

Zurich Takaful Malaysia Berhad



Report And Statutory Financial Statement

31 DECEMBER 2019

About Zurich Takaful in Malaysia

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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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ZURICH TAKAFUL MALAYSIA BERHAD
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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:

| | |
|--|--|
| Hasnah binti Omar (Appointed as Chairperson on 14 May 2019) | Chairperson (Independent Non-Executive Director) |
| Onn Kien Hoe | Member (Independent Non-Executive Director) |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Stephen James Clark | Member (Executive Director) |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | Chairman (Independent Non-Executive Director) |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Dr. Md Khalil bin Ruslan (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Choy Khai Choon (Retired on 30 June 2019) | Member (Independent Non-Executive Director) |

The Board currently comprises five (5) Directors with skills and experience in a diverse range of business, financial, technical and public service background. The Board is represented by four (4) 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

Hasnah binti Omar

Malaysian, Female
Independent Non-Executive Director / Chairperson
Member of Audit Committee
Member of Risk Management Committee
Member of Nomination and Remuneration Committee

Cik Hasnah binti Omar was appointed as an Independent Non-Executive Director of the Company on 30 June 2016. She was appointed as Chairman of the Board of Directors of the Company on 14 May 2019. Cik Hasnah is a member of the Audit Committee, Risk Management Committee and Nomination and Remuneration Committee of the Company

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.

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 is currently the Chairman and Independent Non-Executive Director of MIDF Amanah Assets Management Berhad. She also sits on the Board of Malaysian Industrial Development Finance Berhad (MIDF), Zurich Life Insurance Malaysia Berhad and Zurich General Takaful Malaysia Berhad. She also serves as a member of the Appeals Committee of the Securities Industry Dispute Resolution Centre since 2015.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (CONTINUED)

Onn Kien Hoe

Malaysian, Male
Independent Non-Executive Director
Chairman of Audit Committee
Member of Risk Management Committee
Member of Nomination and Remuneration Committee

Mr Onn Kien Hoe was appointed as an Independent Non-Executive Director of the Company on 17 May 2012. Mr Onn is the Chairman of Audit Committee of the Company. He is also a member of Risk Management Committee, Nomination and Remuneration Committee of the Company.

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 serves as an Independent Non-Executive Director at Zurich General Takaful Malaysia Berhad. He also sits on the Board of Avillion Berhad and several private limited companies.

Datuk Dr. Hafsah binti Hashim

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

Datuk Dr Hafsah binti Hashim was appointed as Independent Non-Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 4 June 2019. She is the Chairperson of the Risk Management Committee of the Company. She is also a member of the Audit Committee and Nomination and Remuneration Committee of the Company.

Datuk Dr Hafsah obtained her Bachelor in Applied Science from Science University of Malaysia in 1982 and Masters in Business Administration from Aston University, United Kingdom in 1996.

Datuk Dr Hafsah has vast experience in public sector administration and has served in several ministries including Ministry of International Trade and Industry (MITI), Ministry of Agriculture and Ministry of Primary Industries. She also served as the Chief Executive Officer of SME Corporation Malaysia for nearly 14 years. In total, she served the Government of Malaysia for 36 years and 2 months before retiring on 15 August 2018.

On the international front, Datuk Dr Hafsah is appointed as the Monsha'at International Advisory Board Committee of Small and Medium Enterprise General Authority (SMEA) of the Kingdom of Saudi Arabia from 1 November 2017 until 1 November 2019.

Datuk Dr Hafsah currently sits on the Board of Directors of among others, Johor Corporation SIRIM Berhad and Permodalan Usahawan Nasional Berhad. She is also the Chairman of PharmaNiaga, Arab-Malaysia Chamber of Commerce Berhad, SIRIM Technology Venture Sdn Bhd and Serunai Commerce Sdn Bhd. In addition, Datuk Dr Hafsah assumes an Advisory role to the Board of Bank Islam, Malaysia.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PROFILE OF DIRECTORS AND CHIEF EXECUTIVE OFFICER (CONTINUED)

Dr. Yusri bin Mohamad

Malaysian, Male
Independent Non-Executive Director
Chairman of Nomination and Remuneration Committee
Member of Audit Committee
Member of Risk Management Committee

Dr Yusri bin Mohamad was appointed as Independent Non-Executive Director of the Company upon obtaining approval from Bank Negara Malaysia on 4 June 2019. He is the Chairman of the Nomination and Remuneration Committee of the Company. He is also a member of the Audit Committee and Risk Management Committee of the Company.

Dr Yusri obtained his doctorate degree in Laws from the International Islamic University Malaysia in 2010, Bachelor of Laws and LLB (Shariah) Hons – Bachelor of Laws (Shariah) from the International Islamic University Malaysia in 1996 and LLM - Master of Laws from the University of London in 1997.

Dr Yusri is an experienced academic professional with vast work experience in the academic field specialising in shariah and legal; and has more than 23 years of experience in related fields. He has also served in top management roles in various government, private educational and welfare foundations. He is a partner of a legal firm, Messrs. Wajdi Mohamad Yusri & Co and is a licensed Shariah lawyer for the Federal Territories, Malaysia.

Dr Yusri is currently the Chairman of the Shariah Committee of the Company and a member of the Shariah Committee of Bank Muamalat Malaysia Berhad. He also serves on the board of Islamic and Strategic Studies Institute Berhad.

Stephen James Clark

British, Male
Executive Director

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

Mr 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 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, currently, 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 2019 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 2019, the Board met ninth (9) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2019.

The number of meetings attended by each member of the Board during the financial year ended 31 December 2019 is as follows:

| <u>Name of Directors</u> | <u>No. of Attendance</u> |
|---|--------------------------|
| Hasnah binti Omar (Appointed as Chairperson on 14 May 2019) | 9/9 |
| Onn Kien Hoe | 9/9 |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | 5/5 |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | 5/5 |
| Stephen James Clark | 9/9 |
| Tan Sri Ahmad bin Mohd Don (Chairman) (Retired on 13 May 2019) | 3/3 |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | 3/3 |
| Dr. Md Khalil bin Ruslan (Retired on 13 May 2019) | 3/3 |
| Choy Khai Choon (Retired on 30 June 2019) | 4/4 |

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)

BOARD COMMITTEES (CONTINUED)

Audit Committee ("AC")

The members of the Audit Committee are as follows:

| | |
|--|---|
| Onn Kien Hoe | Chairman (Independent Non-Executive Director) |
| Hasnah binti Omar | Member (Independent Non-Executive Director) |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Choy Khai Choon (Retired on 30 June 2019) | 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 2019, 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.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Audit Committee ("AC") (continued)

The number of meetings attended by each member of the Audit Committee during the financial year ended 31 December 2019 is as follows:

| <u>Name of Directors</u> | <u>No. of Attendance</u> |
|---|--------------------------|
| Onn Kien Hoe (Chairman) | 5/5 |
| Hasnah binti Omar | 3/3 |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | 3/3 |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | 3/3 |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | 2/2 |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | 2/2 |
| Choy Khai Choon (Retired on 30 June 2019) | 2/2 |

During the financial year ended 31 December 2019, 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.

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:

| | |
|--|--|
| Dr. Yusri bin Mohamad (Chairman) (Appointed on 4 June 2019) | Chairman (Independent Non-Executive Director) |
| Onn Kien Hoe | Member (Independent Non-Executive Director) |
| Hasnah binti Omar | Member (Independent Non-Executive Director) |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | Chairman (Independent Non-Executive Director for the period from 1 Jan 2019 to 13 May 2019) |
| Dr. Md Khalil bin Ruslan (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Choy Khai Choon (Retired on 30 June 2019) | Member (Independent Non-Executive Director) |

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

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

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) Nomination matters concerning the Board, Senior Management (including Chief Executive Officer and Expatriates) and Company Secretary on areas pertaining to appointments and removals, composition, fit and proper assessments, performance evaluation and development.
- (ii) 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.
- (iii) To recommend specific remuneration packages for Directors, Chief Executive Officer and key senior officers (including the expatriates, if any) of the Company.
- (iv) 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.
- (v) 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 2019 is as follows:

| <u>Name of Directors</u> | <u>No. of Attendance</u> |
|--|--------------------------|
| Dr. Yusri bin Mohamad (Chairman) (Appointed on 4 June 2019) | 3/3 |
| Onn Kien Hoe | 7/7 |
| Hasnah binti Omar | 7/7 |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | 3/3 |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | 3/3 |
| Dr. Md Khalil bin Ruslan (Retired on 13 May 2019) | 3/3 |
| Choy Khai Choon (Retired on 30 June 2019) | 4/4 |

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)

BOARD COMMITTEES (CONTINUED)

Risk Management Committee ("RMC")

The members of the Risk Management Committee are as follows:

| | |
|---|--|
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | Chairperson (Independent Non-Executive Director) |
| Dr. Yusri bin Mohamad (Chairman) (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Onn Kien Hoe | Member (Independent Non-Executive Director) |
| Hasnah binti Omar (Chairperson from 30 June 2016 to 14 May 2019) | Member (Independent Non-Executive Director) |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Choy Khai Choon (Retired on 30 June 2019) | Member (Independent Non-Executive Director) |

The RMC 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 RMC functions on the Terms of Reference approved by the Board. The principal duties and responsibilities of RMC 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.
- (v) To provide oversight over technology-related matters which include review of technology frameworks, review and recommendation of technology risk appetite, risk tolerance for technology related events, ensure key performance indicators and forward looking risk indicators are in place, adequacy of IT and cybersecurity strategic plans and effective implementation of sound and robust technology risk management framework (TRMF) and cyber resilience framework (CRF).

The number of meetings attended by each member of the Risk Management Committee during the financial year ended 31 December 2019 is as follows:

| <u>Name of Directors</u> | <u>No. of Attendance</u> |
|---|---------------------------------|
| Datuk Dr. Hafsah binti Hashim (Chairperson) (Appointed on 4 June 2019) | 3/3 |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | 3/3 |
| Onn Kien Hoe | 5/5 |
| Hasnah binti Omar | 5/5 |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | 1/1 |
| Choy Khai Choon | |

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Shariah Committee ("SC")

The members of the Shariah Committee are as follows:

| | |
|-----------------------------|----------|
| Dr Yusri bin Mohamad | Chairman |
| Dr Md Khalil bin Ruslan | 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 2019 is as follows:

| <u>Name of Members</u> | <u>Attendance</u> |
|-----------------------------|-------------------|
| Dr Yusri bin Mohamad | 7/7 |
| Dr Md Khalil bin Ruslan | 6/7 |
| Dr Luqman bin Haji Abdullah | 7/7 |
| Dr Mohamad Abdul Hamid | 6/7 |
| Dr Zulkifli bin Hasan | 5/7 |

The principal duties and responsibilities of Shariah Committee are:

- 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.
- 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.
- 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.
- Endorse and validate relevant documentations
To ensure that the products of the Company comply with Shariah principles, the SC must approve:
 - 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.

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CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Shariah Committee ("SC") (continued)

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

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.
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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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's 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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 ZIGL's risk capacity on pension funding and investments.

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

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

- Base salary is the fixed pay for the role performed determined by the scope and complexity of the role and is reviewed regularly. Overall base salary structures are positioned to manage salaries around the relevant market medians. Key factors to be taken into account are the individual's overall experience and performance.
- The variable remuneration architecture is aligned with the achievement of the key financial 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. The incentive plans are discretionary and can be terminated, modified, changed or revised, at any time, except for previously awarded grants. A clawback framework is in place however, for members of the Executive Committee to allow for recovery, forfeiture and/or clawback, subject to specific conditions. Malus conditions are also in place to reduce or eliminate awards applicable to all STIP and LTIP participants.
- 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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 2019.

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.

FINANCIAL RESULTS

| | |
|---------------------------------|----------------|
| | RM'000 |
| Net loss for the financial year | <u>(5,961)</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.

