecting tabarru' (risk charges) stream on a certificate basis, taking into account expected death and surrenders as decrements. The tabarru' streams were then compared against the corresponding projected mortality and other risk benefits. Future deficits were reserved on a present value basis, using the risk free spot rates of return, based on Sterling Discounted Cash Flow ("SDCF") method. The SDCF approach is adopted to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate. The higher of the UCR and total present value of deficits was taken as the actuarial liability. The value of Participant Investment Account ("PIA") is taken as the unit reserves.

In the case of yearly renewable term products with no savings elements, the liability for such Family Takaful certificate comprises the provision for unearned contributions and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the operator. Where the portfolio demonstrates deteriorating experience, a deficiency reserve is set up as an additional reserve.

For long-term term products with implicit guarantees, the liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of present value of future benefits less the present value of future contributions, discounted at the appropriate risk discount rate.

Expense reserve in the Takaful Operator's fund is determined, such that a consistent method is used between family takaful liabilities and expense liabilities. For instance, for IL products, SDCF is used discounted at appropriate spot rates. For other plans in the non-IL fund, the prospective Gross Premium Valuation is used. For non-guaranteed plans, in particular the medical standalone plans, an unearned wakalah fee methodology is used.

The liability is derecognised when the contract expires, is discharged or is cancelled.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (p) Takaful Operator's expense liabilities

The expense liabilities of the Takaful Operator consist of expense liabilities of the Family Takaful funds which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the Takaful certificate and recognised in profit or loss.

#### (q) Measurement and impairment of Qardhul Hassan

Any deficit in the Takaful risk fund will be made good via a benevolent loan, or Qardhul Hassan, granted by the Takaful Operator to the Takaful funds. Qardhul Hassan shall be repaid from future surplus of the Takaful funds.

Qardhul Hassan is accounted for as receivable and payable in the financial statements of the Takaful Operator and Takaful funds respectively, and is stated at cost. At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. As write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2(h) to the financial statements on impairment of non-financial assets.

Qardhul Hassan payable in the respective Takaful funds is stated at cost.

#### (r) Management expenses, commission expenses and Wakalah fee

The acquisition costs, commissions and management expenses are borne by the Takaful Operator. In accordance with principles of Wakalah approved by the Company's Shariah Committee and agreed between the participants and the Takaful Operator, an agreed percentage of the gross contribution will be charged as upfront wakalah fees by the Takaful Operator to the General Takaful and Family Takaful funds to cover the acquisition costs, commissions and management expenses, and recognised as income upon issuance of certificates. Non-upfront wakalah fees are charged by Takaful Operator to Family Takaful fund based on agreed amount or a certain percentage of an amount to cover other costs incurred by the Takaful operator.

#### (s) Other revenue recognition

Profit including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to profit or loss.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Committee of the Company. Zakat provision is calculated on 2.5% of the profit before zakat and taxation of the Company for the financial year.

#### (u) Income taxes

Tax expense for the 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 the 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 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.

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 in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (v) Dividends

Dividends are recognised as liabilities when the obligation to pay is established.

#### (w) 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 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.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (x) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

#### (y) Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### (z) Non-current assets (or disposal group) held-for-sale and discontinued operations

Non-current assets (of disposal groups) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Company that has been disposed of or is classified as held-for-sale and that represents a separate major line of business. The results of discontinued operations are presented separately in the statement of comprehensive income.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### (a) Critical accounting estimates and assumptions

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 year are outlined below.

##### (i) Actuarial liabilities for Family Takaful fund

The Company engages an independent external actuary to perform the actuarial liabilities computation for Family Takaful plans. All products are valued in such a manner that overall the Company holds reserves at 75 percentile confidence level, as prescribed by BNM's valuation guidelines on Family Takaful business. The liabilities are computed by product types, based on the following:

- Investment-Linked Participant Risk Investment Account ("PRIA Investment-Linked")

This is the risk fund for investment-linked certificates, including the attached riders. The Tabarru' rates are dripped from the Participant Investment Account ("PIA") into the risk fund on a monthly basis. The liabilities in this fund are calculated as the higher of Unearned Tabarru' Reserve ("UTR") or total present value of future deficits. The UTR is calculated by taking half of the monthly drip at the valuation date. The present value of future deficits is based on Sterling Discounted Cash Flow method, to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate, discounted using the risk free spot rates and where claims assumptions are determined at 75 percentile confidence level. For medical riders, the reserves are calculated as the higher of the unexpired risk reserve or the UTR.

In addition, IBNR claim is also reserved for Medical riders. From the experience study, 1 month average net claims is assumed in calculating IBNR for medical riders.

The Company also set aside provision for certificates the contributions of which have been waived. This is taken as the present value of future gross contributions to be waived throughout the remaining term of the certificate, discounted using risk free spot rates of returns.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### (a) Critical accounting estimates and assumptions (continued)

##### (i) Actuarial liabilities for Family Takaful fund (continued)

- Ordinary Family Participant Risk Investment Account ("PRIA Ordinary Family") (continued)

Key product group within this fund include CancerCare, SmartMedic, Medica2015, Patina 2016, Term 80, Takafulife Series, Takaful Senior Gold, Executive 20, Takaful Sure Cover and Takaful Mumtaz.

CancerCare is a guaranteed renewable medical Takaful product with additional death benefit. The contribution reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24<sup>th</sup> method. For the death benefit, the reserve is calculated by taking the higher of UTR or Gross Premium Valuation ("GPV"), where GPV is using M9903 mortality table discounted at risk-free spot rates of returns.

SmartMedic is an individual Hospitalisation and Surgical product with guaranteed renewability up to age 79. It also provides funeral expense benefit, which is payable upon death due to all causes. The reserve is calculated as the higher of Unearned Tabarru' Reserve ("UTR") or URR. The UTR is calculated as 100% of unearned tabarru' using 1/24<sup>th</sup> method. URR is a percentage of unearned medical tabarru' where the percentage is determined by analysing the product's loss ratio by certificate year. An additional provision of 1 month of average claims is set aside for IBNR claims.

Medica2015 is another individual Hospitalisation and Surgical product that comes with guaranteed renewability up to age 79. The product comes with additional benefits such as funeral expenses which is payable upon death due to all causes, no claim discount ("NCD") and second medical opinion. The reserve is set aside in similar manner to SmartMedic reserving.

Patina2016 product is a standalone Personal Accident product with guaranteed renewability up to age 75. The reserve is being calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24<sup>th</sup> method and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

The reserves for Takafulife Series, Term 80, Takaful Senior Gold, Executive 20, Takaful Sure Cover and Takaful Mumtaz products are calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is equal to half month tabarru' and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

- Group Fund Risk Investment Account ("GFRIA")

Currently there are 5 Group products namely Group Term Takaful (GTT), Group Comprehensive Takaful Scheme (GCTS), Group Mortgage Protection Plan, Group Decreasing Term and Government Mortgage Reducing Term Takaful (GMRTT).

The reserve for GTT and GCTS are calculated as 100% of UTR using the 1/24<sup>th</sup> method. The reserve for Group Mortgage Protection Plan and Group Decreasing Term are computed using GPV method, discounted at risk free spot rates of returns. Additional provisions of 5.0 months and 6.5 months of average claims are set aside for IBNR Death and Critical Illness claims respectively.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### (a) Critical accounting estimates and assumptions (continued)

##### (ii) Valuation of Takaful Operator's fund expenses liabilities

- Expense liabilities from Family Takaful products

The expense liability calculate on vary by the types of product, with each is calculated at policy level. For Investment-linked or products with PIA, SDCF is used, whereas for non-PIA product, GPV method is used. Yearly renewable product is calculated using unearned wakalah approach. Income comprises future wakalah fees, certificate fees, fund management fees and risk fund surplus after Qardhul Hassan repayments. The outgo comprises future renewal expenses, commissions and agency related expenses.

- Expense liabilities from General Takaful products

The Expense Liability is determined by selecting the higher of the Unearned Wakalah Fee ("UWF") or the Unearned Expense Reserve ("UER") with provision for adverse deviation at 75 percentile confidence level. The UER contains three components, namely claims handling expenses for the outstanding claims and IBNR, claims handling expenses for the unexpired risks and policy servicing costs on unearned contribution.

At subsequent reporting dates, these reserve estimates will be reassessed for adequacy and reasonableness and revised, accordingly.

#### (b) Critical judgment in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of a specific policy could materially affect the reported results and financial position of the Company.

Significant judgment is required in determining the income and deferred taxes applicable to the Company's business as a Takaful Operator. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognises tax liabilities on anticipated issues based on the best estimate of the amount of taxes expected to be paid. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**4 PROPERTY AND EQUIPMENT**

**Takaful Operator/Company**

	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Renovation	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>						
At 1 January 2017	3,554	6,843	397	3,813	2,644	17,251
Additions	-	-	-	-	-	-
Write-offs	(813)	-	-	(4)	-	(817)
Disposals	-	(1)	-	(365)	-	(366)
Transfer to assets of a disposal group classified as held-for-sale (Note 16)	(1,269)	(186)	-	(74)	(88)	(1,617)
At 31 December 2017/1 January 2018	1,472	6,656	397	3,370	2,556	14,451
Additions	268	365	344	579	1,094	2,650
Write-offs	(977)	(3,579)	-	(1,549)	(1,505)	(7,610)
Disposals	-	-	(391)	(247)	-	(638)
Reclassification from intangible assets (Note 5)	579	-	-	-	-	579
At 31 December 2018	1,342	3,442	350	2,153	2,145	9,432

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

4 PROPERTY AND EQUIPMENT (CONTINUED)

**Takaful Operator/Company**

	Computer Equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>Accumulated depreciation</u>						
At 1 January 2017	2,175	3,203	248	1,683	1,146	8,455
Charge for the financial year (Note 24(a))	850	1,767	40	778	785	4,220
Write-offs	(813)	-	-	-	-	(813)
Disposals	-	(1)	-	(201)	-	(202)
Transfer to assets of a disposal group classified as held-for-sale (Note 16)	(900)	(186)	-	(74)	(88)	(1,248)
At 31 December 2017/1 January 2018	1,312	4,783	288	2,186	1,843	10,412
Charge for the financial year (Note 24(a))	319	430	56	287	229	1,321
Write-offs	(977)	(3,196)	-	(1,241)	(1,300)	(6,714)
Disposals	-	-	(316)	(152)	-	(468)
At 31 December 2018	654	2,017	28	1,080	772	4,551
<u>Net carrying amount</u>						
At 31 December 2017	160	1,873	109	1,184	713	4,039
At 31 December 2018	688	1,425	322	1,073	1,373	4,881

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**5 INTANGIBLE ASSETS**

**Takaful Operator/Company**

	2018	2017
	RM'000	RM'000
<u>Cost</u>		
At 1 January	3,952	4,804
Additions	219	2,143
Write-offs	(1,226)	(514)
Reclassification to property and equipment (Note 4)	(579)	-
Transfer to assets of a disposal group classified as held-for-sale (Note 16(a))	-	(2,481)
At 31 December	2,366	3,952
<u>Accumulated amortisation</u>		
At 1 January	2,003	1,544
Amortisation for the financial year (Note 24(a))	598	1,271
Write-offs	(1,226)	(218)
Transfer to assets of a disposal group classified as held-for-sale (Note 16)	-	(594)
At 31 December	1,375	2,003
<u>Net carrying amount</u>		
At 31 December	991	1,949

The intangible assets consist mainly of development costs and costs that are directly associated with identifiable software systems controlled by the Company that do not form an integral part of the hardware, and that will generate economic benefits exceeding costs beyond one year.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS**

At 31 December 2018

Malaysian Government Securities /  
Government Investment Issues  
Islamic debt securities, unquoted  
Shariah-approved quoted equities  
Investment-linked units  
Unit trusts

Takaful Operator	Family Takaful Fund	Company
RM'000	RM'000	RM'000
8,121	-	8,121
127,832	154,007	281,839
-	94,026	94,026
2,840	-	-
-	223,253	223,253
138,793	471,286	607,239

At 31 December 2017

Malaysian Government Securities /  
Government Investment Issues  
Islamic debt securities, unquoted  
Shariah-approved quoted equities  
Investment-linked units  
Unit trusts

Takaful Operator	Family Takaful Fund	Company
RM'000	RM'000	RM'000
8,117	-	8,117
158,219	148,580	306,799
-	106,515	106,515
3,045	-	-
-	242,343	242,343
169,381	497,438	663,774

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

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

At 31 December 2018

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Available-for-sale ("AFS")	135,953	106,385	242,338
Fair value through profit or loss ("FVTPL")	2,840	364,901	364,901
	<u>138,793</u>	<u>471,286</u>	<u>607,239</u>
The following investments mature after 12 months:			
AFS	112,035	106,385	218,420
FVTPL	-	44,294	44,294
	<u>112,035</u>	<u>150,679</u>	<u>262,714</u>