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

There was change in the share capital of the Company during the financial year. The share capital movement was as follows:

| Date | Increase/(decrease) RM |
|------------------|---------------------------|
| 13 March 2019 | (90,000,000) |
| 27 December 2019 | <u>20,000,000</u> |
| | <u>(70,000,000)</u> |

The Company reduced its share capital by RM70,000,000 to RM120,000,000 during the financial year. The summary of the capital reduction and injection exercise is disclosed in Note 18 to the financial statements.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors of the Company who have held office during the financial year and the period from the date of the financial year to the date of the report are as follows:

| | |
|--|--|
| Hasnah binti Omar (Appointed as Chairperson on 14 May 2019) | Chairperson (Independent Non-Executive Director) |
| Onn Kien Hoe | Member (Independent Non-Executive Director) |
| Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Dr. Yusri bin Mohamad (Appointed on 4 June 2019) | Member (Independent Non-Executive Director) |
| Stephen James Clark | Member (Executive Director) |
| Tan Sri Ahmad bin Mohd Don (Retired on 13 May 2019) | Chairman (Independent Non-Executive Director) |
| Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Dr. Md Khalil bin Ruslan (Retired on 13 May 2019) | Member (Independent Non-Executive Director) |
| Choy Khai Choon (Retired on on 30 June 2019) | Member (Independent Non-Executive Director) |

Hasnah binti Omar (Chairperson)
Retires in accordance with Article 106 of the Company's Articles of Association and being eligible, offers herself for re-election.

Onn Kien Hoe
Retires in accordance with Article 106 of the Company's Articles of Association and being eligible, offers himself for re-election.

Datuk Dr. Hafsah binti Hashim
Re-elect Datuk Dr. Hafsah binti Hashim who retiring in accordance with Clause 112 of the Company's Constitution and who, being eligible, offers herself for re-election.

Dr. Yusri bin Mohamad
Re-elect Dr. Yusri bin Mohamad who retiring in accordance with Clause 112 of the Company's Constitution and who, 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 25(a) 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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 RM3,641.

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</u> | <u>Granted/ reinvested</u> | <u>Vested</u> | <u>Cancelled</u> | <u>At</u> |
| | <u>1.1.2019</u> | <u>dividends</u> | | | <u>31.12.2019</u> |
| <u>Units in Zurich Insurance Group Ltd.</u> | | | | | |
| Direct interest: | | | | | |
| Stephen James Clark | 2,789 | 1,344 | - | - | 4,133 |

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 25(a) to the financial statements.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 25(a) to the financial statements. There is no indemnity given to or insurance effected for any auditor of the Company.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

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, except for the subsequent event as disclosed in Note 36 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.

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

SUBSEQUENT EVENT

Details of the subsequent event are disclosed in Note 36 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 as auditors.

Signed on behalf of the Board of the Directors in accordance with their resolution dated 30 April 2020.



HASNAH BINTI OMAR
CHAIRMAN

Kuala Lumpur
30 April 2020



STEPHEN JAMES CLARK
DIRECTOR

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

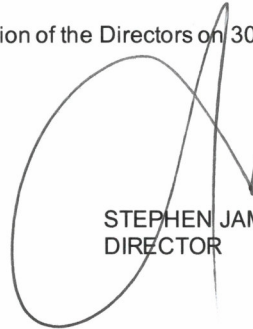
**STATEMENT BY DIRECTORS PURSUANT TO
SECTION 251(2) OF THE COMPANIES ACT 2016**

We, Hasnah Binti Omar and Stephen James 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 108 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 2019 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 on 30 April 2020.



HASNAH BINTI OMAR
DIRECTOR



STEPHEN JAMES CLARK
DIRECTOR

Kuala Lumpur
30 April 2020

**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 108 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 30 April 2020.

Before me,



Suite, DG 6, Ground Floor,
Plaza Pekeliling, Jalan Tun Razak,
50400 Kuala Lumpur



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 2019.

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 seven (7) seating of scheduled meetings and two (2) 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

Throughout 2019, more than forty ("40") Shariah trainings and briefing sessions were held covering nearly one thousand ("1000") participants. The trainings conducted includes various participants; the Company's Board, employees and agents nationwide. In addition, all new recruits were also briefed on Shariah and Takaful during the induction programme.

Shariah Committee's Report (continued)

Shariah Non-Compliance Reporting (SNCR)

In 2019, ZTMB recorded two actual Shariah non-compliance (SNC) incidents arose pertaining; to reclassification of stock from shariah to non-shariah compliance and inappropriate income recognition. All these incidences had been reported into ORION. Rectification plan for these incidents had been approved by Shariah Committee and monitored accordingly.

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 examine and evaluate of the Company's level of compliance to the Shariah, remedial rectification measures to resolve non-compliances and control mechanism to avoid recurrences. The review exercise is aimed to be carried out on the product process as well as on overall business operations of the Company.

There were four (4) review exercises that were approved by the Shariah Committee on the Shariah Review Plan for 2019 and they were exercised on a quarterly basis. Besides that, there is one (1) Ad-hoc Review included on this year. 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) including arising from our decisions.

The reports were presented to us covering the following products and operations:

- i) **Takafulink Hajj 3**
- ii) **Takafulink Hajj Flexi 3**
- iii) **Takafulink Wanita**
- iv) **Takafulink Wanita Flexi 3**
- v) **Outsourcing Implementation (Ad-hoc Review)**

Shariah Audit

The Internal Audit function performs independent assessments on the Company's activities and internal control environment, governance processes as well as compliance with Shariah requirements. The Internal audit plan encompasses with Shariah audit was presented to Shariah Committee on 13 May 2019. For the year of 2019, the Shariah Audit function has performed the Shariah Audit for the Company as per the Internal Audit Plan.

Business Zakat and Purification

In the financial year, the Company has performed their responsibility to perform zakat guided by the Zakat Policy that was approved by us.

We have also reviewed the financial statements 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:

The contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2019 that were reviewed are in compliance with the Shariah rules and principles;

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;

The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles;

Shariah Committee's Report (continued)

1. 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; and
2. 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, being the members of Shariah Committee of Zurich Takaful Malaysia Berhad, do hereby satisfied that, in our level best, the businesses and activities of the Company for the year ended 31 December 2019 have been conducted in conformity with the Shariah rules and principles.

Allah knows best.

On behalf of the Committee:

Chairman of the Shariah Committee

:



DR. YUSRI MOHAMAD

Shariah Committee

:



ASSOC. PROF. DR. MD KHALIL RUSLAN

Kuala Lumpur
30 April 2020



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)
(Company No. 200601012246 (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 2019, and of its financial performance and its cash flows for the financial 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 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 108.

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.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 200601012246 (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 Corporate Governance Statement, Directors' Report and Shariah Committee's 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. 200601012246 (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. 200601012246 (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.

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PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

A stylized signature in black ink, likely belonging to Wong Hui Chien.

WONG HUI CHEN
03252/05/2020 J
Chartered Accountant

Kuala Lumpur
30 April 2020

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

| | <u>Note</u> | 2019 | | | 2018 | | |
|-----------------------------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | | Takaful | Family | Company | Takaful | Family | Company |
| | | Operator | Takaful | | Operator | Takaful | |
| | | RM'000 | Fund | RM'000 | RM'000 | Fund | RM'000 |
| ASSETS | | | | | | | |
| Property and equipment | 4 | 4,172 | - | 4,172 | 4,881 | - | 4,881 |
| Intangible assets | 5 | 2,576 | - | 2,576 | 991 | - | 991 |
| Right-of-use assets | 6 | 6,092 | - | 6,092 | - | - | - |
| Investments: | | | | | | | |
| Available-for-sale | 7(a) | 96,077 | 156,468 | 252,545 | 135,953 | 106,385 | 242,338 |
| Fair value through profit or loss | 7(b) | 3,050 | 421,699 | 421,699 | 2,840 | 364,901 | 364,901 |
| Takaful receivables | 8 | - | 7,935 | 7,935 | - | 3,370 | 3,370 |
| Qard receivable | 9 | 14,670 | - | - | 6,291 | - | - |
| Retakaful assets | 10 | - | 25,343 | 25,343 | - | 19,144 | 19,144 |
| Other receivables | 11 | 32,062 | 3,343 | 8,959 | 28,706 | 10,461 | 7,810 |
| Current tax assets | | 303 | 1,427 | 1,730 | - | 1,434 | 1,434 |
| Deferred tax assets | 17 | - | - | - | - | 1,534 | 1,534 |
| Cash and bank balances | | 52,638 | 91,802 | 144,440 | 30,602 | 84,329 | 114,931 |
| TOTAL ASSETS | | 211,640 | 708,017 | 875,491 | 210,264 | 591,558 | 761,334 |

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019 (CONTINUED)

| | | 2019 | | | 2018 | | |
|--|------|---------------------|---------------------------|----------------|---------------------|---------------------------|----------------|
| | 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 |
| LIABILITIES | | | | | | | |
| Takaful contract liabilities | 12 | - | 656,222 | 653,172 | - | 551,491 | 548,651 |
| Takaful payables | 13 | - | 297 | 297 | - | 1,172 | 1,172 |
| Qard payable | | - | 32,321 | - | - | 23,942 | - |
| Other payables | 14 | 40,100 | 49,156 | 62,810 | 33,960 | 37,936 | 40,539 |
| Lease liabilities | 15 | 6,113 | - | 6,113 | - | - | - |
| Expense liabilities | 16 | 18,301 | - | 18,301 | 12,848 | - | 12,848 |
| Current tax liabilities | | - | 1,974 | 1,974 | 1,424 | 959 | 2,383 |
| Deferred tax liabilities | 17 | 3,442 | 368 | 3,810 | 1,695 | - | 1,695 |
| TOTAL LIABILITIES | | 67,956 | 740,338 | 746,477 | 49,927 | 615,500 | 607,288 |
| SHAREHOLDERS' EQUITY | | | | | | | |
| Share capital | 18 | 120,000 | - | 120,000 | 190,000 | - | 190,000 |
| Retained earnings/(accumulated losses) | | 22,536 | (32,321) | 7,866 | (29,831) | (23,942) | (36,122) |
| Available-for-sale reserve | 19 | 1,148 | - | 1,148 | 168 | - | 168 |
| TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY | | 211,640 | 708,017 | 875,491 | 210,264 | 591,558 | 761,334 |

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | | 2019 | | | 2018 | | |
|---|------------|---------------------|---------------------------|-----------|---------------------|---------------------------|-----------|
| | 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 |
| Continuing Operations | | | | | | | |
| Gross earned contributions | 20(a) | - | 405,631 | 405,631 | - | 354,523 | 354,523 |
| Contribution ceded to retakaful operators | 20(a) | - | (32,212) | (32,212) | - | (21,735) | (21,735) |
| Net earned contributions | 20(a) | - | 373,419 | 373,419 | - | 332,788 | 332,788 |
| Wakalah fee income | | 150,903 | - | - | 125,054 | - | - |
| Surplus sharing from Family Takaful Fund | | 11,500 | - | - | 14,500 | - | - |
| Investment income | 21 | 4,993 | 18,733 | 23,726 | 6,722 | 24,131 | 30,853 |
| Realised gains/(losses) | 22 | 249 | 661 | 910 | (109) | 843 | 734 |
| Fair value gains/(losses) | 23 | 210 | 15,548 | 15,758 | (205) | (57,395) | (57,600) |
| Other operating income – net | | 388 | 3,066 | 3,454 | 296 | 3,082 | 3,378 |
| Other income | | 168,243 | 38,008 | 43,848 | 146,258 | (29,339) | (22,635) |
| Total revenue | | 168,243 | 411,427 | 417,267 | 146,258 | 303,449 | 310,153 |
| Gross benefits and claims paid | 24(a)(i) | - | (185,394) | (185,394) | - | (194,630) | (194,630) |
| Claims ceded to retakaful operators | 24(a)(ii) | - | 36,298 | 36,298 | - | 22,556 | 22,556 |
| Gross change to contract liabilities | 24(a)(iii) | - | (108,063) | (108,063) | - | (3,041) | (3,041) |
| Change in contract liabilities ceded to retakaful operators | 24(a)(iv) | - | 650 | 650 | - | 2,842 | 2,842 |
| Net claims | | - | (256,509) | (256,509) | - | (172,273) | (172,273) |