At 31 December 2017

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Available-for-sale ("AFS")	166,336	67,909	234,245
Fair value through profit or loss ("FVTPL")	3,045	429,529	429,529
	<u>169,381</u>	<u>497,438</u>	<u>663,774</u>
The following investments mature after 12 months:			
AFS	133,004	67,909	200,913
FVTPL	-	74,858	74,858
	<u>133,004</u>	<u>142,767</u>	<u>275,771</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

(a) AFS investments

At 31 December 2018

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Fair value:			
Malaysian Government Securities/ Government Investment Issues	8,121	-	8,121
Islamic debt-securities, unquoted	127,832	106,385	234,217
	<u>135,953</u>	<u>106,385</u>	<u>242,338</u>

At 31 December 2017

	Family Takaful Fund RM'000	General Takaful Fund RM'000	Company RM'000
Fair value:			
Malaysian Government Securities/ Government Investment Issues	8,117	-	8,117
Islamic debt-securities, unquoted	158,219	67,909	226,128
	<u>166,336</u>	<u>67,909</u>	<u>234,245</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

**(b) FVTPL investments**

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>			
Fair value at designation:			
Shariah-approved quoted equities	-	94,026	94,026
Islamic debt securities, unquoted	-	47,622	47,622
Investment-linked units	2,840	-	-
Unit trusts	-	223,253	223,253
	<u>2,840</u>	<u>364,901</u>	<u>364,901</u>
<u>At 31 December 2017</u>			
Fair value at designation:			
Shariah-approved quoted equities	-	106,515	106,515
Islamic debt securities, unquoted	-	80,671	80,671
Investment-linked units	3,045	-	-
Unit trusts	-	242,343	242,343
	<u>3,045</u>	<u>429,529</u>	<u>429,529</u>

**(c) Carrying value of investments**

The movement of financial assets are summarised in the table below by measurement category:

**(i) Takaful Operator**

	LAR RM'000	AFS RM'000	FVTPL RM'000	Total RM'000
At 1 January 2017	161,856	-	2,800	164,656
Purchases	-	165,297	-	165,297
Disposals including maturities and redemptions	(88,539)	-	-	(88,539)
Fair value loss recorded in:				
Profit or loss (Note 22)	-	-	245	245
Other comprehensive income	-	(47)	-	(47)
Movement in accrued profit	867	1,365	-	2,232
Amortisation adjustment (Note 20(a))	-	(279)	-	(279)
Transfer to assets of a disposal group classified as held-for-sale	(74,184)	-	-	(74,184)
At 31 December 2017/1 January 2018	-	166,336	3,045	169,381
Purchases	-	12,081	-	12,081
Disposals including maturities and redemptions	-	(42,014)	-	(42,014)
Fair value gain recorded in:				
Profit or loss (Note 22)	-	-	(205)	(205)
Other comprehensive income	-	288	-	288
Movement in accrued profit	-	(112)	-	(112)
Amortisation adjustment (Note 20(a))	-	(626)	-	(626)
At 31 December 2018	-	135,953	2,840	138,793

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

6 INVESTMENTS (CONTINUED)

(c) Carrying value of investments (continued)

(ii) General Takaful Fund

	LAR	AFS	Total
	RM'000	RM'000	RM'000
At 1 January 2017	119,357	57,859	177,216
Purchases	-	116,056	116,056
Disposals including maturities and redemptions	(118,790)	(15,016)	(133,806)
Fair value loss recorded in:			
Takaful contract liabilities (Note 11(b)(iii))	-	369	369
Movement in accrued profit	(246)	756	510
Amortisation adjustment (Note 20(d))	-	(332)	(332)
Transfer to assets of a disposal group classified as held-for-sale (Note 16(a))	(321)	(159,692)	(160,013)
At 31 December 2017/1 January 2018	-	-	-
Purchases	-	-	-
Disposals including maturities and redemptions	-	-	-
Fair value loss recorded in:			
Takaful contract liabilities	-	-	-
Movement in accrued profit	-	-	-
Amortisation adjustment	-	-	-
At 31 December 2018	-	-	-

(iii) Family Takaful fund

	LAR	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	27,948	67,674	347,214	442,836
Purchases	-	-	209,658	209,658
Disposals including maturities and redemptions	(27,934)	-	(152,554)	(180,488)
Fair value gain recorded in:				
Profit and loss (Note 22)	-	-	25,438	25,438
Takaful contract liabilities	-	407	-	407
Movement in accrued profit	(14)	(113)	(227)	(354)
Amortisation adjustment (Note 20(b))	-	(59)	-	(59)
At 31 December 2017/1 January 2018	-	67,909	429,529	497,438
Purchases	-	95,902	167,518	263,420
Disposal including maturities and redemptions	-	(57,623)	(174,260)	(231,883)
Fair value gain/(loss) recorded in:				
Profit or loss (Note 22)	-	-	(57,395)	(57,395)
Takaful contract liabilities (Note 11(a))	-	(315)	-	(315)
Movement in accrued profit	-	731	(335)	396
Amortisation adjustment (Note 20(b))	-	(219)	(156)	(375)
At 31 December 2018	-	106,385	364,901	471,286

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

6 INVESTMENTS (CONTINUED)

(c) Carrying value of investments (continued)

(iv) Company

	LAR	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	309,161	125,533	347,214	781,908
Purchases	-	281,353	209,658	491,011
Disposals including maturities and redemptions	(235,263)	(15,016)	(152,554)	(402,833)
Fair value gain recorded in:				
Profit or loss (Note 22)	-	-	25,438	25,438
Takaful contract liabilities	-	684	-	684
Other comprehensive income	-	(47)	-	(47)
Movement in accrued profit	607	2,100	(227)	2,480
Amortisation adjustment (Note 20(c) & (d))	-	(670)	-	(670)
Transfer to assets of a disposal group classified as held-for-sale (Note 16(a))	(74,505)	(159,692)	-	(234,197)
At 31 December 2017/1 January 2018	-	234,245	429,529	663,774
Purchases	-	107,983	167,518	275,501
Disposals including maturities and redemptions	-	(99,637)	(174,260)	(273,897)
Fair value gain/(loss) recorded in:				
Profit or loss (Note 22)	-	-	(57,395)	(57,395)
Takaful contract liabilities	-	(315)	-	(315)
Other comprehensive income	-	288	-	288
Movement in accrued profit	-	619	(335)	284
Amortisation adjustment (Note 20(c))	-	(845)	(156)	(1001)
At 31 December 2018	-	242,338	364,901	607,239

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

**(d) Fair values of investments**

Recurring fair value measurements:

The following tables show the analysis of the different hierarchy of fair values for financial instruments recorded at fair value and financial instruments not measured at fair value but fair values are disclosed:

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
<b>(i) <u>Takaful Operator</u></b>			
<u>At 31 December 2018</u>			
(a) FVTPL investments			
Investment-linked units	2,840	-	2,840
(b) AFS investments			
Malaysian Government Securities	-	8,121	8,121
Islamic debt securities, unquoted	-	127,832	127,832
	-	135,953	135,953
<u>At 31 December 2017</u>			
(a) FVTPL investments			
Investment-linked units	3,045	-	3,045
(b) AFS investments			
Malaysian Government Securities	-	8,117	8,117
Islamic debt securities, unquoted	-	158,219	158,219
	-	166,336	166,336

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

(d) Fair values of investments (continued)

Recurring fair value measurements: (continued)

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
(ii) <u>Family Takaful fund</u>				
<u>At 31 December 2018</u>				
(a) FVTPL investments				
Islamic debt securities, unquoted	-	47,622	-	47,622
Shariah-approved quoted equities	94,026	-	-	94,026
Unit trusts	223,253	-	-	223,253
	<u>317,279</u>	<u>47,622</u>	<u>-</u>	<u>364,901</u>
(b) AFS investments				
Islamic debt securities, unquoted	-	106,385	-	106,385
<u>At 31 December 2017</u>				
(a) FVTPL investments				
Islamic debt securities, unquoted	-	80,671	-	80,671
Shariah-approved quoted equities	106,513	-	2	106,515
Investment-linked units	242,343	-	-	242,343
	<u>348,856</u>	<u>80,671</u>	<u>2</u>	<u>429,529</u>
(b) AFS investments				
Islamic debt securities, unquoted	-	67,909	-	67,909

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

(d) Fair values of investments (continued)

Recurring fair value measurements: (continued)

	Level 1	Level 2	Level 3	Total
	RM'000	RM'000	RM'000	RM'000
(iii) <u>Company</u>				
<u>At 31 December 2018</u>				
(a) FVTPL investments				
Islamic debt securities, unquoted	-	47,622	-	47,622
Shariah-approved quoted equities	94,026	-	-	94,026
Unit trusts	223,253	-	-	223,253
	<u>317,279</u>	<u>47,622</u>	<u>-</u>	<u>364,901</u>
(b) AFS investments				
Malaysian Government Securities	-	8,121	-	8,121
Islamic debt securities, unquoted	-	234,217	-	234,217
	<u>-</u>	<u>242,338</u>	<u>-</u>	<u>242,338</u>
<u>At 31 December 2017</u>				
(a) FVTPL investments				
Islamic debt securities, unquoted	-	80,671	-	80,671
Shariah-approved quoted equities	106,513	-	2	106,515
Unit trusts	242,343	-	-	242,343
	<u>348,856</u>	<u>80,671</u>	<u>2</u>	<u>429,529</u>
(b) AFS investments				
Malaysian Government Securities	-	8,117	-	8,117
Islamic debt securities, unquoted	-	226,128	-	226,128
	<u>-</u>	<u>234,245</u>	<u>-</u>	<u>234,245</u>
Discontinued Operations :				
(a) AFS investments				
Islamic debt securities, unquoted	-	159,692	-	159,692

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**7 TAKAFUL RECEIVABLES**

	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>		
Due contributions including agents/brokers and co-insurers	2,384	2,384
Due from retakaful and cedants	986	986
	<u>3,370</u>	<u>3,370</u>
Allowance for impairment loss	-	-
	<u>3,370</u>	<u>3,370</u>
Receivable within 12 months	<u>2,622</u>	<u>2,622</u>
<u>Offsetting financial assets and financial liabilities</u>		
Gross amounts of recognised financial assets	40,009	40,009
Less:		
Gross amounts of recognised financial liabilities set off in the statement of financial position	(36,639)	(36,639)
Net amounts of financial assets presented in the statement of financial position	<u>3,370</u>	<u>3,370</u>
<u>At 31 December 2017</u>		
	Family Takaful Fund RM'000	Company RM'000
Due contributions including agents/brokers and co-insurers	2,777	2,777
Due from retakaful and cedants	440	440
	<u>3,217</u>	<u>3,217</u>
Allowance for impairment loss	-	-
	<u>3,217</u>	<u>3,217</u>
Receivable within 12 months	<u>3,217</u>	<u>3,217</u>
<u>Offsetting financial assets and financial liabilities</u>		
Gross amounts of recognised financial assets	35,275	35,275
Less:		
Gross amounts of recognised financial liabilities set off in the statement of financial position	(32,058)	(32,058)
Net amounts of financial assets presented in the statement of financial position	<u>3,217</u>	<u>3,217</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**8 QARDHUL HASSAN RECEIVABLE**

	Takaful Operator	
	2018	2017
	RM'000	RM'000
Qardhul Hassan receivable	23,942	17,651
Less : Allowance for impairment loss	(17,651)	(17,651)
	<u>6,291</u>	<u>-</u>

Allowance for impairment loss represents the difference between the carrying amount of Qardhul Hassan receivable and its projected recoverable amount. As of 31 December 2017, the Company has made full allowance for impairment loss of RM17,651,000 on the balance of Qardhul Hassan recoverable from Family Takaful Fund. As at 31 December 2018, the Company has made an assessment of the Qardhul Hassan recoverable based on the projection of surplus or deficit of the Ordinary Family Takaful risk fund for the next 5 years, taking into consideration of the risk fund balance less the best estimates of net liabilities for certificates. Based on the projection, the Company has not made further impairment to the balance of Qardhul Hassan receivable in the Takaful Operator Fund.