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

| | | 2019 | | | 2018 | | |
|--|-------|-------------------------------|-------------------------------------|-------------------|-------------------------------|-------------------------------------|-------------------|
| | Note | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
| Surplus sharing with Takaful Operator | | - | (11,500) | - | - | (14,500) | - |
| Wakalah fee expenses | | - | (150,903) | - | - | (125,054) | - |
| Fee and commission expenses | | (83,792) | - | (83,792) | (77,285) | - | (77,285) |
| Management expenses | 25(a) | (70,865) | - | (70,865) | (57,143) | - | (57,143) |
| Other operating (expenses)/income | 25(b) | (1,302) | 3 | (1,299) | (22) | (1,259) | (1,281) |
| Finance cost | | (225) | - | (225) | - | - | - |
| Expense liabilities | | (5,453) | - | (5,453) | (10,847) | - | (10,847) |
| Other expenses | | (161,637) | (162,400) | (161,634) | (145,297) | (140,813) | (146,556) |
| Zakat | | (164) | - | (164) | - | - | - |
| Profit/(loss) before taxation | | 6,442 | (7,482) | (1,040) | 961 | (9,637) | (8,676) |
| Tax (expense)/income attributable to participants | | - | (897) | (897) | - | 3,346 | 3,346 |
| Profit/(loss) before taxation attributable to Takaful Operator | | 6,442 | (8,379) | (1,937) | 961 | (6,291) | (5,330) |
| Taxation | 26 | (4,024) | (897) | (4,921) | (6,069) | 3,346 | (2,723) |
| Tax expense attributable to participants | | - | 897 | 897 | - | (3,346) | (3,346) |
| Tax expense attributable to Takaful Operator | | (4,024) | - | (4,024) | (6,069) | - | (6,069) |
| Net profit/(loss) for the financial year from continuing operations | | 2,418 | (8,379) | (5,961) | (5,108) | (6,291) | (11,399) |
| Net profit for the financial year from discontinued operations: | | | | | | | |
| - General Takaful Operator | 31 | - | - | - | 2,437 | - | 2,437 |
| Net profit/(loss) for the financial year | | 2,418 | (8,379) | (5,961) | (2,671) | (6,291) | (8,962) |

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

| | | 2019 | | | 2018 | | |
|--|-----------|---------------------|---------------------------|---------|---------------------|---------------------------|---------|
| | 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 |
| Net profit/(loss) for the financial year | | 2,418 | (8,379) | (5,961) | (2,671) | (6,291) | (8,962) |
| Other comprehensive income/(loss): | | | | | | | |
| <u>Items that may be subsequently reclassified to profit or loss:</u> | | | | | | | |
| Fair value changes on available-for-sale investments that may be reclassified to profit or loss: | | | | | | | |
| - Gross fair value changes | 7(c)(iii) | 1,270 | 6,109 | 7,379 | 288 | (315) | (27) |
| - Deferred tax | 17 | (290) | (488) | (778) | (73) | (60) | (133) |
| - Net fair value changes | | 980 | 5,621 | 6,601 | 215 | (375) | (160) |
| Changes in Takaful contract liabilities arising from unrealised net fair value changes | | - | (5,621) | (5,621) | - | 375 | 375 |
| Other comprehensive income/(loss) for the financial year, net of tax | | 980 | - | 980 | 215 | - | 215 |
| Total comprehensive income/(loss) for the financial year | | 3,398 | (8,379) | (4,981) | (2,456) | (6,291) | (8,747) |

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Share capital | Non- distributable Available-for- sale reserve | Distributable Retained earnings/ (accumulated losses) | Total |
|---|------------------|---|---|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2019, as previously stated | 190,000 | 168 | (36,122) | 154,046 |
| Impact of change in accounting policy (Note 30) | - | - | (51) | (51) |
| At 1 January 2019, as restated | 190,000 | 168 | (36,173) | 153,995 |
| Issue of share capital during the financial year | 20,000 | - | - | 20,000 |
| Reduction of capital during the financial year | (90,000) | - | 50,000 | (40,000) |
| Net loss for the financial year | - | - | (5,961) | (5,961) |
| Other comprehensive income for the financial year | - | 980 | - | 980 |
| At 31 December 2019 | 120,000 | 1,148 | 7,866 | 129,014 |
| At 1 January 2018 | 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 |
| At 31 December 2018 | 190,000 | 168 | (36,122) | 154,046 |

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

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | <u>Note</u> | <u>2019</u> | <u>2018</u> |
|---|-------------|-----------------|----------------|
| | | RM'000 | RM'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash generated operating activities | 27 | 32,166 | 7,968 |
| Distribution income received | | 8,041 | 14,426 |
| Profit income received | | 16,406 | 19,402 |
| Interest paid on lease liabilities | | (225) | - |
| Income tax paid | | (2,947) | (4,747) |
| Net cash flows generated from operating activities | | 53,441 | 37,049 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from disposal of property, plant and equipment | | - | 75 |
| Purchase of property and equipment | | (409) | (2,835) |
| Purchase of intangible assets | | (2,080) | (219) |
| Net cash flows used in investing activities | | (2,489) | (2,979) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of shares | | 20,000 | - |
| Reduction in capital | | (90,000) | - |
| Utilisation of accumulated loss | | 50,000 | - |
| Payment on lease liabilities | | (1,443) | - |
| Net cash flows used in financing activities | | (21,443) | - |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 29,509 | 34,070 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR | | 114,931 | 94,288 |
| Settlement of interfund balances and equity related to disposal group classified as held-for-sale | 31 | - | (552) |
| Transfer to assets of a disposal group classified as held-for-sale | | - | (12,875) |
| CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR | | 144,440 | 114,931 |
| Cash and cash equivalents consist of: | | | |
| Cash and bank balances | | 144,440 | 114,931 |

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

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

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.

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 dated 30 April 2020.

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 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 Qard, 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (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 certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. 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. 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.

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 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 that are effective

The Company has applied the following standards and amendments for the first time for the financial year beginning on 1 January 2019:

- MFRS 16 "Leases"
- IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2015 – 2017 Cycle

The Company has adopted MFRS 16 for the first time in the 2019 financial statements, which resulted in changes in accounting policies. The Company has applied MFRS 16 with the date of initial application ("DIA") of 1 January 2019 by applying the simplified retrospective transition method.

The practical expedients elected and the detailed impacts of the changes in accounting policies on leases are disclosed in Note 30. The details of the accounting policies on leases are disclosed separately in Note 2(d) to the financial statements.

Other than MFRS 16, 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

(b) Standards and amendments that have been issued but not yet effective

(i) Effective from financial year beginning on or after 1 January 2020

- Amendments to MFRS 3 "Definition of a Business" (effective 1 January 2020) revise the definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments provide guidance to determine whether an input and a substantive process are present, including situation where an acquisition does not have outputs. To be a business without outputs, there will now need to be an organised workforce. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets.

In addition, the revised definition of the term 'outputs' is narrower, focusses on goods or services provided to customers, generating investment returns and other income but excludes returns in the form of cost savings.

The amendments introduce an optional simplified assessment known as 'concentration test' that, if met, eliminates the need for further assessment. Under this concentration test, if substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset (or a group of similar assets), the assets acquired would not represent a business.

- Amendments to the definition of material (Amendments to MFRS 101 and MFRS 108). The amendments clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

The definition of 'material' has been revised as "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments also:

- clarify that an entity assess materiality in the context of the financial statements as a whole.
- explain the concept of obscuring information in the new definition. Information is obscured if it have the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
- clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

(b) Standards and amendments that have been issued but not yet effective (continued)

(i) Effective from financial year beginning on or after 1 January 2020 (continued)

• The Conceptual Framework for Financial Reporting ("Framework")

The Framework was revised with the primary purpose to assist the IASB to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and "substance over form" concept to ensure faithful representation of economic phenomenon.
- Clarification on reporting entity for financial reporting- introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.
- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.
- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
- Measurement - explanation of factors to consider when selecting a measurement basis have been provided.
- Presentation and disclosure - clarification that statement of profit or loss ('P&L') is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to P&L is required if this results in more relevant information or a more faithful representation of P&L.

Amendments to References to the Conceptual Framework in MFRS Standards

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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

(b) Standards and amendments that have been issued 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.

On 17 March 2020, the International Accounting Standards Board ("IASB") tentatively decided to defer the effective date of IFRS 17 "Insurance Contracts" and the temporary exemption of the adoption of IFRS 9 for insurers to annual reporting periods beginning on or after 1 January 2023. The IASB expects to issue the amendments to IFRS 17 in the second quarter of 2020.

The Company plans to adopt the new standard on the required effective date. The Company has yet to assess the full impact of MFRS 17 onto the Company's accounting policies and will complete the process prior to the reporting requirement deadline.

Other than MFRS 17 and MFRS 9 "Financial Instruments", 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

Accounting by lessee

Accounting policies applied from 1 January 2019

From 1 January 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand alone prices. However, for leases of properties for which the Company is a lessee, it has elected the practical expedient provided in MFRS16 not to separate lease and non-lease components. Both components are accounted for as a single lease component and payments for both components are included in the measurement of lease liability.

Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

The ROU assets are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases (continued)

Accounting by lessee (continued)

Accounting policies applied from 1 January 2019 (continued)

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in profit or loss in the statement of comprehensive income.

Reassessment of lease liabilities

The Company is also exposed to potential future increases in variable lease payments that depend on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is remeasured and adjusted against the ROU assets.

Short term leases and leases of low value assets

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment, printing and photostate machines. The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Accounting policies on lessee accounting applied until 31 December 2018

Operating leases

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

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) 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.

(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 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 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.

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published closing 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 closing 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.

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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments (continued)

- 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.

(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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (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.

(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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Product classification (continued)

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.

(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 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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) 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 Qard 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 profit

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 and available-for-sale reserves residing within the Family Takaful contract liabilities. Accordingly, accumulated profit and available-for-sale reserve of the Takaful Operator are treated as an equity in the statement of financial position of the Company.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 Unearned Tabarru' Reserve ("UTR") 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 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.

(o) 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.

(p) Measurement and impairment of Qard

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

Qard 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.

Qard payable in the respective Takaful funds is stated at cost.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) 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 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.

(r) Other revenue recognition

Profit income includes 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.

(s) 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.

(t) 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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Dividends

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

(v) 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.

(w) 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.

(x) 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.

(y) Discontinued operations

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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (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. It is based on the average monthly net claims factoring in the time lag derived from the experience study.

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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (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")

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 1/24th 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 1/24th 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 is set aside for IBNR claims based on the average monthly net claims factoring in the time lag derived from the experience study.

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 1/24th 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 1/24th 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 are set aside for IBNR Death and Critical Illness claims based on the average monthly net claims factoring in the time lag derived from the experience study.

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NOTES TO THE FINANCIAL STATEMENTS (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 uearned wakalah approach. Income comprises future wakalah fees, certificate fees, fund management fees and risk fund surplus after Qard repayments. The outgo comprises future renewal expenses, commissions and agency related expenses.

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

(iii) Lease liabilities

- Determination of incremental borrowing rate

The lease liabilities are measured at the present value of the remaining lease payments over the lease term, discounted using the Company's incremental borrowing rate as the rate implicit in the lease is generally not readily determinable.

- Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of RM1,987,000 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension and termination options was an increase in lease liabilities and ROU assets of RM1,554,000. Refer to Note 15 for details about the Company's leases.

- Residual value guarantees

The Company initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

(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 (CONTINUED)

4 PROPERTY AND EQUIPMENT

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>Cost</u> | | | | | | |
| At 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 January 2019 | 1,342 | 3,442 | 350 | 2,153 | 2,145 | 9,432 |
| Additions | 149 | - | - | - | 260 | 409 |
| Write-offs | - | - | - | (398) | - | (398) |
| At 31 December 2019 | 1,491 | 3,442 | 350 | 1,755 | 2,405 | 9,443 |

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NOTES TO THE FINANCIAL STATEMENTS (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 2018 | 1,312 | 4,783 | 288 | 2,186 | 1,843 | 10,412 |
| Charge for the financial year (Note 25(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 2018/1 January 2019 | 654 | 2,017 | 28 | 1,080 | 772 | 4,551 |
| Charge for the financial year (Note 25(a)) | 192 | 342 | 35 | 330 | 216 | 1,115 |
| Write-offs | - | - | - | (395) | - | (395) |
| At 31 December 2019 | 846 | 2,359 | 63 | 1,015 | 988 | 5,271 |
| <u>Net carrying amount</u> | | | | | | |
| At 31 December 2018 | 688 | 1,425 | 322 | 1,073 | 1,373 | 4,881 |
| At 31 December 2019 | 645 | 1,083 | 287 | 740 | 1,417 | 4,172 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 INTANGIBLE ASSETS

Takaful Operator/Company

| | 2019 | 2018 |
|---|--------|---------|
| | RM'000 | RM'000 |
| <u>Cost</u> | | |
| At 1 January | 2,366 | 3,952 |
| Additions | 2,080 | 219 |
| Write-offs | - | (1,226) |
| Reclassification to property and equipment (Note 4) | - | (579) |
| At 31 December | 4,446 | 2,366 |
| <u>Accumulated amortisation</u> | | |
| At 1 January | 1,375 | 2,003 |
| Amortisation for the financial year (Note 25(a)) | 495 | 598 |
| Write-offs | - | (1,226) |
| At 31 December | 1,870 | 1,375 |
| <u>Net carrying amount</u> | | |
| At 31 December | 2,576 | 991 |

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.

6 RIGHT-OF-USE ASSETS

| | <u>Premises</u> |
|---|------------------------|
| | <u>RM'000</u> |
| <u>Cost</u> | |
| At 1 January 2019 | 7,296 |
| Additions | 899 |
| Extensions | 326 |
| At 31 December 2019 | 8,521 |
| <u>Accumulated depreciation</u> | |
| At 1 January 2019 | 908 |
| Depreciation during the financial year (Note 25(a)) | 1,521 |
| At 31 December 2019 | 2,429 |
| <u>Net carrying amount</u> | |
| At 31 December 2019 | 6,092 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INVESTMENTS

| | Takaful Operator | Family Takaful Fund | Company |
|-----------------------------------|---------------------|---------------------------|----------------|
| | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | | |
| Malaysian Government Securities / | | | |
| Government Investment Issues | - | 1,076 | 1,076 |
| Islamic debt securities, unquoted | 96,077 | 218,098 | 314,175 |
| Shariah-approved quoted equities | - | 114,460 | 114,460 |
| Investment-linked units | 3,050 | - | - |
| Unit trusts | - | 244,533 | 244,533 |
| | <u>99,127</u> | <u>578,167</u> | <u>674,244</u> |

At 31 December 2018

| | | | |
|-----------------------------------|----------------|----------------|----------------|
| Malaysian Government Securities / | | | |
| Government Investment Issues | 8,121 | - | 8,121 |
| Islamic debt securities, unquoted | 127,832 | 154,007 | 281,839 |
| Shariah-approved quoted equities | - | 94,026 | 94,026 |
| Investment-linked units | 2,840 | - | - |
| Unit trusts | - | 223,253 | 223,253 |
| | <u>138,793</u> | <u>471,286</u> | <u>607,239</u> |

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

At 31 December 2019

| | Takaful Operator | Family Takaful Fund | Company |
|---|---------------------|---------------------------|----------------|
| | RM'000 | RM'000 | RM'000 |
| Available-for-sale ("AFS") (Note 7(a)) | 96,077 | 156,468 | 252,545 |
| Fair value through profit or loss ("FVTPL") (Note 7(b)) | 3,050 | 421,699 | 421,699 |
| | <u>99,127</u> | <u>578,167</u> | <u>674,244</u> |

The following investments mature after 12 months:

| | | | |
|-------|---------------|----------------|----------------|
| AFS | 84,697 | 156,468 | 241,165 |
| FVTPL | - | 58,934 | 58,934 |
| | <u>84,697</u> | <u>215,402</u> | <u>300,099</u> |

At 31 December 2018

| | | | |
|---|----------------|----------------|----------------|
| Available-for-sale ("AFS") (Note 7(a)) | 135,953 | 106,385 | 242,338 |
| Fair value through profit or loss ("FVTPL") (Note 7(b)) | 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> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INVESTMENTS (CONTINUED)

(a) AFS investments

| | Takaful Operator | Family Takaful Fund | Company |
|--|---------------------|---------------------------|----------------|
| | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | | |
| Fair value: | | | |
| Islamic debt-securities, unquoted | 96,077 | 156,468 | 252,545 |
| | <u>96,077</u> | <u>156,468</u> | <u>252,545</u> |
| <u>At 31 December 2018</u> | | | |
| 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> |

(b) FVTPL investments

| | | | |
|-----------------------------------|--------------|----------------|----------------|
| <u>At 31 December 2019</u> | | | |
| Fair value at designation: | | | |
| Government Investment Issues | - | 1,076 | 1,076 |
| Shariah-approved quoted equities | - | 114,460 | 114,460 |
| Islamic debt securities, unquoted | - | 61,630 | 61,630 |
| Investment-linked units | 3,050 | - | - |
| Unit trusts | - | 244,533 | 244,533 |
| | <u>3,050</u> | <u>421,699</u> | <u>421,699</u> |
| <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> |

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2019 (CONTINUED)

7 INVESTMENTS (CONTINUED)

(c) Carrying value of investments

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

(i) Takaful Operator

| | AFS RM'000 | FVTPL RM'000 | Total RM'000 |
|---|---------------|-----------------|-----------------|
| At 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 (loss)/gain recorded in: | | | |
| Profit or loss (Note 23) | - | (205) | (205) |
| Other comprehensive income | 288 | - | 288 |
| Movement in accrued profit | (112) | - | (112) |
| Amortisation adjustment (Note 21(a)) | (626) | - | (626) |
| At 31 December 2018/1 January 2019 | 135,953 | 2,840 | 138,793 |
| Purchases | 33,462 | - | 33,462 |
| Disposals including maturities and redemptions | (73,630) | - | (73,630) |
| Fair value gain recorded in: | | | |
| Profit or loss (Note 23) | - | 210 | 210 |
| Other comprehensive income | 1,270 | - | 1,270 |
| Movement in accrued profit | (460) | - | (460) |
| Amortisation adjustment (Note 21(a)) | (518) | - | (518) |
| At 31 December 2019 | 96,077 | 3,050 | 99,127 |

(ii) Family Takaful fund

| | | | |
|---|----------|-----------|-----------|
| At 1 January 2018 | 67,909 | 429,529 | 497,438 |
| Purchases | 95,902 | 167,518 | 263,420 |
| Disposals including maturities and redemptions | (57,623) | (174,260) | (231,883) |
| Fair value loss recorded in: | | | |
| Profit and loss (Note 23) | - | (57,395) | (57,395) |
| Takaful contract liabilities (Note 12(a)) | (315) | - | (315) |
| Movement in accrued profit | 731 | (335) | 396 |
| Amortisation adjustment (Note 21(b)) | (219) | (156) | (375) |
| At 31 December 2018/1 January 2019 | 106,385 | 364,901 | 471,286 |
| Purchases | 59,877 | 167,618 | 227,495 |
| Disposal including maturities and redemptions | (16,183) | (126,398) | (142,581) |
| Fair value gain/(loss) recorded in: | | | |
| Profit or loss (Note 23) | - | 15,548 | 15,548 |
| Takaful contract liabilities (Note 12(a)) | 6,109 | - | 6,109 |
| Movement in accrued profit | 670 | 208 | 878 |
| Amortisation adjustment (Note 21(b)) | (390) | (178) | (568) |
| At 31 December 2019 | 156,468 | 421,699 | 578,167 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INVESTMENTS (CONTINUED)

(c) Carrying value of investments (continued)

(iii) Company

| | AFS | FVTPL | Total |
|--|----------|-----------|-----------|
| | RM'000 | RM'000 | RM'000 |
| At 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 recorded in: | | | |
| Profit or loss | - | (57,395) | (57,395) |
| Takaful contract liabilities | (315) | - | (315) |
| Other comprehensive income | 288 | - | 288 |
| Movement in accrued profit | 619 | (335) | 284 |
| Amortisation adjustment (Note 21(c)) | (845) | (156) | (1,001) |
| At 31 December 2018/1 January 2019 | 242,338 | 364,901 | 607,239 |
| Purchases | 93,339 | 167,618 | 260,957 |
| Disposals including maturities and redemptions | (89,813) | (126,398) | (216,211) |
| Fair value gain/(loss) recorded in: | | | |
| Profit or loss | - | 15,548 | 15,548 |
| Takaful contract liabilities | 6,109 | - | 6,109 |
| Other comprehensive income | 1,270 | - | 1,270 |
| Movement in accrued profit | 210 | 208 | 418 |
| Amortisation adjustment (Note 21(c)) | (908) | (178) | (1,086) |
| At 31 December 2019 | 252,545 | 421,699 | 674,244 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 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 |
| <u>At 31 December 2019</u> | | | |
| (i) <u>Takaful Operator</u> | | | |
| (a) FVTPL investments | | | |
| Investment-linked units | 3,050 | - | 3,050 |
| (b) AFS investments | | | |
| Islamic debt securities, unquoted | - | 96,077 | 96,077 |
| | - | 96,077 | 96,077 |
| (ii) <u>Family Takaful fund</u> | | | |
| (a) FVTPL investments | | | |
| Government Investment Issues | - | 1,076 | 1,076 |
| Islamic debt securities, unquoted | - | 61,630 | 61,630 |
| Shariah-approved quoted equities | 114,460 | - | 114,460 |
| Unit trusts | 244,533 | - | 244,533 |
| | 358,993 | 62,706 | 421,699 |
| (b) AFS investments | | | |
| Islamic debt securities, unquoted | - | 156,468 | 156,468 |
| (iii) <u>Company</u> | | | |
| (a) FVTPL investments | | | |
| Government Investment Issues | - | 1,076 | 1,076 |
| Islamic debt securities, unquoted | - | 61,630 | 61,630 |
| Shariah-approved quoted equities | 114,460 | - | 114,460 |
| Unit trusts | 244,533 | - | 244,533 |
| | 358,993 | 62,706 | 421,699 |
| (b) AFS investments | | | |
| Malaysian Government Securities | - | - | - |
| Islamic debt securities, unquoted | - | 252,545 | 252,545 |
| | - | 252,545 | 252,545 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 INVESTMENTS (CONTINUED)

(d) Fair values of investments (continued)

Recurring fair value measurements: (continued)

| | Level 1 | Level 2 | Total |
|-----------------------------------|---------|---------|---------|
| | RM'000 | RM'000 | RM'000 |
| <u>At 31 December 2018</u> | | | |
| (i) <u>Takaful Operator</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 |
| (ii) <u>Family Takaful fund</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 |
| | 317,279 | 47,622 | 364,901 |
| (b) AFS investments | | | |
| Islamic debt securities, unquoted | - | 106,385 | 106,385 |
| (iii) <u>Company</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 |
| | 317,279 | 47,622 | 364,901 |
| (b) AFS investments | | | |
| Malaysian Government Securities | - | 8,121 | 8,121 |
| Islamic debt securities, unquoted | - | 234,217 | 234,217 |
| | - | 242,338 | 242,338 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 TAKAFUL RECEIVABLES

| | Family Takaful Fund | Company |
|---|---------------------------|----------|
| | RM'000 | RM'000 |
| <u>At 31 December 2019</u> | | |
| Due contributions including agents/brokers and co-insurers | 4,297 | 4,297 |
| Due from retakaful and cedants | 3,638 | 3,638 |
| | 7,935 | 7,935 |
| Allowance for impairment loss | - | - |
| | 7,935 | 7,935 |
| Offsetting financial assets and financial liabilities: | | |
| Gross amounts of recognised financial assets | 35,326 | 35,326 |
| Less: Gross amounts of recognised financial liabilities set off in the statement of financial position | (27,391) | (27,391) |
| Net amounts of financial assets presented in the statement of financial position | 7,935 | 7,935 |
| <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 |
| | 3,370 | 3,370 |
| Allowance for impairment loss | - | - |
| | 3,370 | 3,370 |
| Offsetting financial assets and financial liabilities: | | |
| 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 | 3,370 | 3,370 |

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 QARD RECEIVABLE

| | Takaful Operator | |
|--------------------------------------|------------------|--------------|
| | 2019 | 2018 |
| | RM'000 | RM'000 |
| Qard receivable | 32,321 | 23,942 |
| Less : Allowance for impairment loss | (17,651) | (17,651) |
| | <u>14,670</u> | <u>6,291</u> |

Allowance for impairment loss represents the difference between the carrying amount of Qard receivable and its projected recoverable amount. As at 31 December 2019, the Company has made an assessment of the Qard 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 Qard receivable in the Takaful Operator Fund.