**9 RETAKAFUL ASSETS**

	Family Takaful Fund	
	2018	2017
	RM'000	RM'000
Retakaful of Takaful contracts (Note 11)	<u>19,144</u>	<u>15,535</u>

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10 OTHER RECEIVABLES

	Note	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>				
Staff financing		-	-	-
Other receivables, deposits and prepayments		3,767	4,043	7,810
		<u>3,767</u>	<u>4,043</u>	<u>7,810</u>
Inter-fund balances				
Wakalah fee receivable from Family Takaful Fund	13	9,655	-	-
Tharawat fees receivable from Family Takaful fund	13	784	-	-
Amount due from Takaful Operator	13	-	6,418	-
Surplus receivable from Family Takaful fund	13	14,500	-	-
		<u>24,939</u>	<u>6,418</u>	<u>-</u>
Total other receivables		<u>28,706</u>	<u>10,461</u>	<u>7,810</u>
Receivable within 12 months		<u>28,706</u>	<u>10,461</u>	<u>7,810</u>

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10 OTHER RECEIVABLES (CONTINUED)

	Note	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>				
Staff financing		6	-	6
Other receivables, deposits and prepayments		1,482	38	1,520
		1,488	38	1,526
Inter-fund balances				
Wakalah fee receivable from Family Takaful Fund	13	8,480	-	-
Tharawat fees receivable from Family Takaful fund	13	566	-	-
Amount due from Takaful Operator	13	-	6,206	-
Surplus receivable from Family Takaful fund	13	13,500	-	-
		22,546	6,206	-
Total other receivables		24,034	6,244	1,526
Receivable within 12 months		24,034	6,244	1,526

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

(a) Movement in allowance for impairment

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2018</u>				
At 1 January	-	-	-	-
Transfer to assets of a disposal group classified as held-for-sale	-	-	-	-
At 31 December	-	-	-	-
<u>2017</u>				
At 1 January	-	38	-	38
Transfer to assets of a disposal group classified as held-for-sale	-	(38)	-	(38)
At 31 December	-	-	-	-

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 11 TAKAFUL CONTRACT LIABILITIES

	2018			2017		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Family Takaful (Note 11(a))	551,491	(19,144)	532,347	561,560	(15,535)	546,025
General Takaful (Note 11(b))						
- Discontinued Operations (Note 16)	-	-	-	390,834	(188,794)	202,040
Total	551,491	(19,144)	532,347	952,394	(204,355)	748,065
Less: Net asset value of investment-linked units held by Takaful Operator	2,840	-	2,840	3,045	-	3,045
	548,651	(19,144)	529,507	949,349	(204,355)	745,020

#### (a) Family Takaful

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

	2018			2017		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Certificateholders' liabilities	116,632	(14,332)	102,300	84,941	(13,567)	71,374
Net asset value attributable to unitholders	388,758	-	388,758	440,868	-	440,868
Actuarial liabilities	505,390	(14,332)	491,058	525,809	(13,567)	512,242
Unallocated surplus attributable to unitholders	19,496	-	19,496	16,857	-	16,857
Accumulated deficits of non-investment-linked funds	(23,919)	-	(23,919)	(17,651)	-	(17,651)
Qardhul Hassan	23,942	-	23,942	17,651	-	17,651
Claims liabilities	25,886	(4,812)	21,074	17,823	(1,968)	15,855
Available-for-sale fair value adjustment	696	-	696	1,071	-	1,071
	551,491	(19,144)	532,347	561,560	(15,535)	546,025
				Gross	Retakaful	Net
				RM'000	RM'000	RM'000
At 1 January 2017				493,391	(14,949)	478,442
Contributions received (Note 19(a))				277,687	(20,051)	257,636
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 23(a)(i),(ii))				(139,700)	18,630	(121,070)
Movement in claims liabilities				(5,102)	303	(4,799)
Experience variance on inforce Takaful certificates				1,314	(887)	427
Reserve on new policies				(5,660)	1,196	(4,464)
Miscellaneous				21,306	223	21,529
Fees deducted				(77,468)	-	(77,468)
Surplus distributed to Takaful Operator				(13,500)	-	(13,500)
Qardhul Hassan				8,917	-	8,917
Movement in AFS fair value adjustments						
- gross fair value changes (Note 6(c)(iii))				407	-	407
- deferred tax (Note 15)				(32)	-	(32)
Movement in AFS fair value adjustments				375	-	375
At 31 December 2017				561,560	(15,535)	546,025

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(a) Family Takaful (continued)**

	Gross RM'000	Re-Takaful RM'000	Net RM'000
At 1 January 2018	561,560	(15,535)	546,025
Contributions received (Note 19(a))	354,523	(21,735)	332,788
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 23(a)(i),(ii))	(194,630)	22,556	(172,074)
Movement in claims liabilities	(8,063)	2,844	(5,219)
Experience variance on inforce Takaful certificates	5,134	(1,331)	3,803
Reserve on new policies	(28,589)	2,097	(26,492)
Miscellaneous	(11,159)	(8,040)	(19,199)
Fees deducted	(105,201)	-	(105,201)
Surplus distributed to Takaful Operator	(14,500)	-	(14,500)
Qardhul Hassan	6,291	-	6,291
Prior year surplus distributed to participant fund	(13,500)	-	(13,500)
Movement in AFS fair value adjustments			
- gross fair value changes (Note 6(c)(iii))	(315)	-	(315)
- deferred tax (Note 15)	(60)	-	(60)
Movement in AFS fair value adjustments	(375)	-	(375)
At 31 December 2018	551,491	(19,144)	532,347

**(b) General Takaful**

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

	Discontinued Operations 2017		
	Gross RM'000	Retakaful RM'000	Net RM'000
Provision for claims	191,370	(115,525)	75,845
Provision for IBNR	49,353	(27,627)	21,726
Provision for adverse deviation	24,982	(15,789)	9,193
Claim liabilities (i)	265,705	(158,941)	106,764
Unearned contribution reserves (ii)	114,678	(29,853)	84,825
Available-for-sale reserves fair value adjustment (iii)	142	-	142
Unallocated surplus (iv)	10,309	-	10,309
	390,834	(188,794)	202,040

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(b) General Takaful (continued)**

	Discontinued Operations		
			2017
	Gross	Retakaful	Net
	RM'000	RM'000	RM'000
<b>(i) Claims liabilities</b>			
At 1 January	291,660	(201,192)	90,468
Claims incurred in the current accident financial year	128,441	(59,582)	68,859
Other movements in claims incurred in prior accident years	9,971	(4,407)	5,564
Claims paid during the financial year (Note 23(b)(i),(ii))	(153,659)	91,462	(62,197)
Movements in provision for adverse deviation	(10,708)	14,778	4,070
At 31 December	265,705	(158,941)	106,764
<b>(ii) Unearned contribution reserves</b>			
At 1 January	116,983	(66,492)	50,491
Contributions written in the financial year (Note 19(b))	281,280	(98,456)	182,824
Contributions earned during the financial year (Note 19(b))	(283,585)	135,095	(148,490)
At 31 December	114,678	(29,853)	84,825

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

(iii) Available-for-sale reserve

2017

At 1 January

Fair value movements arising from AFS investments  
Derecognition upon disposal of AFS investments

At 31 December

Gross	Deferred	Net
RM'000	tax	RM'000
	RM'000	RM'000
(228)	55	(173)
369	(54)	315
-	-	-
141	1	142

(iv) Unallocated surplus

2017

Discontinuing Operations

At 1 January  
Surplus during the financial year  
Surplus distributed during the year  
At 31 December

Gross	Retakaful	Net
RM'000	RM'000	RM'000
7,429	-	7,429
12,550	-	12,550
(9,670)	-	(9,670)
10,309	-	10,309

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**12 TAKAFUL PAYABLES**

	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>		
Due to retakaful operators and cedants	1,172	1,172
Payable within 12 months	604	604
<u>Offsetting financial assets and financial liabilities</u>		
Gross amounts of recognised financial liabilities	37,811	37,811
Less:		
Gross amounts of recognised financial assets set off in the statement of financial position	(36,639)	(36,639)
Net amounts of financial liabilities presented in the statement of financial position	1,172	1,172
<u>At 31 December 2017</u>		
Due to retakaful operators and cedants	3,494	3,494
Payable within 12 months	3,494	3,494
<u>Offsetting financial assets and financial liabilities</u>		
Gross amounts of recognised financial liabilities	35,552	35,552
Less:		
Gross amounts of recognised financial assets set off in the statement of financial position	(32,058)	(32,058)
Net amounts of financial liabilities presented in the statement of financial position	3,494	3,494

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2018 (2017: nil).

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

13 OTHER PAYABLES

	Note	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2018</u>				
Amount due to a related company		2,620	-	2,620
Commission payable		17,926	-	17,926
Deposits contribution		27	11,848	11,875
Accruals for staff costs		1,536	-	1,536
Other payables and accruals		5,433	1,149	6,582
		27,542	12,997	40,539
Inter-fund balances :				
Wakalah fee payable to Takaful Operator	10	-	9,655	-
Tharawat fees payable to Takaful Operator	10	-	784	-
Surplus payable to Takaful Operator	10	-	14,500	-
Amount due to Family Takaful Fund	10	6,418	-	-
		6,418	24,939	-
Total other payables		33,960	37,936	40,539
Payable within 12 months		33,960	37,936	40,539
<u>At 31 December 2017</u>				
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Amount due to a related company		707	-	707
Commission payable		21,281	-	21,281
Deposits contribution		-	9,885	9,885
Accruals for staff costs		2,514	-	2,514
Other payables and accruals		7,024	1,762	8,786
		31,526	11,647	43,173
Inter-fund balances :				
Wakalah fee payable to Takaful Operator	10	-	8,480	-
Tharawat fees payable to Takaful Operator	10	-	566	-
Surplus payable to Takaful Operator	10	-	13,500	-
Amount due to Family Takaful Fund	10	6,206	-	-
Amount due to General Takaful Fund	16	552	-	-
		6,758	22,546	-
Total other payables		38,284	34,193	43,173
Payable within 12 months		38,284	34,193	43,173

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 14 EXPENSE LIABILITIES

	Takaful Operator	
	2018	2017
	RM'000	RM'000
Best estimate provisions	6,949	(4,195)
PRAD	5,982	6,314
Gross provisions	12,931	2,119
Less : Amount of provision ceded to retakaful operators	(83)	(118)
Net expense liabilities	12,848	2,001

### 15 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 taxes relate to the same tax authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

#### At 31 December 2018

	Takaful Operator	Family Takaful Fund	Company
	RM'000	RM'000	RM'000
Deferred tax (assets) / liabilities	1,695	(1,534)	161
Settled/(recoverable) within 12 months	-	(1,594)	(1,594)
Settled/(recoverable) after 12 months	1,695	60	1,755
	1,695	(1,534)	161

#### At 31 December 2017

	Takaful Operator	Family Takaful Fund	Company
	RM'000	RM'000	RM'000
Deferred tax liabilities/(assets)	(664)	1,903	1,239
Settled/(recoverable) within 12 months	-	1,903	1,903
Settled/(recoverable) after 12 months	(664)	-	(664)
	(664)	1,903	1,239

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

15 DEFERRED TAXATION (CONTINUED)

	Takaful Operator RM'000	Family Takaful Fund RM'000	General Takaful Fund RM'000	Company RM'000
At 1 January 2017	1,935	(687)	(2,178)	(3,026)
Charged/(credited) to profit or loss (Note 25):				
FVTPL investments	-	2,650	-	2,650
Property and equipment	(573)	-	-	(573)
Allowance for impairment loss	-	-	(310)	(310)
Expense liabilities	70	-	-	70
Qardhul Hassan	(2,096)	-	-	-
	(2,599)	2,650	(310)	1,837
Charged/(credited) to Takaful contract liabilities:				
AFS investments (Note 11(a), (b)(iii))	-	(60)	54	(6)
	(664)	1,903	(2,434)	(1,195)
Transfer to assets / liabilities of a disposal group classified as held-for-sale (Note 16(a))	-	-	2,434	2,434
At 31 December 2017/1 January 2018	(664)	1,903	-	1,239
Charged/(credited) to profit or loss (Note 25):				
FVTPL investments	-	(3,497)	-	(3,497)
Property and equipment	(104)	-	-	(104)
Allowance for impairment loss	-	-	-	-
Expense liabilities	880	-	-	880
Qardhul Hassan	1,510	-	-	-
Others	-	-	-	1,510
	2,286	(3,497)	-	(1,211)
Charged to other comprehensive income:				
AFS investments (Note 11(a), (b)(iii))	73	-	-	73
Charged to Takaful contract liabilities:				
AFS investments	-	60	-	60
At 31 December 2018	1,695	(1,534)	-	161

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 15 DEFERRED TAXATION (CONTINUED)

The composition of deferred tax (assets)/liabilities before and after appropriate offsetting, is as follows:

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2018</b>			
<u>Subject to income tax:</u>			
Deferred tax assets (before offsetting)			
- FVPTL investments	-	1,675	1,675
- AFS investments	-	-	-
- Expense liabilities	-	-	-
	-	1,675	1,675
Offsetting	-	(141)	(141)
Deferred tax assets (after offsetting)	-	1,534	1,534

Deferred tax liabilities (before offsetting)			
- Property and equipment	112	-	112
- Qardhul Hassan	1,510	-	-
- FVPTL investments	-	81	81
- AFS investments	73	60	133
- Others	-	-	1,510
	1,695	141	1,836
Offsetting	-	(141)	(141)
Deferred tax liabilities (after offsetting)	1,695	-	1,695

### 2017

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>Subject to income tax:</u>			
Deferred tax assets (before offsetting)			
- FVPTL investments	(15)	-	(15)
- AFS investments	-	-	-
- Expense liabilities	(881)	-	(881)
	(896)	-	(896)
Offsetting	232	-	232
Deferred tax assets (after offsetting)	(664)	-	(664)

Deferred tax liabilities (before offsetting)			
- Property and equipment	232	-	232
- Qardhul Hassan	-	-	-
- FVPTL investments	-	1,903	1,903
- AFS investments	-	-	-
	232	1,903	2,135
Offsetting	(232)	-	(232)
Deferred tax liabilities (after offsetting)	-	1,903	1,903

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

In accordance with the requirements of Islamic Financial Service Act 2013 ("IFSA"), a takaful operator that carries on both classes of family takaful and general takaful businesses must take steps to split the businesses under separate legal entities before 1 July 2018.

The assets and liabilities of the General Takaful business of the Company, and the assets and liabilities of the Takaful operator used to manage the General Takaful business have been presented as a disposal group classified as held-for-sale following the approval by the Directors to dispose the business to another legal entity as required by the IFSA.

Accordingly, the statement of financial position, statement of comprehensive income and statement of cash flows of the General Takaful Fund and General Takaful Operator Fund have been classified as a disposal group or discontinued operations.

On 1 June 2018, the Business Transfer between the Company and Zurich General Takaful Malaysia Berhad was completed based on the business transfer scheme which was approved and confirmed by the High Court of Malaya on 27 April 2018 in accordance with IFSA (refer note 33 significant and subsequent event).

Asset and liabilities of a disposal group classified as held-for-sale as at 31 December 2017 are as follows :

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000
<b>Assets</b>			
Property and equipment	4	370	-
Intangible assets	5	1,887	-
Investments:			
Loans and receivables	16(a)(i)	74,184	321
Available-for-sale	16(a)(ii)	-	159,692
Takaful receivables	16(b)	-	45,916
Retakaful assets	16(c)	-	188,794
Other receivables	16(d)	234	11
Current tax assets		703	-
Deferred tax assets	16(g)	-	2,434
Cash and bank balances		2,020	38,627
<b>Total Assets</b>		<b>79,398</b>	<b>435,795</b>
<b>Liabilities</b>			
Takaful contract liabilities	11(b)	-	390,834
Takaful payables	16(e)	-	30,381
Other payables	16(f)	11,734	15,786
Expense liabilities		3,669	-
Current tax liabilities		-	2,314
Deferred tax liabilities	16(g)	-	-
Subordinated obligation	16(h)	73,000	-
<b>Total Liabilities</b>		<b>88,403</b>	<b>439,315</b>
Inter-fund balances		(2,968)	3,520

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(a) INVESTMENTS**

	Takaful Operator	General Takaful Fund	Company
	RM'000	RM'000	RM'000
<u>At 31 December 2017</u>			
Malaysian Government Securities /			
Government Investment Issues	-	2,029	2,029
Islamic debt securities, unquoted	-	157,663	157,663
Deposits with financial institutions	74,184	321	74,505
	<u>74,184</u>	<u>160,013</u>	<u>234,197</u>

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

	Takaful Operator	General Takaful Fund	Company
	RM'000	RM'000	RM'000
Loans and receivables ("LAR")	74,184	321	74,505
Available-for-sale ("AFS")	-	159,692	159,692
	<u>74,184</u>	<u>160,013</u>	<u>234,197</u>
The following investments mature after 12 months:			
AFS	-	136,569	136,569

**(i) LAR investments**

At 31 December 2017

	Takaful Operator	General Takaful Fund	Company
	RM'000	RM'000	RM'000
Amortised cost:			
Fixed and call deposits with			
licensed financial institutions	74,184	321	74,505

As at 31 December 2017, the cash and cash equivalents in the LAR of RM74,184,000 have a maturity period of three to twelve months.

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**16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(a) INVESTMENTS (CONTINUED)**

**(ii) AFS investments**

At 31 December 2017

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Fair value:			
Malaysian Government Securities			
Government Investment Issues	-	2,029	2,029
Islamic debt-securities, unquoted	-	157,663	157,663
	-	159,692	159,692

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
AFS investments				
Islamic debt securities, unquoted	-	159,692	-	159,692

**(b) TAKAFUL RECEIVABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>			
Due contributions including agents/brokers and co-insurers	-	27,559	27,559
Due from retakaful and cedants	-	28,500	28,500
	-	56,059	56,059
Allowance for impairment loss	-	(10,143)	(10,143)
	-	45,916	45,916
Receivable within 12 months	-	45,916	45,916

Offsetting financial assets and financial liabilities

Gross amounts of recognised financial assets		45,916	45,916
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	-	-	-
Net amounts of financial assets presented in the statement of financial position	-	45,916	45,916

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(c) RETAKAFUL ASSETS**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>			
Retakaful of Takaful contracts (Note 11)			
- General Takaful Fund	-	188,794	188,794

**(d) OTHER RECEIVABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>			
Other receivables, deposits and prepayments	234	11	245
Inter-fund balances			
Amount due from Takaful Operator	-	8,355	-
Surplus receivable from General Takaful fund	4,835	-	-
	4,835	8,355	-
Total other receivables	5,069	8,366	245
Receivable within 12 months	5,069	8,366	245

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(e) TAKAFUL PAYABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>			
Due to agents and intermediaries	-	15,021	15,021
Due to retakaful operators and cedants	-	15,360	15,360
	-	30,381	30,381
Payable within 12 months	-	30,381	30,381
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial liabilities	-	30,381	30,381
Less:			
Gross amounts of recognised financial assets set off in the statement of financial position	-	-	-
Net amounts of financial liabilities presented in the statement of financial position	-	30,381	30,381

**(f) OTHER PAYABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>At 31 December 2017</u>			
Amount due to a related company	1,350	-	1,350
Deposits contribution	-	539	539
Accruals for staff costs	1,356	-	1,356
Cash collaterals on performance bond	-	6,472	6,472
Other payables and accruals	9,028	8,775	17,803
	11,734	15,786	27,520
Inter-fund balances :			
Surplus payable to Takaful Operator	-	4,835	-
Amount due to General Takaful Fund	7,803	-	-
	7,803	4,835	-
Total other payables	19,537	20,620	27,520
Payable within 12 months	19,537	20,620	27,520

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**16 ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)**

**(g) DEFERRED TAXATION**

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

At 31 December 2017

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Deferred tax liabilities/(assets)	-	(2,434)	(2,434)
Settled/(recoverable) after 12 months	-	(2,434)	(2,434)

The composition of deferred tax (assets)/liabilities before and after appropriate offsetting, is as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
<u>2017</u>			
<u>Subject to income tax:</u>			
Deferred tax assets (before and after offsetting)	-	(2,434)	(2,434)

**(h) SUBORDINATED OBLIGATION**

	<u>2017</u> RM'000
Subordinated obligation	<u>73,000</u>

On 29 June 2017, the Company received a subordinated obligation in the form of Mudharabah Financing of RM73,000,000 for a tenure of 5 years from Zurich Holdings Malaysia Berhad ("ZHMB"), a related party. Any profit arising from investments placed using this financing less agreed expenses will be shared between ZHMB and the Company based on a ratio of 60:40. The Company may redeem the subordinated obligation, subject to prior consent from Bank Negara Malaysia ("BNM").

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 17 SHARE CAPITAL

The new Companies Act 2016 (the Act) which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

	2018		2017	
	No. of Shares '000	Share Capital RM'000	No. of Shares '000	Share Capital RM'000
<u>Issued and fully paid ordinary shares:</u>				
At beginning of the financial year	190,000	190,000	160,000	160,000
Issued during the financial year	-	-	30,000	30,000
At end of the financial year	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>

On 31 March 2017, the Company issued 30,000,000 new ordinary shares for cash. The new ordinary shares issued rank pari passu in all respect with the existing ordinary shares of the Company.

### 18 AVAILABLE-FOR-SALE RESERVES

The available-for-sale reserve in the Company-level financial statements represents the fair value gains or losses from available-for-sale investments, net of deferred tax, of the Takaful Operator.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

19 NET EARNED CONTRIBUTION

Continuing Operations

(a) Family Takaful Fund

	2018	2017
	RM'000	RM'000
(i) Gross earned contributions Takaful contracts (Note 11(a))	354,523	277,687
(ii) Contribution ceded to retakaful operators Takaful contracts (Note 11(a))	(21,735)	(20,051)
Net earned contributions	332,788	257,636

Discontinued Operations

(b) General Takaful Fund

(i) Gross earned contributions Takaful contracts	157,224	281,280
Change in unearned contribution reserves	(14,348)	2,305
	142,876	283,585
(ii) Contribution ceded to retakaful operators Takaful contracts	(22,936)	(98,456)
Change in unearned contribution reserves	(11,621)	(36,639)
	(34,557)	(135,095)
Net earned contributions	108,319	148,490

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

20 INVESTMENT INCOME

Continuing Operations

	2018 RM'000	2017 RM'000
(a) Takaful Operator		
FVTPL investments:		
- Dividend income	-	-
AFS investments:		
- Hibah/profit income	7,116	3,182
- Amortisation of premiums - net (Note 6(c)(i))	(626)	(279)
LAR:		
- Hibah/profit income	232	3,389
	<u>6,722</u>	<u>6,292</u>
(b) Family Takaful Fund		
FVTPL investments:		
- Hibah/profit income	4,067	3,454
- Dividend income	14,336	12,953
- Amortisation of premiums - net (Note 6(c)(iii))	(156)	-
AFS investments:		
- Hibah/profit income	4,121	3,354
- Amortisation of premiums - net (Note 6(c)(iii))	(219)	(59)
LAR:		
- Hibah/profit income	1,982	730
	<u>24,131</u>	<u>20,432</u>
(c) Company		
FVTPL investments:		
- Hibah/profit income	4,067	3,454
- Dividend income	14,336	12,953
- Amortisation of premiums - net (Note 6(c)(iv))	(156)	-
AFS investments:		
- Hibah/profit income	11,237	6,536
- Amortisation of premiums - net (Note 6(c)(iv))	(845)	(338)
LAR:		
- Hibah/profit income	2,214	4,119
	<u>30,853</u>	<u>26,724</u>

Discontinued Operations

(d) General Takaful Fund		
AFS investments:		
- Hibah/profit income	3,028	4,749
- Amortisation of premiums	(246)	(332)
LAR:		
- Hibah/profit income	711	2,838
	<u>3,493</u>	<u>7,255</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

21 REALISED GAINS/(LOSSES)

Continuing Operations

	2018	2017
	RM'000	RM'000
(a) Takaful Operator		
AFS investments:		
Islamic debt securities	(14)	-
Loss on disposal of property and equipment	(95)	-
	<u>(109)</u>	<u>-</u>

(b) Family Takaful Fund

AFS investments:		
Islamic debt securities	843	-
	<u>843</u>	<u>-</u>

(c) Company

AFS investments:		
Islamic debt securities	829	-
Loss on disposal of property and equipment	(95)	-
	<u>734</u>	<u>-</u>

Discontinued Operations

(d) General Takaful Fund

AFS investments:		
Islamic debt securities	112	216
	<u>112</u>	<u>216</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**22 FAIR VALUE GAINS/(LOSSES)**

	2018	2017
	RM'000	RM'000
Continuing Operations		
FVTPL investments:		
Takaful Operator (Note 6 (c) (i))	(205)	245
Family Takaful Fund (Note 6 (c)(iii))	(57,395)	25,438
Company	(57,600)	25,683

**23 NET CLAIMS**

		<u>Continuing Operations</u>	
		2018	2017
		RM'000	RM'000
(a) Family Takaful Fund			
(i)	Gross benefits and claims paid (Note 11(a))	(194,630)	(139,700)
(ii)	Claims ceded to retakaful operators (Note 11(a))	22,556	18,630
(iii)	Gross change in contract liabilities	(3,041)	(67,508)
(iv)	Change in contract liabilities ceded to retakaful operators	2,842	276
	Net claims	(172,273)	(188,302)
		<u>Discontinued Operations</u>	
		2018	2017
		RM'000	RM'000
(b) General Takaful Fund			
(i)	Gross benefits and claims paid	(61,502)	(153,659)
(ii)	Claims ceded to retakaful operators	25,580	91,462
(iii)	Gross change in contract liabilities	(26,014)	18,216
(iv)	Change in contract liabilities ceded to retakaful operators	(8,505)	(42,227)
	Net claims	(70,441)	(86,208)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

24 (a) MANAGEMENT EXPENSES

2018

Takaful Operator

	Continuing Operations	Discontinued Operations
	RM'000	RM'000
Staff salaries and bonus	6,551	1,174
Defined contribution plan	1,431	234
Other staff costs	736	(68)
	8,718	1,340
Auditors' remuneration:		
- Statutory audit	287	134
- Others	10	-
Non-Executive Directors' remuneration:		
- fees	273	72
- other emoluments	120	23
Shariah Committee remuneration:		
- fees	55	20
- other emoluments	17	4
Depreciation charge on property and equipment	1,321	78
Amortisation of intangible assets	598	262
Office rental	3,095	516
Printing and stationery	1,437	931
Advertising and promotions	270	2,014
Postage and telephone	644	27
Professional fees	902	112
Agency training	687	23
Data processing	1,504	333
Repairs and maintenance	957	138
Motor vehicle expenses	252	60
Electricity charges	549	54
Bank and credit card charges	1,741	617
Other expenses	33,706	16,861
	57,143	23,619