10 RETAKAFUL ASSETS

| | Family Takaful Fund | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | RM'000 | RM'000 |
| Retakaful of Takaful contracts (Note 12) | <u>25,343</u> | <u>19,144</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 OTHER RECEIVABLES

| | Note | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|------|-------------------------------|-------------------------------------|-------------------|
| <u>At 31 December 2019</u> | | | | |
| Other receivables, deposits and prepayments | | 5,616 | 3,343 | 8,959 |
| | | 5,616 | 3,343 | 8,959 |
| Inter-fund balances: | | | | |
| Wakalah fee receivable from Family Takaful Fund | 14 | 10,687 | - | - |
| Tharawat fees receivable from Family Takaful fund | 14 | 784 | - | - |
| Amount due from Family Takaful fund | 14 | 3,475 | - | - |
| Surplus receivable from Family Takaful fund | 14 | 11,500 | - | - |
| | | 26,446 | - | - |
| Total other receivables | | 32,062 | 3,343 | 8,959 |
| Receivable within 12 months | | 32,062 | 3,343 | 8,959 |
| <u>At 31 December 2018</u> | | | | |
| Other receivables, deposits and prepayments | | 3,767 | 4,043 | 7,810 |
| | | 3,767 | 4,043 | 7,810 |
| Inter-fund balances: | | | | |
| Wakalah fee receivable from Family Takaful Fund | 14 | 9,655 | - | - |
| Tharawat fees receivable from Family Takaful fund | 14 | 784 | - | - |
| Amount due from Takaful Operator | 14 | - | 6,418 | - |
| Surplus receivable from Family Takaful fund | 14 | 14,500 | - | - |
| | | 24,939 | 6,418 | - |
| Total other receivables | | 28,706 | 10,461 | 7,810 |
| Receivable within 12 months | | 28,706 | 10,461 | 7,810 |

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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES

| | 2019 | | | 2018 | | |
|---|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Family Takaful (Note 12(a)) | 656,222 | (25,343) | 630,879 | 551,491 | (19,144) | 532,347 |
| Less: Net asset value of investment-linked units held by Takaful Operator | 3,050 | - | 3,050 | 2,840 | - | 2,840 |
| | <u>653,172</u> | <u>(25,343)</u> | <u>627,829</u> | <u>548,651</u> | <u>(19,144)</u> | <u>529,507</u> |

(a) Family Takaful

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

| | 2019 | | | 2018 | | |
|---|----------------|-----------------|----------------|----------------|-----------------|----------------|
| | Gross | Retakaful | Net | Gross | Retakaful | Net |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Certificateholders' liabilities | 180,589 | (19,876) | 160,713 | 116,632 | (14,332) | 102,300 |
| Net asset value attributable to unitholders | 429,755 | - | 429,755 | 388,758 | - | 388,758 |
| Actuarial liabilities | 610,344 | (19,876) | 590,468 | 505,390 | (14,332) | 491,058 |
| Unallocated surplus attributable to unitholders | 16,910 | - | 16,910 | 19,496 | - | 19,496 |
| Accumulated deficits of non-investment-linked funds | (35,370) | - | (35,370) | (23,919) | - | (23,919) |
| Qard (Note 9) | 32,321 | - | 32,321 | 23,942 | - | 23,942 |
| Claims liabilities | 25,700 | (5,467) | 20,233 | 25,886 | (4,812) | 21,074 |
| Available-for-sale fair value adjustment | 6,317 | - | 6,317 | 696 | - | 696 |
| | <u>656,222</u> | <u>(25,343)</u> | <u>630,879</u> | <u>551,491</u> | <u>(19,144)</u> | <u>532,347</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful (continued)

| | Gross RM'000 | Retakaful RM'000 | Net RM'000 |
|---|-----------------|---------------------|---------------|
| At 1 January 2018 | 561,560 | (15,535) | 546,025 |
| Contributions received (Note 20(a)) | 354,523 | (21,735) | 332,788 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 24(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) |
| Qard | 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 7(c)(ii)) | (315) | - | (315) |
| - deferred tax (Note 17) | (60) | - | (60) |
| Movement in AFS fair value adjustments | (375) | - | (375) |
| At 31 December 2018 | 551,491 | (19,144) | 532,347 |
| At 1 January 2019 | 551,491 | (19,144) | 532,347 |
| Contributions received (Note 20(a)) | 405,631 | (32,212) | 373,419 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 24(a)(i),(ii)) | (185,394) | 36,298 | (149,096) |
| Movement in claims liabilities | 186 | 655 | 841 |
| Experience variance on inforce Takaful certificates | (3,890) | 2,663 | (1,227) |
| Reserve on new policies | (51,747) | 2,885 | (48,862) |
| Miscellaneous | 82,149 | (16,488) | 65,661 |
| Fees deducted | (130,204) | - | (130,204) |
| Surplus distributed to Takaful Operator | (11,500) | - | (11,500) |
| Qard | 8,379 | - | 8,379 |
| Prior year surplus distributed to participant fund | (14,500) | - | (14,500) |
| Movement in AFS fair value adjustments : | | | |
| - gross fair value changes (Note 7(c)(ii)) | 6,109 | - | 6,109 |
| - deferred tax (Note 17) | (488) | - | (488) |
| Movement in AFS fair value adjustments | 5,621 | - | 5,621 |
| At 31 December 2019 | 656,222 | (25,343) | 630,879 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL PAYABLES

| | Family Takaful Fund RM'000 | Company RM'000 |
|--|-------------------------------------|-------------------|
| <u>At 31 December 2019</u> | | |
| Due to retakaful operators and cedants | 297 | 297 |
| Offsetting financial assets and financial liabilities: | | |
| Gross amounts of recognised financial liabilities | 27,688 | 27,688 |
| Less: Gross amounts of recognised financial assets set off in the statement of financial position | (27,391) | (27,391) |
| Net amounts of financial liabilities presented in the statement of financial position | 297 | 297 |
| <u>At 31 December 2018</u> | | |
| Due to retakaful operators and cedants | 1,172 | 1,172 |
| Offsetting financial assets and financial liabilities: | | |
| 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 |

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 2019 (2018: 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 (CONTINUED)

14 OTHER PAYABLES

| | Note | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|------|-------------------------------|-------------------------------------|-------------------|
| <u>At 31 December 2019</u> | | | | |
| Amount due to a related company | | 4,815 | - | 4,815 |
| Commission payable | | 16,724 | - | 16,724 |
| Deposits contribution | | 27 | 16,380 | 16,407 |
| Accruals for staff costs | | 2,874 | - | 2,874 |
| Other payables and accruals | | 15,660 | 6,330 | 21,990 |
| | | 40,100 | 22,710 | 62,810 |
| Inter-fund balances: | | | | |
| Wakalah fee payable to Takaful Operator | 11 | - | 10,687 | - |
| Tharawat fees payable to Takaful Operator | 11 | - | 784 | - |
| Surplus payable to Takaful Operator | 11 | - | 11,500 | - |
| Amount due to Takaful Operator | 11 | - | 3,475 | - |
| | | - | 26,446 | - |
| Total other payables | | 40,100 | 49,156 | 62,810 |
| Payable within 12 months | | 40,100 | 49,156 | 62,810 |
| <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 | 11 | - | 9,655 | - |
| Tharawat fees payable to Takaful Operator | 11 | - | 784 | - |
| Surplus payable to Takaful Operator | 11 | - | 14,500 | - |
| Amount due to Family Takaful Fund | 11 | 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 |

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.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 LEASE LIABILITIES

| | 2019 RM'000 |
|----------------------------|----------------|
| At 1 January | 6,320 |
| Additions | 899 |
| Extensions | 337 |
| Interest expense | 225 |
| Lease payment | (1,668) |
| At 31 December | <u>6,113</u> |
| Repayable within 12 months | 1,513 |
| Repayable after 12 months | <u>4,600</u> |
| | <u>6,113</u> |

16 EXPENSE LIABILITIES

| | Takaful Operator 2019 RM'000 | 2018 RM'000 |
|--------------------------|------------------------------------|----------------|
| Best estimate provisions | 10,917 | 7,235 |
| PRAD | 7,384 | 5,613 |
| Net expense liabilities | <u>18,301</u> | <u>12,848</u> |

17 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:

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|-----------------------------------|-------------------------------|-------------------------------------|-------------------|
| <u>At 31 December 2019</u> | | | |
| Deferred tax liabilities | <u>3,442</u> | <u>368</u> | <u>3,810</u> |
| <u>At 31 December 2018</u> | | | |
| Deferred tax liabilities/(assets) | <u>1,695</u> | <u>(1,534)</u> | <u>161</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 DEFERRED TAXATION (CONTINUED)

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|---|-------------------------------|-------------------------------------|-------------------|
| At 1 January 2018 | (664) | 1,903 | 1,239 |
| Charged/(credited) to profit or loss (Note 26): | | | |
| FVTPL investments | - | (3,497) | (3,497) |
| Property and equipment | (104) | - | (104) |
| Expense liabilities | 880 | - | 880 |
| Qard | 1,510 | - | 1,510 |
| | 2,286 | (3,497) | (1,211) |
| Charged/(credited) to Takaful contract liabilities: | | | |
| AFS investments | 73 | - | 73 |
| Charged to Takaful contract liabilities: | | | |
| AFS investments (Note 12(a)) | - | 60 | 60 |
| At 31 December 2018/1 January 2019 | 1,695 | (1,534) | 161 |
| Charged/(credited) to profit or loss (Note 26): | | | |
| FVTPL investments | - | 2,254 | 2,254 |
| Property and equipment | (569) | (175) | (744) |
| Qard | 2,011 | - | 2,011 |
| Unutilised tax losses | - | (665) | (665) |
| Adjustment for prior year AFS | 15 | - | 15 |
| | 1,457 | 1,414 | 2,871 |
| Charged to other comprehensive income: | | | |
| AFS investments | 305 | - | 305 |
| Adjustment for prior year AFS | (15) | - | (15) |
| | 290 | - | 290 |
| Charged to Takaful contract liabilities: | | | |
| AFS investments (Note 12(a)) | - | 488 | 488 |
| At 31 December 2019 | 3,442 | 368 | 3,810 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 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 |
|--|-------------------------------|-------------------------------------|-------------------|
| <u>2019</u> | | | |
| <u>Subject to income tax:</u> | | | |
| Deferred tax assets (before offsetting) | | | |
| - Property and equipment | 441 | 176 | 617 |
| - AFS investments | - | 1 | 1 |
| - Unutilised tax losses | - | 665 | 665 |
| | 441 | 842 | 1,283 |
| Offsetting | (441) | (842) | (1,283) |
| Deferred tax assets (after offsetting) | - | - | - |
| Deferred tax liabilities (before offsetting) | | | |
| - Qard | 3,520 | - | 3,520 |
| - FVPTL investments | - | 660 | 660 |
| - AFS investments | 363 | 550 | 913 |
| | 3,883 | 1,210 | 5,093 |
| Offsetting | (441) | (842) | (1,283) |
| Deferred tax liabilities (after offsetting) | 3,442 | 368 | 3,810 |
| <u>2018</u> | | | |
| <u>Subject to income tax:</u> | | | |
| Deferred tax assets (before offsetting) | | | |
| - FVPTL investments | - | 1,675 | 1,675 |
| | - | 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 |
| - Qard | 1,510 | - | 1,510 |
| - FVPTL investments | - | 81 | 81 |
| - AFS investments | 73 | 60 | 133 |
| | 1,695 | 141 | 1,836 |
| Offsetting | - | (141) | (141) |
| Deferred tax liabilities (after offsetting) | 1,695 | - | 1,695 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 SHARE CAPITAL

| | 2019 | | 2018 | |
|---|--------------------------|----------------------------|--------------------------|----------------------------|
| | 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 | 190,000 | 190,000 |
| Capital reduction during the financial year | (90,000) | (90,000) | - | - |
| Issued during the financial year | 20,000 | 20,000 | - | - |
| At end of the financial year | 120,000 | 120,000 | 190,000 | 190,000 |

On 14 January 2019, 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 from RM190,000,000 to RM100,000,000; The Registrar of Companies has confirmed that the Company has complied with all the requirement according to Section 119(4) Companies Act 2016, as such the Capital Reduction has been completed on 13 March 2019.

On 27 December 2019, the Company increased its issued and paid-up capital by RM20,000,000 via issuance of 20,000,000 new ordinary shares for working capital purposes. The new shares ranked pari-passu with the existing ordinary shares of the Company.

19(a) RETAINED EARNINGS

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

As at 31 December 2019, the Company is already under the single-tier tax system. The Company may distribute single-tier exempt dividends to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the Islamic Financial Services Act, 2013, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend. Pursuant to the RBC Framework for Takaful Operators, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

19(b) AVAILABLE-FOR-SALE RESERVE

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.

20 NET EARNED CONTRIBUTION

| | 2019 RM'000 | 2018 RM'000 |
|--|----------------|----------------|
| Family Takaful Fund | | |
| (i) Gross earned contributions Takaful contracts (Note 12(a)) | 405,631 | 354,523 |
| (ii) Contribution ceded to retakaful operators Takaful contracts (Note 12(a)) | (32,212) | (21,735) |
| Net earned contributions | 373,419 | 332,788 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 INVESTMENT INCOME

| | 2019 | 2018 |
|---|---------------|---------------|
| | RM'000 | RM'000 |
| (a) Takaful Operator | | |
| AFS investments: | | |
| - Hibah/profit income | 4,984 | 7,116 |
| - Amortisation of premiums - net (Note 7(c)(i)) | (518) | (626) |
| LAR: | | |
| - Hibah/profit income | 527 | 232 |
| | <u>4,993</u> | <u>6,722</u> |
| (b) Family Takaful Fund | | |
| FVTPL investments: | | |
| - Hibah/profit income | 2,820 | 4,067 |
| - Dividend income | 7,988 | 14,336 |
| - Amortisation of premiums - net (Note 7(c)(ii)) | (178) | (156) |
| AFS investments: | | |
| - Hibah/profit income | 6,708 | 4,121 |
| - Amortisation of premiums - net (Note 7(c)(ii)) | (390) | (219) |
| LAR: | | |
| - Hibah/profit income | 1,785 | 1,982 |
| | <u>18,733</u> | <u>24,131</u> |
| (c) Company | | |
| FVTPL investments: | | |
| - Hibah/profit income | 2,820 | 4,067 |
| - Dividend income | 7,988 | 14,336 |
| - Amortisation of premiums - net (Note 7(c)(iii)) | (178) | (156) |
| AFS investments: | | |
| - Hibah/profit income | 11,692 | 11,237 |
| - Amortisation of premiums - net (Note 7(c)(iii)) | (908) | (845) |
| LAR: | | |
| - Hibah/profit income | 2,312 | 2,214 |
| | <u>23,726</u> | <u>30,853</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 REALISED GAINS/(LOSSES)

| | 2019 | 2018 |
|--|------------|--------------|
| | RM'000 | RM'000 |
| (a) Takaful Operator | | |
| AFS investments: | | |
| Islamic debt securities | 249 | (14) |
| Loss on disposal of property and equipment | - | (95) |
| | <u>249</u> | <u>(109)</u> |
| (b) Family Takaful Fund | | |
| AFS investments: | | |
| Islamic debt securities | 661 | 843 |
| | <u>661</u> | <u>843</u> |
| (c) Company | | |
| AFS investments: | | |
| Islamic debt securities | 910 | 829 |
| Loss on disposal of property and equipment | - | (95) |
| | <u>910</u> | <u>734</u> |

23 FAIR VALUE GAINS/(LOSSES)

| | 2019 | 2018 |
|--------------------------------------|---------------|-----------------|
| | RM'000 | RM'000 |
| FVTPL investments: | | |
| Takaful Operator (Note 7 (c)(i)) | 210 | (205) |
| Family Takaful Fund (Note 7 (c)(ii)) | 15,548 | (57,395) |
| Company | <u>15,758</u> | <u>(57,600)</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 NET CLAIMS

| | 2019 | 2018 |
|--|-----------|-----------|
| | RM'000 | RM'000 |
| Family Takaful Fund | | |
| (i) Gross benefits and claims paid (Note 12(a)) | (185,394) | (194,630) |
| (ii) Claims ceded to retakaful operators (Note 12(a)) | 36,298 | 22,556 |
| (iii) Gross change in contract liabilities | (108,063) | (3,041) |
| (iv) Change in contract liabilities ceded to retakaful operators | 650 | 2,842 |
| Net claims | (256,509) | (172,273) |

25 (a) MANAGEMENT EXPENSES

| | 2019 | 2018 |
|---|--------|--------|
| | RM'000 | RM'000 |
| <u>Takaful Operator</u> | | |
| Staff salaries and bonus | 10,954 | 6,551 |
| Defined contribution plan | 2,009 | 1,431 |
| Other staff costs | 1,181 | 736 |
| | 14,144 | 8,718 |
| Auditors' remuneration: | | |
| - Statutory audit | 278 | 287 |
| - Others | 7 | 10 |
| Non-Executive Directors' remuneration: | | |
| - fees | 294 | 345 |
| - other emoluments | 184 | 143 |
| Shariah Committee remuneration: | | |
| - fees | 65 | 55 |
| - other emoluments | 23 | 17 |
| Depreciation charge on property and equipment | 1,115 | 1,321 |
| Amortisation of intangible assets | 495 | 598 |
| Depreciation charge of right-of-use assets | 1,521 | - |
| Office rental | 2,134 | 3,095 |
| Printing and stationery | 1,615 | 1,437 |
| Advertising and promotions | 582 | 270 |
| Postage and telephone | 715 | 644 |
| Professional fees | 545 | 902 |
| Agency training | 665 | 687 |
| Data processing | 2,122 | 1,504 |
| Repairs and maintenance | 1,113 | 957 |
| Motor vehicle expenses | 41 | 252 |
| Electricity charges | 508 | 549 |
| Bank and credit card charges | 1,695 | 1,741 |
| Other expenses | 41,004 | 33,611 |
| | 70,865 | 57,143 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 (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>2019</u> | | | | | | | |
| Chief Executive Officer | | | | | | | |
| - Mukesh Dhawan | - | 1,450 | 246 | - | 10 | 29 | 1,735 |
| Executive Director | | | | | | | |
| - Stephen James Clark | - | - | - | - | - | - | - |
| Non-Executive Directors | | | | | | | |
| - Hasnah binti Omar | 92 | - | - | 23 | - | - | 115 |
| - Tan Sri Ahmad bin Mohd Don | 47 | - | - | 12 | - | - | 59 |
| - Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim | 17 | - | - | 71 | - | - | 88 |
| - Dr. Md Khalil bin Ruslan | 17 | - | - | 6 | - | - | 23 |
| - Onn Kien Hoe | 45 | - | - | 27 | - | - | 72 |
| - Choy Khai Choon | 24 | - | - | 16 | - | - | 40 |
| - Dr. Yusri Bin Mohamad | 26 | - | - | 13 | - | - | 39 |
| - Datuk Dr. Hafsah binti Hashim | 26 | - | - | 16 | - | - | 42 |
| | 294 | 1,450 | 246 | 184 | 10 | 29 | 2,213 |

Company No.
200601012246 (731996-H)

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 (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 |
| Executive Director | | | | | | | |
| - Stephen James Clark (appointed on 1 October 2018) | - | - | - | - | - | - | - |
| - Philip Wallace Smith (resigned on 1 October 2018) | - | - | - | - | - | - | - |
| 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 |
| | 345 | 874 | 162 | 143 | 163 | 69 | 1,756 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 (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 | |
|---------------------------------|----------------------------|-------------|
| | 2019 | 2018 |
| <u>Non-Executive Directors:</u> | | |
| RM10,000 – RM100,000 | 7 | 5 |
| 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) Hasnah binti Omar
- ii) Onn Kien Hoe
- iii) Dr. Yusri Bin Mohamad (Appointed on 4 June 2019)
- iv) Datuk Dr. Hafsah binti Hashim (Appointed on 4 June 2019)
- v) Stephen James Clark
- vi) Tan Sri Ahmad Mohd Don (Retired on 13 May 2019)
- vii) Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Retired on 13 May 2019)

(b) OTHER OPERATING EXPENSE/(INCOME)

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|----------------------------------|--|---|---------------------------|
| <u>2019</u> | | | |
| Other operating expense/(income) | 1,302 | (3) | 1,299 |
| | <u>1,302</u> | <u>(3)</u> | <u>1,299</u> |
| <u>2018</u> | | | |
| Other operating expense | 22 | 1,259 | 1,281 |
| | <u>22</u> | <u>1,259</u> | <u>1,281</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAXATION

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Company RM'000 |
|--|-------------------------------|-------------------------------------|-------------------|
| <u>2019</u> | | | |
| Current tax: | | | |
| Current financial year | 2,048 | 1,767 | 3,815 |
| (Over)/under-provision in prior financial year | 519 | (2,284) | (1,765) |
| | <u>2,567</u> | <u>(517)</u> | <u>2,050</u> |
| Deferred tax (Note 17) | 1,457 | 1,414 | 2,871 |
| Tax expense | <u>4,024</u> | <u>897</u> | <u>4,921</u> |
| <u>2018</u> | | | |
| Current tax: | | | |
| Current financial year | 3,562 | 578 | 4,140 |
| Under/(over)-provision in prior financial year | 221 | (427) | (206) |
| | <u>3,783</u> | <u>151</u> | <u>3,934</u> |
| Deferred tax (Note 17) | 2,286 | (3,497) | (1,211) |
| Tax expense/(income) | <u>6,069</u> | <u>(3,346)</u> | <u>2,723</u> |