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

24 (a) MANAGEMENT EXPENSES (CONTINUED)

2017

Takaful Operator

	Continuing Operations	Discontinued Operations
	RM'000	RM'000
Staff salaries and bonus	14,310	10,319
Defined contribution plan	1,947	1,077
Other staff costs	2,613	1,348
	18,870	12,744
Auditors' remuneration:		
- Statutory audit	302	301
- Others	18	17
Non-Executive Directors' remuneration:		
- fees	184	161
- other emoluments	57	57
Shariah Committee remuneration:		
- fees	69	64
- other emoluments	27	24
Depreciation charge on property and equipment	3,517	703
Amortisation of intangible assets	823	448
Office rental	2,150	875
Printing and stationery	1,313	1,559
Advertising and promotions	933	13,093
Postage and telephone	615	305
Professional fees	2,649	404
Agency training	680	161
Data processing	2,332	4,813
Repairs and maintenance	1,040	709
Motor vehicle expenses	391	315
Electricity charges	466	230
Bank and credit card charges	1,677	1,257
Shared service costs paid and payable to a related party	4,889	16,594
Other expenses	10,159	3,619
	53,161	58,453

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

24 (a) MANAGEMENT EXPENSES (CONTINUED)

	Fees	Salary	Bonus	Allowance	Others	Benefits- in kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2018</u>							
Chief Executive Officer							
- Salim Majid Zain	-	874	162	-	163	69	1,268
Non-Executive Directors							
- Tan Sri Ahmad bin Mohd Don	120	-	-	31	-	-	151
- Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	45	-	-	28	-	-	73
- Dr Khalil bin Ruslan	45	-	-	15	-	-	60
- Onn Kien Hoe	45	-	-	25	-	-	70
- Choy Khai Choon	45	-	-	26	-	-	71
- Hasnah binti Omar	45	-	-	18	-	-	63
- Philip Wallace Smith	-	-	-	-	-	-	-
- Stephen Clark	-	-	-	-	-	-	-
	345	874	162	143	163	69	1,756

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

24 (a) MANAGEMENT EXPENSES (CONTINUED)

	Fees	Salary	Bonus	Allowance	Others	Benefits- in kind	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>							
Chief Executive Officer							
- Salim Majid Zain	-	795	444	-	-	-	1,239
Non-Executive Directors							
- Tan Sri Ahmad bin Mohd Don	120	-	-	19	-	-	139
- Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	45	-	-	19	-	-	64
- Dr Khalil bin Ruslan	45	-	-	11	-	-	56
- Onn Kien Hoe	45	-	-	25	-	-	70
- Choy Khai Choon	45	-	-	22	-	-	67
- Hasnah binti Omar	45	-	-	18	-	-	63
- Philip Wallace Smith	-	-	-	-	-	-	-
	345	795	444	114	-	-	1,698

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 24 (a) MANAGEMENT EXPENSES (CONTINUED)

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

	Number of Directors	
	2018	2017
<u>Non-Executive Directors:</u>		
RM10,000 – RM100,000	5	6
RM100,001 – RM200,000	1	1

The Executive Director did not receive any remuneration for the current financial year.

The Directors of the Company in office during the financial year were as follows:

- i) Tan Sri Ahmad bin Mohd Don
- ii) Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim
- iii) Assoc. Prof. Dr. Md Khalil bin Ruslan
- iv) Onn Kien Hoe
- v) Stephen Clark (Appointed on 1 October 2018)
- vi) Choy Khai Choon
- vii) Hasnah binti Omar

### (b) OTHER OPERATING EXPENSE

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2018</u>			
Withdrawal of risk fund surplus	-	-	-
Other operating expense	22	1,259	1,281
	<u>22</u>	<u>1,259</u>	<u>1,281</u>
<u>2017</u>			
Withdrawal of risk fund surplus	-	12,998	12,998
Other operating expense	101	2,723	2,824
	<u>101</u>	<u>15,721</u>	<u>15,822</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

25 TAXATION

Continuing Operations

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2018</u>			
Current tax:			
Current financial year	3,562	578	4,140
(Over)/under-provision in prior financial year	221	(427)	(206)
	3,783	151	3,934
Deferred tax (Note 15)	2,286	(3,497)	(1,211)
Tax expense/(income)	6,069	(3,346)	2,723

Discontinued Operations

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Current tax:			
Current financial year	1,986	-	1,986
Under/(over)-provision in prior financial year	-	-	-
	1,986	-	1,986
Deferred tax	-	269	269
Tax expense	1,986	269	2,255

Continuing Operations

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>			
Current tax:			
Current financial year	3,409	1,068	4,477
Under/(over)-provision in prior financial year	1,678	(1,088)	589
	5,087	(20)	5,066
Deferred tax (Note 15)	(2,599)	2,650	2,148
Tax expense	2,488	2,630	7,214

Discontinued Operations

	Takaful Operator RM'000	General Takaful Fund RM'000	Company RM'000
Current tax:			
Current financial year	13	2,950	2,963
Under/(over)-provision in prior financial year	2,072	(560)	1,512
	2,085	2,390	4,475
Deferred tax (Note 15)	-	(310)	(310)
Tax expense	2,085	2,080	4,165

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

25 TAXATION (CONTINUED)

The numerical reconciliation between statutory tax rate and the effective tax rate of the Company is as follows:

	2018	2017
	RM'000	RM'000
Loss before taxation attributable to Takaful Operator	(8,676)	(12,245)
Taxation at Malaysia statutory tax rate of 24%	(2,082)	(2,939)
Expenses not deductible for tax purposes	8,356	6,728
Tax expense attributable to participants	(3,346)	2,630
(Over)/under-provision in prior financial year	(205)	795
Total tax expenses	2,723	7,214

26 CASH FLOWS

	2018	2017
	RM'000	RM'000
Net loss for the financial year	(8,962)	(23,857)
Adjustment for:		
Investment income	(31,927)	(35,207)
Realised gains from disposal of FVTPL and AFS investments	(828)	4,821
Fair value losses/(gains)	57,600	(25,683)
Depreciation of property and equipment	1,398	4,220
Write-offs of property and equipment	897	4
Loss on disposal of property and equipment	95	-
Amortisation of intangible assets	860	1,271
Write-offs of intangible assets	-	297
Allowance for impairment loss	-	2,243
Tax expense attributable to Takaful Operator	8,055	4,573
Tax (income)/expense attributable to participants	(3,346)	4,711
Changes in working capital:		
(Decrease)/increase in financial assets at fair value through profit or loss	6,742	(57,104)
Increase in available-for-sale financial assets	(7,518)	(266,120)
Decrease in loans and receivables	-	234,656
(Increase)/decrease in retakaful assets	(3,609)	78,303
Increase in Takaful receivables	(152)	(18,339)
(Increase)/Decrease in other receivables	(12,201)	20,012
(Decrease)/Increase in Takaful contract liabilities	(9,694)	42,472
Decrease in Takaful payables	(2,322)	(6,670)
Increase/(decrease) in other payables	945	(1,856)
Increase/(decrease) in expense liabilities	11,935	(1,904)
Cash generated/(used in) operating activities	7,968	(39,157)

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 27 SIGNIFICANT RELATED PARTY DISCLOSURE

#### Related parties and relationship

The related parties of, and their relationship with the Company, are as follows:

<u>Related Companies</u>	<u>Relationship</u>
Zurich Insurance Group Ltd. ("ZIGL")	Ultimate holding company
Zurich Insurance Company Ltd. ("ZICL")	Penultimate holding company
Zurich Holding Malaysia Berhad ("ZHMB")	Immediate holding company
Zurich Life Insurance Malaysia Berhad ("ZLIMB")	Subsidiary of ultimate holding company
Zurich Services Malaysia Sdn Bhd ("ZSM")	Subsidiary of immediate holding company
Zurich General Insurance Malaysia Berhad ("ZGIMB")	Subsidiary of immediate holding company
Zurich General Takaful Malaysia Berhad ("ZGTMB")	Subsidiary of immediate holding company

#### Significant related party transactions

The significant related party transactions during the financial year with former related parties, are as follows:

	2018 RM'000	2017 RM'000
Transactions with Zurich Life Insurance Malaysia Bhd :		
- Outsourcing & Reimbursement costs	(28,817)	(28,303)
- Payroll services fee	(553)	(37)
- Property maintenance fee	(1,640)	(30)
- Reimbursement of Agency Convention	(1,404)	
Transactions with Zurich General Insurance Malaysia Bhd :		
- Outsourcing & Reimbursement costs	(9,190)	-
- Payroll services fee	(356)	
- Reimbursement of brochure printing & sponsorship	(30)	
Transactions with Zurich General Takaful Malaysia Bhd :		
- Outsourcing & Reimbursement costs	2,209	-
- Payroll services fee	641	
- Asset Transfer	(2,100)	-
Transactions with Zurich Services Malaysia Sdn Bhd :		
- IT services fee	-	(442)
- Integration costs	-	(110)

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 27 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

#### Related party balances

Included in the statement of financial position of the Company are significant related party balances as shown below:

	<u>2018</u> RM'000	<u>2017</u> RM'000
Zurich Life Insurance Malaysia Berhad :		
- Outsourcing & Reimbursement costs	1,760	4,827
- Reimbursement of staff medical and benefits	(10)	17
- Reimbursement of brochure printing	-	28
- Reimbursement of renovation at branch	-	747
	<u>1,750</u>	<u>5,619</u>
 Zurich General Insurance Malaysia Bhd :		
- Outsourcing & Reimbursement costs	42	-
	<u>42</u>	<u>-</u>
 Zurich General Takaful Malaysia Bhd :		
- Outsourcing & Reimbursement costs	(2,380)	-
- Reimbursement of staff medical and benefits	(661)	-
	<u>(3,041)</u>	<u>-</u>
	<u>2018</u> RM'000	<u>2017</u> RM'000
 Zurich Holding Malaysia Berhad :		
- Mudharabah financing	-	73,000
	<u>-</u>	<u>73,000</u>

These related party balances are current, unsecured, non profit-bearing and payable within 12 months.

### 28 LEASE COMMITMENTS

The lease commitments are in respect of rented premises and hired equipment, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments is as follows:

	<u>2018</u> RM'000	<u>2017</u> RM'000
As lessee:		
- Within one year	2,859	2,106
- One year to less than 3 years	4,432	771
- More than 3 years	12	64
	<u>7,303</u>	<u>2,941</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS

The Company's activities are organised by funds and segregated into the Family Takaful, General Takaful and Takaful Operator, in accordance with the Islamic Financial Services Act, 2013. The Company's statement of financial position and statement of profit or loss have been further analysed by funds.

The Family Takaful business offers primary investment-linked products as well as group medical covers. The General Takaful business offers all General Takaful products, which include motor, fire, marine, aviation and transit ("MAT"), and miscellaneous products.

As disclosed in Note 15, the disposal of the Company's General Takaful business is expected to be completed in 2018. Accordingly, the statement of financial position, statement of profit or loss and the information as cash flow of the General Takaful Fund and General Takaful Operator Fund has been classified as a disposal group or discontinued operation.

STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2018

	<u>Continuing Operations</u>			
	Takaful Operator	Family Takaful Fund	Investment- linked Fund	Company
	RM'000	RM'000	RM'000	RM'000
<b>Assets:</b>				
Property and equipment	4,881	-	-	4,881
Intangible assets	991	-	-	991
Investments	138,793	106,385	364,901	607,239
Takaful receivable	-	3,370	-	3,370
Qardhul Hassan receivable	6,291	-	-	-
Retakaful assets	-	19,144	-	19,144
Other receivables	3,767	2,326	1,717	7,810
Current tax assets	-	1,185	249	1,434
Deferred tax assets	-	-	1,534	1,534
Cash and bank balances	30,602	60,478	23,851	114,931
<b>Total assets</b>	<b>185,325</b>	<b>192,888</b>	<b>392,252</b>	<b>761,334</b>
<b>Equity, participants' fund and liabilities:</b>				
Total equity	160,337	(23,942)	-	154,046
Takaful contract liabilities	-	162,733	388,758	548,651
Takaful payables	-	1,172	-	1,172
Qardhul Hassan payable	-	23,942	-	-
Other payables	27,542	12,964	33	40,539
Expense liabilities	12,848	-	-	12,848
Current tax liabilities	1,424	283	676	2,383
Deferred tax liabilities	1,695	-	-	1,695
<b>Total liabilities</b>	<b>43,509</b>	<b>201,094</b>	<b>389,467</b>	<b>607,288</b>
<b>Total equity, participants' fund and liabilities</b>	<b>203,846</b>	<b>177,152</b>	<b>389,467</b>	<b>761,334</b>
Inter-fund balances	18,521	(15,736)	(2,785)	-