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

| | 2019 RM'000 | 2018 RM'000 |
|---|----------------|----------------|
| Loss before taxation attributable to Takaful Operator | (1,040) | (8,676) |
| Taxation at Malaysia statutory tax rate of 24% | (250) | (2,082) |
| Expenses not deductible for tax purposes | 6,039 | 8,356 |
| Tax income/(expense) attributable to participants | 897 | (3,346) |
| (Over)/under-provision of tax in prior financial year | (1,765) | (205) |
| Total tax expenses | <u>4,921</u> | <u>2,723</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 CASH FLOWS

| | 2019 | 2018 |
|--|----------|----------|
| | RM'000 | RM'000 |
| Net loss for the financial year | (5,961) | (8,962) |
| Adjustment for: | | |
| Investment income | (23,726) | (31,927) |
| Realised gains from disposal of FVTPL and AFS investments | (910) | (828) |
| Fair value (gains)/losses | (15,758) | 57,600 |
| Depreciation of property and equipment | 1,115 | 1,398 |
| Write-offs of property and equipment | 3 | 897 |
| Loss on disposal of property and equipment | - | 95 |
| Amortisation of intangible assets | 495 | 860 |
| Depreciation for right-of-use assets | 1,521 | - |
| Interest expense on lease liability | 225 | - |
| Tax expense attributable to Takaful Operator | 4,024 | 8,055 |
| Tax expense/(income) attributable to participants | 897 | (3,346) |
| Changes in working capital: | | |
| (Increase)/decrease in financial assets at fair value through profit or loss | (41,220) | 6,742 |
| Increase in available-for-sale financial assets | (2,615) | (7,518) |
| Increase in retakaful assets | (6,198) | (3,609) |
| Increase in Takaful receivables | (4,565) | (152) |
| Increase in other receivables | (1,202) | (12,201) |
| Increase/(decrease) in Takaful contract liabilities | 99,111 | (9,694) |
| Decrease in Takaful payables | (874) | (2,322) |
| Increase in other payables | 22,351 | 945 |
| Increase in expense liabilities | 5,453 | 11,935 |
| Cash generated from operating activities | 32,166 | 7,968 |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 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 penultimate 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:

| | 2019 RM'000 | 2018 RM'000 |
|---|----------------|----------------|
| Transactions with immediate holding company : | | |
| - Capital reduction | (40,000) | - |
| - Injection of capital | 20,000 | - |
| Transactions with subsidiaries of ultimate holding company : | | |
| - Outsourcing & Reimbursement costs | (29,633) | (32,414) |
| Transactions with subsidiaries of immediate holding company : | | |
| - Outsourcing & Reimbursement costs | (116) | (9,576) |
| - Asset Transfer | - | (2,100) |
| - Outsourcing income & Reimbursement of expenses paid on behalf | 2,179 | 2,850 |
| Transactions with subsidiaries of penultimate holding company : | | |
| - Reimbursement costs | (187) | - |

ZURICH TAKAFUL MALAYSIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 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>2019</u> | <u>2018</u> |
|---|----------------|----------------|
| | RM'000 | RM'000 |
| Balance with Zurich Life Insurance Malaysia Berhad : | | |
| - Outsourcing fee | (1,745) | (1,760) |
| - Reimbursement of expenses paid on behalf | (1,571) | 10 |
| - Partnership commission paid on behalf | (1,458) | - |
| | <u>(4,774)</u> | <u>(1,750)</u> |
| Balance with Zurich General Insurance Malaysia Berhad : | | |
| - Outsourcing fee | (27) | (42) |
| | <u>(27)</u> | <u>(42)</u> |
| Balance with Zurich General Takaful Malaysia Berhad : | | |
| - Outsourcing fee | 405 | 2,380 |
| - Reimbursement of expenses paid on behalf | 426 | 661 |
| | <u>831</u> | <u>3,041</u> |

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

29 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 |
| As lessee: | |
| - Within one year | 2,859 |
| - One year to less than 3 years | 4,432 |
| - More than 3 years | 12 |
| | <u>7,303</u> |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 CHANGE IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16

The Company has initially adopted MFRS 16, Leases from 1 January 2019.

During the financial year, the Company changed its accounting policies on leases upon adoption of MFRS 16. The Company has elected to use the simplified retrospective transition method and apply a number of practical expedients as provided in MFRS 16.

Under the simplified retrospective transition method, the 2018 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Company is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 'Determining whether an Arrangement Contains a Lease'.

In addition, the Company has elected not to reassess whether a contract is, or contains a lease as at 1 January 2019. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying MFRS 117 and IC Interpretation 4.

The Company as a lessee

Leases classified as operating leases under MFRS 117

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The associated right-of-use ("ROU") assets for property leases were measured on a retrospective basis as if the new requirements have always been applied. Other ROU assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2019.

In applying MFRS 16 for the first time, the Company has applied the following practical expedients permitted by the standard to leases previously classified as operating leases under MFRS 117:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the DIA; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Company has elected not to recognise right-of-use assets and lease liabilities for short term leases that have a lease term of 12 months or less and some leases of low-value assets (e.g. printing and photocopy machines). The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Company had also derecognised the asset or liability related to favourable or unfavourable terms of an operating lease acquired as part of a business combination and adjusted the carrying amount of the ROU asset with the same amount as at 1 January 2019.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 CHANGE IN ACCOUNTING POLICIES UPON ADOPTION OF MFRS 16 (CONTINUED)

Impacts on financial statements

- Impacts on transition

On transition to MFRS 16, the Company recognised additional ROU assets and additional lease liabilities. The impact on transition is summarised below.

| | 1.1.2019 RM'000 |
|---------------------|--------------------|
| Right-of-use assets | 6,388 |
| Lease liabilities | 6,320 |
| Other payables | 119 |
| Retained earnings | (51) |

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 1 January 2019. The weighted-average rate applied is between 3.86% to 3.95%.

The reconciliation between the operating lease commitments disclosed applying MFRS 117 as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019 is as follows:

| | 1.1.2019 RM'000 |
|---|--------------------|
| Operating lease commitments at 31 December 2018 | 7,303 |
| Present value of operating lease commitment at 1 January 2019 | 4,027 |
| Recognition exemption for leases of low-value assets | (177) |
| Extension options reasonably certain to be exercised | 2,470 |
| Lease liabilities recognised at 1 January 2019 | 6,320 |

- Impacts for the financial year

As a result of initially applying MFRS 16, in relation to the leases that were previously classified as operating leases, the Company recognised right-of-use assets of RM6,092,000 and lease liabilities of RM6,113,000 as at 31 December 2019.

In relation to those leases under MFRS 16, the Company has recognised depreciation charge and interest costs, instead of operating lease expense. During the financial year ended 31 December 2019, the Company recognised depreciation charge of RM1,521,000 and interest costs of RM225,000 from these leases.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 TAKAFUL FUNDS

The Company's activities are organised by funds and segregated into the Family 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.

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2019

| | Takaful Operator | Family Takaful Fund | Investment- linked Fund | Company |
|---|---------------------|---------------------------|-------------------------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Assets: | | | | |
| Property and equipment | 4,172 | - | - | 4,172 |
| Intangible assets | 2,576 | - | - | 2,576 |
| ROU Assets | 6,092 | - | - | 6,092 |
| Investments | 99,127 | 156,468 | 421,699 | 674,244 |
| Takaful receivable | - | 7,935 | - | 7,935 |
| Qard receivable | 14,670 | - | - | - |
| Retakaful assets | - | 25,343 | - | 25,343 |
| Other receivables | 5,616 | 2,217 | 1,126 | 8,959 |
| Current tax assets | 303 | 939 | 488 | 1,730 |
| Cash and bank balances | 52,638 | 76,020 | 15,782 | 144,440 |
| Total assets | 185,194 | 268,922 | 439,095 | 875,491 |
| Equity, participants' fund and liabilities: | | | | |
| Total equity | 143,684 | (32,321) | - | 129,014 |
| Takaful contract liabilities | - | 226,467 | 429,755 | 653,172 |
| Takaful payables | - | 297 | - | 297 |
| Qard payable | - | 32,321 | - | - |
| Lease liabilities | 6,113 | - | - | 6,113 |
| Other payables | 40,100 | 21,592 | 1,118 | 62,810 |
| Expense liabilities | 18,301 | - | - | 18,301 |
| Current tax liabilities | - | 805 | 1,169 | 1,974 |
| Deferred tax liabilities | 3,442 | 73 | 295 | 3,810 |
| Total liabilities | 67,956 | 281,555 | 432,337 | 746,477 |
| Total equity, participants' fund and liabilities | 211,640 | 249,234 | 432,337 | 875,491 |
| Inter-fund balances | 26,446 | (19,688) | (6,758) | - |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2018

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Investment- linked Fund RM'000 | Company RM'000 |
|---|-------------------------------|-------------------------------------|---|-------------------|
| Assets: | | | | |
| 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 |
| Qard 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 |
| Total assets | 185,325 | 192,888 | 392,252 | 761,334 |
| Equity, participants' fund and liabilities: | | | | |
| Total equity | 160,337 | (23,942) | - | 154,046 |
| Takaful contract liabilities | - | 162,733 | 388,758 | 548,651 |
| Takaful payables | - | 1,172 | - | 1,172 |
| Qard 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 |
| Total liabilities | 43,509 | 201,094 | 389,467 | 607,288 |
| Total equity, participants' fund and liabilities | 203,846 | 177,152 | 389,467 | 761,334 |
| Inter-fund balances | 18,521 | (15,736) | (2,785) | - |

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).

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Investment linked Fund RM'000 | Elimination RM'000 | Company RM'000 |
|---|-------------------------------|-------------------------------------|--|-----------------------|-------------------|
| Gross earned contributions | - | 335,616 | 70,015 | - | 405,631 |
| Contributions ceded to retakaful operators | - | (32,212) | - | - | (32,212) |
| Net earned contributions | - | 303,404 | 70,015 | - | 373,419 |
| Wakalah fee income | 150,903 | - | - | (150,903) | - |
| Surplus sharing from Family Takaful fund | 11,500 | - | - | (11,500) | - |
| Investment income | 4,993 | 7,578 | 11,155 | - | 23,726 |
| Realised gains/(losses) | 249 | 661 | - | - | 910 |
| Fair value gains/(losses) | 210 | - | 15,548 | - | 15,758 |
| Other operating income-net | 388 | 14 | 3052 | - | 3,454 |
| Other income | 168,243 | 8,253 | 29,755 | (162,403) | 43,848 |
| Total revenue | 168,243 | 311,657 | 99,770 | (162,403) | 417,267 |
| Gross benefits and claims paid | - | (134,389) | (51,005) | - | (185,394) |
| Claims ceded to retakaful Operators | - | 36,298 | - | - | 36,298 |
| Gross change to contract Liabilities | - | (67,066) | (40,997) | - | (108,063) |
| Change in contract liabilities ceded to retakaful operators | - | 650 | - | - | 650 |
| Net claims | - | (164,507) | (92,002) | - | (256,509) |
| Surplus sharing with Takaful Operator | - | (11,500) | - | 11,500 | - |
| Wakalah fee expenses | - | (145,274) | (5,629) | 150,903 | - |
| Fee and commission expenses | (83,792) | - | - | - | (83,792) |
| Management expenses | (70,865) | - | - | - | (70,865) |
| Qard impairment | - | - | - | - | - |
| Finance cost | (225) | - | - | - | (225) |
| Other operating expenses | (1,302) | - | 3 | - | (1,299) |
| Expense liabilities | (5,453) | - | - | - | (5,453) |
| Other expenses | (161,637) | (156,774) | (5,626) | 162,403 | (161,634) |
| Zakat | (164) | - | - | - | (164) |
| Profit/(loss) before taxation | 6,442 | (9,624) | 2,142 | - | (1,040) |
| Tax income attributable to participants | - | 1,245 | (2,142) | - | (897) |
| Profit/(loss) before taxation attributable to Takaful Operator | 6,442 | (12,107) | - | - | (1,937) |
| Taxation | (4,024) | 1,245 | (2,142) | - | (4,921) |
| Tax income attributable to participants | - | (1,245) | 2,142 | - | 897 |
| Tax expense attributable to Takaful Operators | (4,024) | - | - | - | (4,024) |
| Net loss for the financial year | 2,418 | (8,379) | - | - | (5,961) |