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2017

		<u>Continuing Operations</u>		
	Takaful Operator	Family Takaful Fund	Investment- linked Fund	Company
	RM'000	RM'000	RM'000	RM'000
<b>Assets:</b>				
Property and equipment	4,039	-	-	4,039
Intangible assets	1,949	-	-	1,949
Investments	169,381	67,909	429,529	663,774
Takaful receivable	-	3,217	-	3,217
Qardhul Hassan receivable	-	-	-	-
Retakaful assets	-	15,535	-	15,535
Other receivables	1,488	19	19	1,526
Current tax assets	-	1,178	22	1,200
Deferred tax assets	664	-	-	664
Cash and bank balances	16,019	65,345	12,924	94,288
<b>Total assets</b>	<b>193,540</b>	<b>153,203</b>	<b>442,494</b>	<b>786,192</b>
<b>Equity, participants' fund and liabilities:</b>				
Total equity	162,793	(17,651)	-	162,793
Takaful contract liabilities	-	120,692	440,868	558,515
Takaful payables	-	3,494	-	3,494
Qardhul Hassan payable	-	17,651	-	-
Other payables	31,526	11,647	-	43,173
Expense liabilities	2,001	-	-	2,001
Current tax liabilities	1,035	-	753	1,788
Deferred tax liabilities	-	-	1,903	1,903
<b>Total liabilities</b>	<b>34,562</b>	<b>153,484</b>	<b>443,524</b>	<b>610,874</b>
<b>Total equity, participants' fund and liabilities</b>	<b>197,355</b>	<b>135,833</b>	<b>443,524</b>	<b>773,667</b>
<b>Inter-fund balances</b>	<b>15,788</b>	<b>(17,370)</b>	<b>1,030</b>	<b>(552)</b>
<b>Total equity related to a disposal group classified as held-for-sale</b>	<b>(11,973)</b>	<b>-</b>	<b>-</b>	<b>(11,973)</b>

The interfund balances of RM552,000 and equity portion of RM11,973,000 were settled in 2018 upon the transfer of the general takaful business, and the total cash outflows of RM12,525,000 was disclosed in the Statement of Cash Flows (refer to page 34).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2017

	<u>Discontinued Operations</u>		
	Takaful Operator	General Takaful Fund	Company
	RM'000	RM'000	RM'000
<b>Assets:</b>			
Property and equipment	370	-	370
Intangible assets	1,887	-	1,887
Investments	74,184	160,013	234,197
Takaful receivables	-	45,916	45,916
Qardhul Hassan receivable	-	-	-
Retakaful assets	-	188,794	188,794
Other receivables	234	11	245
Current tax assets	703	-	703
Deferred tax assets	-	2,434	2,434
Cash and bank balances	2,020	38,627	40,647
<b>Total assets</b>	<b>79,398</b>	<b>435,795</b>	<b>515,193</b>
<b>Equity, participants' fund and liabilities:</b>			
Total equity *	-	-	-
Takaful contract liabilities	-	390,834	390,834
Takaful payables	-	30,381	30,381
Qardhul Hassan payable	-	-	-
Other payables	11,734	15,786	27,520
Expense liabilities	3,669	-	3,669
Current tax liabilities	-	2,314	2,314
Deferred tax liabilities	-	-	-
Subordinated obligation	73,000	-	73,000
<b>Total liabilities</b>	<b>88,403</b>	<b>439,315</b>	<b>527,718</b>
<b>Total equity, participants' fund and liabilities</b>	<b>88,403</b>	<b>439,315</b>	<b>527,718</b>
<b>Inter-fund balances</b>	<b>(2,968)</b>	<b>3,520</b>	<b>552</b>
<b>Total equity</b>	<b>11,973</b>	<b>-</b>	<b>11,973</b>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	<u>Continuing Operations</u>				
	Takaful Operator	Family Takaful Fund	Investment linked Fund	Elimination	Company
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned contributions	-	276,687	77,836	-	354,523
Contributions ceded to retakaful operators	-	(21,735)	-	-	(21,735)
Net earned contributions	-	254,952	77,836	-	332,788
Wakalah fee income	125,054	-	-	(125,054)	-
Surplus sharing from Family Takaful fund	14,500	-	-	(14,500)	-
Investment income	6,722	5,189	18,942	-	30,853
Realised gains/(losses)	(109)	843	-	-	734
Fair value gains/(losses)	(205)	-	(57,395)	-	(57,600)
Other operating income-net	296	17	3,065	-	3,378
Other income	146,258	6,049	(35,388)	(139,554)	(22,635)
Total revenue	146,258	261,001	42,448	(139,554)	310,153
Gross benefits and claims paid	-	(103,928)	(90,702)	-	(194,630)
Claims ceded to retakaful Operators	-	22,556	-	-	22,556
Gross change to contract Liabilities	-	(55,151)	52,110	-	(3,041)
Change in contract liabilities ceded to retakaful operators	-	2,842	-	-	2,842
Net claims	-	(133,681)	(38,592)	-	(172,273)
Surplus sharing with Takaful Operator	-	(14,500)	-	14,500	-
Wakalah fee expenses	-	(119,164)	(5,890)	125,054	-
Fee and commission expenses	(77,285)	-	-	-	(77,285)
Management expenses	(57,143)	-	-	-	(57,143)
Qardhul Hassan impairment	-	-	-	-	-
Other operating expenses	(22)	-	(1,259)	-	(1,281)
Expense liabilities	(10,847)	-	-	-	(10,847)
Other expenses	(145,297)	(133,664)	(7,149)	139,554	(146,556)
Zakat	-	-	-	-	-
Profit/(loss) before taxation	961	(6,344)	(3,293)	-	(8,676)
Tax income attributable to participants	-	53	3,293	-	3,346
Profit/(loss) before taxation attributable to Takaful Operator	961	(6,291)	-	-	(5,330)
Taxation	(6,069)	53	3,293	-	(2,723)
Tax income attributable to participants	-	(53)	(3,293)	-	(3,346)
Tax expense attributable to Takaful Operators	(6,069)	-	-	-	(6,069)
Net loss for the financial year	(5,108)	(6,291)	-	-	(11,399)
Net profit for the financial year from discontinued operations	2,437	-	-	-	2,437
Net loss for the financial year	(2,671)	(6,291)	-	-	(8,962)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018  
(CONTINUED)

	<u>Discontinued Operations</u>			
	Takaful Operator	General Takaful Fund	Elimination	Total
	RM'000	RM'000	RM'000	RM'000
Gross earned contributions	-	142,876	-	142,876
Contributions ceded to retakaful operators	-	(34,557)	-	(34,557)
Net earned contributions	-	108,319	-	108,319
Wakalah fee income	47,345	-	(47,345)	-
Surplus sharing from General Takaful fund	-	-	-	-
Investment income	1,076	3,493	-	4,569
Realised gains/(losses)	-	112	-	112
Fair value gains/(losses)	-	-	-	-
Fee and commission income	-	5,016	-	5,016
Other operating income-net	-	-	-	-
Other income	48,421	8,621	(47,345)	9,697
Total revenue	48,421	116,940	(47,345)	118,016
Gross benefits and claims paid	-	(61,502)	-	(61,502)
Claims ceded to retakaful Operators	-	25,580	-	25,580
Gross change to contract Liabilities	-	(26,014)	-	(26,014)
Change in contract liabilities ceded to retakaful operators	-	(8,505)	-	(8,505)
Net claims	-	(70,441)	-	(70,441)
Surplus sharing with Takaful Operator	-	-	-	-
Wakalah fee expenses	-	(47,345)	47,345	-
Fee and commission expenses	(18,646)	-	-	(18,646)
Management expenses	(23,619)	-	-	(23,619)
Write-back of allowance for impairment	-	1,123	-	1,123
Other operating expenses	(645)	(8)	-	(653)
Expense liabilities	(1,088)	-	-	(1,088)
Other expenses	(43,998)	(46,230)	47,345	(42,883)
Zakat	-	-	-	-
Profit/(loss) before taxation	4,423	269	-	4,692
Tax (expense)/income attributable to participants	-	(269)	-	269
Profit/(loss) before taxation attributable to Takaful Operator	4,423	-	-	4,423
Taxation	(1,986)	(269)	-	(2,255)
Tax expense/(income) attributable to participants	-	269	-	269
Tax expense attributable to Takaful Operators	(1,986)	-	-	(1,986)
Net profit/(loss) from discontinued operations for the financial year	2,437	-	-	2,437

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Continuing Operations				
	Takaful Operator	Family Takaful Fund	Investment linked Fund	Elimination	Company
	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned contributions	-	206,106	71,581	-	277,687
Contributions ceded to retakaful operators	-	(20,051)	-	-	(20,051)
Net earned contributions	-	186,055	71,581	-	257,636
Wakalah fee income	95,729	-	-	(95,729)	-
Surplus sharing from Family Takaful fund	13,500	-	-	(13,500)	-
Investment income	6,292	4,161	16,271	-	26,724
Realised gains	-	-	-	-	-
Fair value gains	245	-	25,438	-	25,683
Other operating income-net	548	10	3,425	-	3,983
Other income	116,314	4,171	45,134	(109,229)	56,390
Total revenue	116,314	190,226	116,715	(109,229)	314,026
Gross benefits and claims paid	-	(88,340)	(51,360)	-	(139,700)
Claims ceded to retakaful Operators	-	18,630	-	-	18,630
Gross change to contract Liabilities	-	(13,183)	(54,325)	23	(67,484)
Change in contract liabilities ceded to retakaful operators	-	276	-	-	276
Net claims	-	(82,617)	(105,685)	23	(188,278)
Surplus sharing with Takaful Operator	-	(13,500)	-	13,500	-
Wakalah fee expenses	-	(90,242)	(5,487)	95,729	-
Fee and commission expenses	(70,619)	-	-	-	(70,619)
Management expenses	(53,161)	-	-	-	(53,161)
Qardhul Hassan impairment	(17,651)	-	-	17,651	-
Other operating expenses	(101)	(12,998)	(2,723)	-	(15,822)
Expense liabilities	1,609	-	-	-	1,609
Other expenses	(139,923)	(116,740)	(8,210)	126,880	(137,993)
Zakat	-	-	-	-	-
Profit/(loss) before taxation	(23,609)	(9,131)	2,820	17,674	(12,245)
Tax (expense)/income attributable to participants	-	190	(2,820)	-	(2,630)
(Loss)/profit before taxation attributable to Takaful Operator	(23,609)	(8,941)	-	17,674	(14,875)
Taxation	(2,488)	190	(2,820)	(2,096)	(7,214)
Tax expense/(income) attributable to participants	-	(190)	2,820	-	2,630
Tax expense attributable to Takaful Operators	(2,488)	-	-	(2,096)	(4,584)
Net loss for the financial year	(26,097)	(8,941)	-	15,578	(19,459)
Net loss for the financial year from discontinued operations	(4,398)	-	-	-	(4,398)
Net (loss)/profit for the financial year	(30,495)	(8,941)	-	15,578	(23,857)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

29 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	<u>Discontinued Operations</u>			
	Takaful Operator	General Takaful Fund	Elimination	Company
	RM'000	RM'000	RM'000	RM'000
Gross earned contributions	-	283,585	-	283,585
Contributions ceded to retakaful operators	-	(135,095)	-	(135,095)
Net earned contributions	-	148,490	-	148,490
Wakalah fee income	84,194	-	(84,194)	-
Surplus sharing from General Takaful fund	4,835	-	(4,835)	-
Investment income	1,228	7,255	-	8,483
Realised gains/(losses)	-	(216)	-	(216)
Fair value gains/(losses)	-	-	-	-
Fee and commission income	-	23,787	-	23,787
Other operating income-net	1	1,053	-	1,054
Other income	90,258	31,879	(89,029)	33,108
Total revenue	90,258	180,369	(89,029)	181,598
Gross benefits and claims paid	-	(153,659)	-	(153,659)
Claims ceded to retakaful Operators	-	91,462	-	91,462
Gross change to contract Liabilities	-	18,216	-	18,216
Change in contract liabilities ceded to retakaful operators	-	(42,227)	-	(42,227)
Net claims	-	(86,208)	-	(86,208)
Surplus sharing with Takaful Operator	-	(4,835)	4,835	-
Wakalah fee expenses	-	(84,194)	84,194	-
Fee and commission expenses	(33,678)	-	-	(33,678)
Management expenses	(58,453)	-	-	(58,453)
Write-back of allowance for impairment	-	-	-	-
Other operating expenses	(735)	(3,052)	-	(3,787)
Expense liabilities	295	-	-	295
Other expenses	(92,571)	(92,081)	89,029	(95,623)
Zakat	-	-	-	-
Profit/(loss) before taxation	(2,313)	2,080	-	(233)
Tax (expense)/income attributable to participants	-	(2,080)	-	(2,080)
Profit/(loss) before taxation attributable to Takaful Operator	(2,313)	-	-	(2,313)
Taxation	(2,085)	(2,080)	-	(4,165)
Tax expense/(income) attributable to participants	-	2,080	-	2,080
Tax expense attributable to Takaful Operators	(2,085)	-	-	(2,085)
Net loss from discontinued operations for the financial year	(4,398)	-	-	(4,398)

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 30 RISK MANAGEMENT FRAMEWORK

#### (a) Risk Governance

The risk governance structure within the Company aims to ensure effective management of the different types of risks while meeting the specific strategic objectives of the Company. The Company manages its obligations and pursues opportunities that involve an acceptable degree of risks, with the aim of achieving its business and operating objectives while fulfilling the expectations of all stakeholders. The Company's policy is to give consistent consideration to the balance of risks and commercial implications in order to support the achievement of stakeholder expectations.

The Company adopts three line of defense model approach to governance and enterprise risk management. The Company's risk governance and risk reporting requirements are incorporated in the Company's Risk Management Framework which acts as a foundation to a sound system of internal control, contributing to effective corporate governance and risk reporting requirements. The framework describes the risk management cycle of risk identification, analysis, and evaluation, treatment, monitoring and reporting. The key risks are reviewed on a regular basis and reported up the hierarchy as required.

The adoption of the framework is the responsibility of the Board with certain delegation of responsibilities to Risk Management Committee. The Company has established Senior Management Committees which act as bilateral communication platform in discharging obligations. The Committees include Risk and Control Committee, IT Steering Committee, Asset-Liability Management Investment Committee, Executive Committee and Management Committee. These committees comprising members of senior management team, and 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. The company places strong emphasis on ensuring Shariah Compliance in all its activities, and put in place a comprehensive control, monitoring and reporting procedures to manage and mitigate potential shariah non-compliance incidences.

#### (b) Regulatory Framework

The Company is required to comply with the Islamic Financial Services Act, 2013 and other regulations, as applicable.

The Company is also subject to all Zurich Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter rules will apply.

The Board exercises oversight on investments to safeguard the interests of participants and shareholders while ensuring compliance with Shariah.

#### (c) Capital Management

The Company's capital management policy is to create shareholder value, maintain a strong capital position to enable it meet its obligation to certificate holders, as well as 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 Total Available Capital of the Company as at 31 December 2018 was RM157,969,000.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

#### (c) Capital Management (continued)

	2018	2017
	RM'000	RM'000
<u>Tier 1 Capital</u>		
Paid-up capital	190,000	190,000
Reserves, including retained earnings	(32,652)	(14,354)
	157,348	175,646
<u>Tier 2 Capital</u>		
Available-for-sale reserve	621	1,166
Long term debt	-	73,000
Less:		
Deferred tax assets	-	(3,098)
Total Capital Available	157,969	246,714

### 31 TAKAFUL RISK

The Company accepts Takaful risk through its written Takaful contracts. The Company writes Family Takaful contracts (health, group family, mortgage and investment-linked) and General Takaful contracts (motor, fire, marine, aviation and transit ("MAT"), and miscellaneous). Takaful risk is the inherent uncertainty regarding the fluctuations in the timing, frequency and severity of insured events, relative to our expectations at the time of underwriting. It can also refer to fluctuations in the timing and amount of claim settlements. The Takaful risk appetite is defined through the review of portfolio size, underwriting criteria, product limits, retakaful arrangements, underwriting authorities, claims signing authorities, delegation of authorities, pricing adequacy, aggregate risks and loss scenarios.

#### (a) Family Takaful

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks. Medical selection is part of the Company's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval. Products are reviewed by the Management Committee on periodic basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**31 TAKAFUL RISK**

**(a) Family Takaful (continued)**

The table below shows the concentration of Family Takaful contract liabilities, excluding AFS fair value adjustments, by type of contract.

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
<u>31 December 2018</u>			
Family Takaful contract liabilities:			
Endowment	409,488	(4,366)	405,122
Term	141,307	(14,778)	126,529
Total Family Takaful contract liabilities	<u>550,795</u>	<u>(19,144)</u>	<u>531,651</u>

31 December 2017

Family Takaful contract liabilities:			
Endowment	453,644	(1,966)	451,678
Term	106,845	(13,569)	93,276
Total Family Takaful contract liabilities	<u>560,489</u>	<u>(15,535)</u>	<u>544,954</u>

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

a) Mortality rates

Assumption is based on industry standard table – M9903.

b) Morbidity rates

Assumption is mainly based on reinsurer rates.

c) Investment return

Assumptions at 75% confidence level are 5.5% per annum for Participant Investment Account ("PIA") on Investment-linked, 4.5% per annum for PIA on Non Investment-linked, 3.5% per annum for Participant Risk Investment Account ("PRIA") on Investment-linked and 3.6% per annum for PRIA on Non Investment-linked.

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# NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

## 31 TAKAFUL RISK (CONTINUED)

### (a) Family Takaful (continued)

#### Key assumptions (continued)

#### d) Expenses

Assumption varies by product type is as follows:-

	Fixed Renewal Expense	% of Contribution	ARE p.a.
IL	45	1.5%	3.0%
OL Investment	35	1.5%	3.0%
OL Medical	45	1.5%	3.0%
Patina	28	1.5%	3.0%
CCB	28	1.5%	3.0%
MPP	13	-	-
GDT	11	-	-
GTT	-	-	-

#### e) Lapse and surrender rates

2% per annum is assumed for single contribution certificate.

For regular contribution certificates, lapse rate varies by certificate year as follows:

Plan	Certificate Year (%)						
	1	2	3	4	5	6	7+
Takafulink	20	15	13	12	10	10	10
Takafulink Education	15	15	10	9	9	8	8
Takafulink Single-Invest	20	50	25	20	15	15	10
Takafulife Series	15	20	10	10	10	8	8
CancerCare	20	45	30	5	5	5	5
SmartMedic 200	15	45	40	25	25	25	25
Medica2015	15	20	10	3.5	3.5	3.5	3.5
Term80	10	20	20	15	15	15	15
Term80 II	20	20	10	3.5	3.5	3.5	3.5
Patina2016	15	45	20	5	5	5	5
Mortgage (MPP)	2	2	2	2	2	2	2

#### f) Contribution holiday

Plan	Certificate Year (%)							
	1	2	3	4	5	6	7	8+
Investment-Linked	2	10	20	25	35	40	45	50
Ordinary Life Series	2	10	15	15	25	25	10	10

#### g) Discount rate

Discount rate used is the Government Investment Issue ("GII") spot rate as at the date of statement of financial position.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

31 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of 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. Sensitivity information will also vary according to the current economic assumptions.

	Change in Assumptions	Impact on Family Takaful contract liabilities		
		Gross	Net	(Loss)/profit before taxation
	%	RM'000	RM'000	RM'000
<u>31 December 2018</u>				
Mortality/ morbidity	10%	9,836	5,415	(5,415)
Lapse and surrender rates	10%	145	335	(335)
Discount rate	10%	(5,961)	(5,209)	5,209
<u>31 December 2017</u>				
Mortality/ morbidity	10%	7,715	4,461	(4,461)
Lapse and surrender rates	10%	131	315	(315)
Discount rate	10%	(3,324)	(2,526)	2,526

\* The profits are before surplus sharing or Qardhul Hassan repayment.

There is minimal impact on the Family Takaful contract liabilities in relation to changes made to longevity and investment return assumptions.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 32 FINANCIAL RISK

The Company's activities expose it to credit risk, liquidity risk and market risk. The Company's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Company's financial performance. The Board is responsible for setting the objectives and underlying principles of financial risk management for the Company and detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, and exposure limits in accordance with the objectives and underlying principles approved by the Board. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

#### Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The major classes of financial assets of the Company are investment in cash, Islamic private debt securities, and receivables, including amounts due from Takaful contracts and amounts due from retakaful in respect of payments already made to participants. For investments in Islamic private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss. The retakaful share of unearned contribution reserves in relation to the General Takaful fund and Qardhul Hassan are not financial instruments, and hence these items are not exposed to credit risk.

For receivables, the Company adopts the policy of dealing only with customers of appropriate credit history. Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

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

The Company issues Investment-linked investment contracts. In the Investment-linked funds, the holders of these contract bear the investment risks on the assets held in the Investment-linked funds as the contract benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on Investment-linked financial assets.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 32 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

#### Exposure to credit risk

The table below show the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	<u>Continuing Operations</u>			
	Takaful Operator	Family Takaful Fund	Investment- linked fund	Company
	RM'000	RM'000	RM'000	RM'000
<u>2018</u>				
AFS investments:				
Malaysian Government Securities / Government Investment Issues	8,121	-	-	8,121
Islamic debt securities, unquoted	127,832	106,385	-	234,217
FVTPL investments:				
Shariah-approved quoted equities*	-	-	94,026	94,026
Islamic debt securities, unquoted	-	-	47,622	47,622
Investment-linked units*	-	-	226,093	226,093
Unit trusts*	2,840	-	-	-
Retakaful assets#	-	19,144	-	19,144
Takaful receivables	-	3,370	-	3,370
Other receivables	28,706	8,744	1,717	7,810
Cash and bank balances	30,602	39,874	44,455	114,931
	<u>198,101</u>	<u>177,517</u>	<u>413,913</u>	<u>755,334</u>

\* Not subject to credit risk

# Retakaful assets exclude unearned contribution reserve

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

32 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

	<u>Continuing Operations</u>			
	Takaful Operator	Family Takaful Fund	Investment- linked fund	Company
	RM'000	RM'000	RM'000	RM'000
<u>2017</u>				
AFS investments:				
Malaysian Government Securities /				
Government Investment Issue	8,117	-	-	8,117
Islamic debt securities, unquoted	158,219	67,909	-	226,128
FVTPL investments:				
Shariah-approved quoted equities*	-	-	106,515	106,515
Islamic debt securities, unquoted	-	-	80,671	80,671
Investment-linked units*	3,045	-	-	-
Unit trusts*	-	-	242,343	242,343
LAR:				
Fixed and call deposits with:				
Licensed financial institutions	-	-	-	-
Retakaful assets#	-	15,535	-	15,535
Takaful receivables	-	3,217	-	3,217
Other receivables	24,034	4,629	1,615	1,526
Cash and bank balances	16,019	65,344	12,925	94,288
	<u>209,434</u>	<u>156,634</u>	<u>444,069</u>	<u>778,340</u>

\* Not subject to credit risk

# Retakaful assets exclude unearned contribution reserve

ZURICH TAKAFUL MALAYSIA BERHAD  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

32 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

	<u>Discontinued Operations</u>		
	Takaful Operator	General Takaful Fund	Company
	RM'000	RM'000	RM'000
<u>2017</u>			
AFS investments:			
Malaysian Government Securities /			
Government Investment Issues	-	2,029	2,029
Islamic debt securities, unquoted	-	157,663	157,663
LAR:			
Fixed and call deposits with:			
Licensed financial institutions	74,184	321	74,505
Retakaful assets#	-	158,941	158,941
Takaful receivables	-	45,916	45,916
Other receivables	5,069	8,366	245
Cash and bank balances	2,020	38,627	40,647
	<u>81,273</u>	<u>411,863</u>	<u>479,946</u>

\* Not subject to credit risk

# Retakaful assets exclude unearned contribution reserve

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**32 FINANCIAL RISK (CONTINUED)**

Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and/or 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.

	Neither past due nor impaired					Not subject to credit risk	Investment -linked fund	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated					
<u>Continuing Operations</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2018</u>										
AFS investments:										
Malaysian Government Securities / Guaranteed Investment Issue	-	-	-	-	8,121	-	-	-	-	8,121
Islamic debt securities, unquoted	76,547	130,720	-	-	26,950	-	-	-	-	234,217
FVTPL investments:										
Shariah-approved quoted equities	-	-	-	-	-	-	94,026	-	-	94,026
Islamic debt securities, unquoted	-	-	-	-	-	-	47,622	-	-	47,622
Unit trusts	-	-	-	-	-	-	226,093	-	-	226,093
Retakaful assets	-	11,233	-	-	7,911	-	-	-	-	19,144
Takaful receivables	-	-	-	-	3,370	-	-	-	-	3,370
Other receivables	-	-	-	-	6,093	-	1,717	-	-	7,810
Cash and bank balances	69,718	748	-	-	10	-	44,455	-	-	114,931
	146,265	142,701	-	-	52,455	-	413,913	-	-	755,334

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**32 FINANCIAL RISK (CONTINUED)**

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	Neither past due nor impaired					Not subject to credit risk	Investment -linked fund	Past due but not impaired	Past due and impaired	Total
<u>Continuing Operations</u>	AAA	AA	A	BBB	Not rated					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>										
AFS investments:										
Malaysian Government Securities /										
Guaranteed Investment Issue	-	-	-	-	8,117	-	-	-	-	8,117
Islamic debt securities, unquoted	47,593	99,191	-	-	79,344	-	-	-	-	226,128
FVTPL investments:										
Shariah-approved quoted equities	-	-	-	-	-	-	106,515	-	-	106,515
Islamic debt securities, unquoted	-	-	-	-	-	-	80,671	-	-	80,671
Unit trusts	-	-	-	-	-	-	242,343	-	-	242,343
Retakaful assets	-	-	-	-	15,535	-	-	-	-	15,535
Takaful receivables	-	-	-	-	3,217	-	-	-	-	3,217
Other receivables	-	-	-	-	1,517	-	9	-	-	1,526
Cash and bank balances	76,239	5,122	1	-	-	-	12,926	-	-	94,288
	123,832	104,313	1	-	107,730	-	442,464	-	-	778,340

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**32 FINANCIAL RISK (CONTINUED)**

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	Neither past due nor impaired					Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
<u>Discontinued Operations</u>	AAA	AA	A	BBB	Not rated				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>									
AFS investments:									
Malaysian Government Securities / Guaranteed Investment Issue	-	-	-	-	2,029	-	-	-	2,029
Islamic debt securities, unquoted	29,716	78,032	-	-	49,915	-	-	-	157,663
LAR:									
Fixed and call deposits with: Licensed financial institutions	74,505	-	-	-	-	-	-	-	74,505
Retakaful assets	-	7,282	121,023	620	59,869	-	-	-	188,794
Takaful receivables	-	413	15,648	-	13,287	-	6,805	9,763	45,916
Other receivables	-	-	-	-	245	-	-	-	245
Cash and bank balances	30,097	7,649	2,901	-	-	-	-	-	40,647
	134,318	93,376	139,572	620	125,345	-	6,805	9,763	509,799

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 32 FINANCIAL RISK (CONTINUED)

#### Credit Risk (continued)

##### Aged analysis of financial assets past due but not impaired

<u>Discontinued Operations</u>	<u>&gt; 60 days and &lt;180 days</u> RM'000	<u>&gt; 180 days</u> RM'000	<u>Total</u> RM'000
<u>2018</u>			
Takaful receivables	-	-	-
<u>2017</u>			
Takaful receivables	5,668	1,137	6,805

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and Takaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to calls on its available cash resources mainly from claims arising from takaful and investment contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior period.

The Company's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This involves projecting cash flows on a regular basis to predict cash outflows from Takaful and investment contracts over the short, medium and long term; which include purchases of assets with similar durations to its Takaful contracts; assets purchased by the Company to satisfy specified marketability requirements; and the Company maintains cash and liquid assets to meet daily calls on its Takaful contracts and other obligations.

#### Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations. All liabilities are presented on a contractual cash flow basis except for Takaful contract liabilities, the maturity profiles are determined based on the estimated timing of net cash outflows from the recognised Takaful liabilities.

Available-for-sale fair value adjustment, unearned contribution reserve and retakaful's share of unearned contribution have been excluded from the analysis as they are not contractual obligations.

Investment-linked fund liabilities are repayable or transferable upon notice by certificate holders and are disclosed separately under the "Investment-linked fund" column. Repayments which are subject to notice are treated as if such notice was to be given immediately.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

32 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk

	Carrying value	Up to a year	1 – 3 years	3 – 5 years	5 – 15 years	Over 15 years	No maturity date	Investment- linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Continuing Operations</u>									
<u>2018</u>									
AFS investments:									
Malaysian Government Securities /									
Government Investment Issue	8,121	315	632	8,158	-	-	-	-	9,105
Islamic debt securities, unquoted	234,217	29,760	71,541	64,082	115,557	9,716	-	-	290,656
FVTPL investments:									
Shariah-approved quoted equities	94,026	-	-	-	-	-	94,026	-	94,026
Islamic debt securities, unquoted	47,622	4,732	11,117	11,173	35,479	3,805	-	-	66,306
Unit trusts	226,093	-	-	-	-	-	-	226,093	226,093
Retakaful assets	19,144	8,280	14	78	2,120	8,652	-	-	19,144
Takaful receivables	3,370	3,370	-	-	-	-	-	-	3,370
Other receivables	7,810	6,093	-	-	-	-	-	1,717	6,276
Cash and bank balances	114,931	91,080	-	-	-	-	-	23,851	116,465
	<u>755,334</u>	<u>143,630</u>	<u>83,304</u>	<u>83,491</u>	<u>153,156</u>	<u>22,173</u>	<u>94,026</u>	<u>251,661</u>	<u>831,441</u>
Takaful contract liabilities	548,651	443,275	24,042	419	9,119	71,099	-	-	547,954
Takaful payables	1,172	1,172	-	-	-	-	-	-	1,172
Expense liabilities	12,848	2,835	1,237	63	824	7,889	-	-	12,848
Other payables	40,539	40,539	-	-	-	-	-	-	40,539
	<u>603,210</u>	<u>487,821</u>	<u>25,279</u>	<u>482</u>	<u>9,943</u>	<u>78,988</u>	<u>-</u>	<u>-</u>	<u>602,513</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

32 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

<u>Continuing Operations</u>	Carrying value	Up to a year	1 – 3 years	3 – 5 years	5 – 15 years	Over 15 years	No maturity date	Investment- linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>									
AFS investments:									
Malaysian Government Securities / Government Investment Issue	8,117	316	632	8,474	-	-	-	-	9,422
Islamic debt securities, unquoted	226,128	43,346	64,783	83,220	91,708	11,577	-	-	294,634
FVTPL investments:									
Shariah-approved quoted equities	106,515	-	-	-	-	-	-	106,515	106,515
Islamic debt securities, unquoted	80,671	-	-	-	-	-	-	80,671	80,671
Unit trusts	242,343	-	-	-	-	-	-	242,343	242,343
LAR:									
Fixed and call deposits with: Licensed financial institutions	-	-	-	-	-	-	-	-	-
Retakaful assets	15,535	7,088	8	81	1,985	6,373	-	-	15,535
Takaful receivables	3,217	3,217	-	-	-	-	-	-	3,217
Other receivables	1,526	1,507	-	-	-	-	-	19	1,526
Cash and bank balances	94,288	81,363	-	-	-	-	-	12,925	94,288
	<u>778,340</u>	<u>136,837</u>	<u>65,423</u>	<u>91,775</u>	<u>93,693</u>	<u>17,950</u>	<u>-</u>	<u>442,473</u>	<u>848,151</u>
Takaful contract liabilities	561,560	525,653	17,750	474	8,684	7,928	-	-	560,489
Takaful payables	3,494	3,494	-	-	-	-	-	-	3,494
Expense liabilities	2,001	24	19	65	732	1,161	-	-	2,001
Other payables	43,173	43,173	-	-	-	-	-	-	43,173
	<u>610,228</u>	<u>572,344</u>	<u>17,769</u>	<u>539</u>	<u>9,416</u>	<u>9,089</u>	<u>-</u>	<u>-</u>	<u>609,157</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

32 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

<u>Discontinued Operations</u>	Carrying value	Up to a year	1 – 3 years	3 – 5 years	5 – 15 years	Over 15 Years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2017</u>								
AFS investments:								
Malaysian Government Securities /								
Government Investment Issue	2,029	79	158	2,118	-	-	-	2,355
Islamic debt securities, unquoted	157,663	30,164	59,732	60,178	31,334	-	-	181,408
LAR:								
Fixed and call deposits with:								
Licensed financial institutions	74,505	203	-	-	-	-	-	203
Retakaful assets	188,794	129,675	50,556	7,725	838	-	-	188,794
Takaful receivables	45,916	45,916	-	-	-	-	-	45,916
Other receivables	245	245	-	-	-	-	-	245
Cash and bank balances	40,647	40,647	-	-	-	-	-	40,647
	<u>509,799</u>	<u>246,929</u>	<u>110,446</u>	<u>70,021</u>	<u>32,172</u>	<u>-</u>	<u>-</u>	<u>459,568</u>
Takaful contract liabilities	390,834	293,259	82,960	13,057	1,558	-	-	390,834
Takaful payables	30,381	30,381	-	-	-	-	-	30,381
Expense liabilities	3,669	24	19	65	732	2,829	-	3,669
Other payables	27,520	27,520	-	-	-	-	-	27,520
	<u>452,404</u>	<u>351,184</u>	<u>82,979</u>	<u>13,122</u>	<u>2,290</u>	<u>2,829</u>	<u>-</u>	<u>452,404</u>

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 32 FINANCIAL RISK (CONTINUED)

#### Market risks

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices which will affect the value of the Company's assets, the amount of its liabilities and/or the Company's income. Market risk arises in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets, including those held to back investment-linked contracts to the extent that the fees earned by the Company on these contracts are often dependent on the market value of the underlying portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

The Investment Committee manages and monitors market risks. The Committee's reports are tabled to the Board. For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored.

#### Profit rate risk

Profit rate risk arises primarily from the Company's investments. Changes in investment values attributable to profit rate changes are mitigated by corresponding and partially offsetting changes in the economic value of takaful provisions, investment contract liabilities. The Company manages its profit rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from profit rate movements. The Company monitors its profit rate risk exposure through periodic reviews of the asset and liability position, as well as through stress testing by using duration and convexity measurements. The nature of the Company's exposures to profit rate risk and its objectives, policies and processes for managing profit rate risk have not changed significantly from the prior period.

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 (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).

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

### 32 FINANCIAL RISK (CONTINUED)

#### Market risks (continued)

#### Profit rate risk (continued)

	Changes in variables	Impact on profit before tax <sup>^</sup>		Impact on equity <sup>*</sup>		Impact on Takaful contract liabilities <sup>*</sup>	
		2018	2017	2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Takaful</u>							
<u>Operator</u>							
RM	+100 basis points	-	730	(2,209)	555	-	-
RM	-100 basis points	-	(730)	2,291	(555)	-	-
<u>Family</u>							
<u>Takaful Fund</u>							
RM	+100 basis points	-	-	-	-	(4,458)	(178)
RM	-100 basis points	-	-	-	-	4,788	178

<sup>^</sup> Impact on Islamic money market instruments only.

<sup>\*</sup> Impact on equity/Takaful contract liabilities reflects adjustments for tax, when applicable.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Exposures to foreign currency risk are monitored on an on-going basis.

The Company has no significant exposure to currency risk.

#### Operational risks

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)

### 32 FINANCIAL RISK (CONTINUED)

#### Market risks (continued)

##### Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through stress testing. In addition, the Company monitors and manages the equity exposure against policies set and agreed by the Investment Committee. These policies include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in profit or loss) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

<u>Market Indices</u> <u>Takaful Operator</u>	<u>Changes in</u> <u>variables</u>	<u>Impact on profit before tax</u>		<u>Impact on equity*</u>	
		2018	2017	2018	2017
		RM'000	RM'000	RM'000	RM'000
Bursa Malaysia	15%	-	-	-	-
Bursa Malaysia	-15%	-	-	-	-

\* Impact on equity reflects adjustments for tax, when applicable.

There is no impact to the Company's profit before taxation as the impact of changes in price risk to the equities securities of the Family Takaful fund and Investment-linked funds is retained in the Takaful contract liabilities.

The method used for deriving sensitivity information and significant variables did not change from previous year.

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# NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

## 33 SIGNIFICANT EVENT

On 1 June 2018, the assets and liabilities of the General Takaful business and the Takaful Operator fund relating to the General Takaful business were transferred to Zurich General Takaful Malaysia Berhad ("ZGTMB") in accordance with the Business Transfer Scheme between the Company and ZGTMB which was approved and confirmed by the High Court of Malaya on 27 April 2018 in accordance with IFSA.

	Takaful Operator RM'000	General Takaful Fund RM'000
<b>Assets</b>		
Property and equipment	1,055	-
Intangible assets	1,045	-
Investments:		
Loans and receivables	-	1,687
Available-for-sale	-	155,175
Takaful receivables	-	36,074
Retakaful assets	-	168,669
Other receivables	-	441
Current tax assets	-	-
Deferred tax assets	-	2,165
Cash and bank balances	14,895	111,983
<b>Total Assets</b>	<b>16,995</b>	<b>476,194</b>
<b>Liabilities</b>		
Takaful contract liabilities	-	430,633
Takaful payables	-	25,402
Other payables	11,988	18,131
Expense liabilities	4,757	-
Current tax liabilities	250	2,028
<b>Total Liabilities</b>	<b>16,995</b>	<b>476,194</b>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)**

**34 SUBSEQUENT EVENT**

A special resolution was passed by the shareholder of the Company at an Extraordinary General Meeting held on 14 January 2019 approving the proposed reduction in the paid-up share capital of the Company in the following manner:

- (i) reduction of paid-up share capital of the Company from RM190,000,000 to RM100,000,000;
- (ii) a capital repayment of RM40,000,000 in cash to the immediate holding company, Zurich Holding Malaysia Berhad on such a date to be determined by the Directors; and
- (iii) the balance of RM50,000,000 shall be utilised against the accumulated losses of the Company.

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# NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2018 (CONTINUED)

## 35 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:

	AAA RM'000	AA RM'000	Not rated RM'000	Total RM'000
31 December 2018				
AFS investments:				
Malaysian Government Securities /				
Government Investment Issues	-	-	8,121	8,121
Islamic debt securities, unquoted	76,547	130,720	26,950	234,217
	<u>76,547</u>	<u>130,720</u>	<u>35,071</u>	<u>242,338</u>

- (b) Fair value / carrying amount:

	Financial assets with SPPI cash flows RM'000	Other financial assets RM'000	Total RM'000
Fair value at 31 December 2018	242,338	510,156	752,494
Fair value changes during the financial period	(27)	(57,600)	(57,627)
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