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 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 | (109) | 843 | - | - | 734 |
| Fair value gains | (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) |
| Qard 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 (expense)/income attributable to participants | - | 53 | 3,293 | - | 3,346 |
| (Loss)/profit before taxation attributable to Takaful Operator | 961 | (6,291) | - | - | (5,330) |
| Taxation | (6,069) | 53 | 3,293 | - | (2,723) |
| Tax expense/(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 loss for the financial year from discontinued operations | 2,437 | - | - | - | 2,437 |
| Net (loss)/profit for the financial year | (2,671) | (6,291) | - | - | (8,962) |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 TAKAFUL FUNDS (CONTINUED)

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

| | Discontinued Operation Takaful Operator <hr/> RM'000 |
|---|--|
| Wakalah fee income | 47,345 |
| Investment income | 1,076 |
| Total revenue | <hr/> 48,421 |
| Fee and commission expenses | (18,646) |
| Management expenses | (23,619) |
| Write-back of allowance for impairment | - |
| Other operating expenses | (645) |
| Expense liabilities | (1,088) |
| Other expenses | <hr/> (43,998) |
| Zakat | - |
| Profit/(loss) before taxation attributable to Takaful Operator | <hr/> 4,423 |
| Taxation | (1,986) |
| Tax expense/(income) attributable to participants | - |
| Tax expense attributable to Takaful Operators | (1,986) |
| Net profit/(loss) from discontinued operations for the financial year | <hr/> <hr/> 2,437 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 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 any 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, 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 2019. The Total Available Capital of the Company as at 31 December 2019 was RM133,468,000.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Capital Management (continued)

| | 2019 | 2018 |
|---------------------------------------|---------|----------|
| | RM'000 | RM'000 |
| <u>Tier 1 Capital</u> | | |
| Paid-up capital | 120,000 | 190,000 |
| Reserves, including retained earnings | 7,736 | (32,652) |
| | 127,736 | 157,348 |
| <u>Tier 2 Capital</u> | | |
| Available-for-sale reserve | 5,732 | 621 |
| Total Capital Available | 133,468 | 157,969 |

33 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). 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 (CONTINUED)

33 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

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

| | Gross RM'000 | Retakaful RM'000 | Net RM'000 |
|---|-----------------|---------------------|---------------|
| <u>31 December 2019</u> | | | |
| Family Takaful contract liabilities: | | | |
| Endowment | 459,906 | (7,918) | 451,987 |
| Term | 189,999 | (17,424) | 172,575 |
| Total Family Takaful contract liabilities | 649,905 | (25,343) | 624,562 |

31 December 2018

| | | | |
|---|---------|----------|---------|
| Family Takaful contract liabilities: | | | |
| Endowment | 409,488 | (4,366) | 405,122 |
| Term | 141,307 | (14,778) | 126,529 |
| Total Family Takaful contract liabilities | 550,795 | (19,144) | 531,651 |

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 best estimate level are 6.5% per annum for Participant Investment Account ("PIA") on Investment-linked, 4.92% per annum for PIA on Non Investment-linked, 4.37% per annum for Participant Risk Investment Account ("PRIA") on Investment-linked and 4.35% per annum for PRIA on Non Investment-linked.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 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 | 3.5% | 3.0% |
| SPIIL | 25 | - | - |
| OL Investment | 35 | 2.0% | 3.0% |
| OL Medical | 45 | 4.0% | 3.0% |
| Patina | 28 | 2.5% | 3.0% |
| CCB | 28 | 2.5% | 3.0% |
| TSG/ TSCX | 15 | 2.0% | 3.0% |
| MPP/ GMPP | 15 | - | - |
| GDT | 15 | - | - |

e) Lapse and surrender rates

Lapse rate varies by product and certificate year as follows:

| Plan | Certificate Year (%) | | | | | | | |
|--------------------------|----------------------|----|----|-----|-----|-----|-----|-----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8+ |
| Takafulink Series | 20 | 15 | 13 | 10 | 10 | 10 | 10 | 10 |
| Takafulink Education | 15 | 10 | 10 | 8 | 8 | 8 | 8 | 8 |
| Takafulink Single-Invest | 20 | 50 | 30 | 30 | 20 | 15 | 15 | 15 |
| CancerCare | 35 | 20 | 15 | 2 | 2 | 2 | 2 | 2 |
| SmartMedic 100 | 65 | 65 | 25 | 25 | 25 | 25 | 25 | 25 |
| SmartMedic 200 | 15 | 45 | 40 | 25 | 25 | 25 | 25 | 25 |
| Medica2015 | 25 | 20 | 15 | 15 | 15 | 15 | 15 | 15 |
| Takafulife 87&88 | 18 | 15 | 15 | 10 | 10 | 8 | 8 | 8 |
| Takafulife 100&200 | 20 | 18 | 15 | 15 | 10 | 8 | 8 | 8 |
| Term80 | 10 | 15 | 18 | 10 | 10 | 10 | 10 | 10 |
| Term80 II | 20 | 20 | 15 | 10 | 3.5 | 3.5 | 3.5 | 3.5 |
| Takaful Senior Gold | 20 | 30 | 20 | 20 | 20 | 10 | 10 | 10 |
| Patina2016 | 40 | 35 | 30 | 5 | 5 | 5 | 5 | 5 |
| Mortgage (MPP) | 0.5 | 1 | 1 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |

Lapse assumption for new products is based on pricing assumption.

f) Contribution holiday

| Plan | Certificate Year (%) | | | | | | | |
|----------------------|----------------------|----|----|----|----|----|----|----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8+ |
| Investment-Linked | 5 | 15 | 20 | 25 | 30 | 35 | 40 | 40 |
| Ordinary Life Series | 10 | 15 | 20 | 25 | 25 | 25 | 25 | 25 |

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 (CONTINUED)

33 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 2019</u> | | | | |
| Mortality/morbidity | 10% | 14,067 | 7,244 | (7,244) |
| Lapse and surrender rates | 10% | 109 | 325 | (325) |
| Discount rate | 10% | (11,649) | (10,631) | 10,631 |
| <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 |

* The profits are before surplus sharing or Qard repayment.

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

34 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.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 FINANCIAL RISK (CONTINUED)

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 Qard 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 contracts 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.

Exposure to credit risk

The table below shows 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.

| | Takaful Operator | Family Takaful Fund | Investment- linked fund | Company |
|-----------------------------------|---------------------|---------------------------|-------------------------------|----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| 2019 | | | | |
| AFS investments: | | | | |
| Islamic debt securities, unquoted | 96,077 | 156,468 | - | 252,545 |
| FVTPL investments: | | | | |
| Shariah-approved quoted equities* | - | - | 114,460 | 114,460 |
| Islamic debt securities, unquoted | - | - | 62,706 | 62,706 |
| Investment-linked units* | 3,050 | - | - | - |
| Unit trusts* | - | - | 244,533 | 244,533 |
| Retakaful assets# | - | 25,343 | - | 25,343 |
| Takaful receivables | - | 7,935 | - | 7,935 |
| Other receivables | 32,062 | 2,217 | 1,126 | 8,959 |
| Cash and bank balances | 52,638 | 76,020 | 15,782 | 144,440 |
| | 183,827 | 267,983 | 438,607 | 860,891 |

* Not subject to credit risk

Retakaful assets exclude unearned contribution reserve

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

| | Takaful Operator RM'000 | Family Takaful Fund RM'000 | Investment- linked fund RM'000 | Company RM'000 |
|--|-------------------------------|-------------------------------------|---|-------------------|
| <u>2018</u> | | | | |
| AFS investments: | | | | |
| Malaysian Government Securities / Government Investment Issue | 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* | 2,840 | - | - | - |
| Unit trusts* | - | - | 223,253 | 223,253 |
| 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>411,073</u> | <u>752,494</u> |

* Not subject to credit risk

Retakaful assets exclude unearned contribution reserve

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 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 | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>2019</u> | | | | | | | | | | |
| AFS investments | 107,436 | 142,566 | - | - | 2,543 | - | - | - | - | 252,545 |
| FVTPL investments | - | - | - | - | - | - | 421,699 | - | - | 421,699 |
| Retakaful assets | - | 25,343 | - | - | - | - | - | - | - | 25,343 |
| Takaful receivables | - | - | - | - | 7,935 | - | - | - | - | 7,935 |
| Other receivables | - | - | - | - | 7,833 | - | 1,126 | - | - | 8,959 |
| Cash and bank balances | - | - | - | - | 128,658 | - | 15,782 | - | - | 144,440 |
| | 107,436 | 167,909 | - | - | 146,969 | - | 438,607 | - | - | 860,921 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 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 |
|------------------------|-------------------------------|--------------|-------------|---------------|---------------------|----------------------------------|-------------------------------|---------------------------------|-----------------------------|---------|
| | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Not rated RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>2018</u> | | | | | | | | | | |
| AFS investments | 76,547 | 130,720 | - | - | 35,071 | - | - | - | - | 242,338 |
| FVTPL investments | - | - | - | - | - | - | 364,901 | - | - | 364,901 |
| 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 | - | 411,073 | - | - | 752,494 |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 FINANCIAL RISK (CONTINUED)

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 (CONTINUED)

34 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>2019</u> | | | | | | | | | |
| AFS investments | 252,545 | 21,889 | 76,691 | 60,475 | 144,455 | 15,740 | - | - | 319,250 |
| FVTPL investments | 421,699 | 4,056 | 12,318 | 12,952 | 49,884 | 4,474 | - | 358,993 | 442,677 |
| Retakaful assets | 25,343 | 13,905 | 41 | 51 | 2,239 | 9,107 | - | - | 25,343 |
| Takaful receivables | 7,935 | 7,935 | - | - | - | - | - | - | 7,935 |
| Other receivables | 8,959 | 7,833 | - | - | - | - | - | 1,126 | 8,959 |
| Cash and bank balances | 144,440 | 128,658 | - | - | - | - | - | 15,782 | 144,440 |
| | <u>860,921</u> | <u>184,276</u> | <u>89,050</u> | <u>73,478</u> | <u>196,578</u> | <u>29,321</u> | <u>-</u> | <u>375,901</u> | <u>948,604</u> |
| Takaful contract liabilities | 653,172 | 504,623 | 32,539 | 228 | 8,117 | 79,054 | - | - | 624,561 |
| Takaful payables | 297 | 297 | - | - | - | - | - | - | 297 |
| Expense liabilities | 18,301 | 5,360 | 1,908 | 110 | 1,025 | 9,898 | - | - | 18,301 |
| Other payables | 62,810 | 62,810 | - | - | - | - | - | - | 62,810 |
| Lease liabilities | 6,113 | 1,513 | 3,399 | 855 | 346 | - | - | - | 6,113 |
| | <u>740,693</u> | <u>574,603</u> | <u>37,846</u> | <u>1,193</u> | <u>9,488</u> | <u>88,952</u> | <u>-</u> | <u>-</u> | <u>712,082</u> |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

| | 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>2018</u> | | | | | | | | | |
| AFS investments | 242,338 | 30,075 | 72,173 | 72,240 | 115,557 | 9,716 | - | - | 299,761 |
| FVTPL investments | 364,901 | 4,732 | 11,117 | 11,173 | 35,479 | 3,805 | - | 317,279 | 383,585 |
| 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 | 7,810 |
| Cash and bank balances | 114,931 | 91,080 | - | - | - | - | - | 23,851 | 114,931 |
| | <u>752,494</u> | <u>143,630</u> | <u>83,304</u> | <u>83,491</u> | <u>153,156</u> | <u>22,173</u> | <u>-</u> | <u>342,847</u> | <u>828,601</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 (CONTINUED)

34 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 (CONTINUED)

34 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Profit rate risk (continued)

| | | Impact on profit before tax^ | | Impact on equity* | | Impact on Takaful contract liabilities* | |
|---------------------------------|-------------------|---------------------------------|--------|-------------------|--------|--|---------|
| <u>Changes in variables</u> | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| <u>Takaful Operator</u> | | | | | | | |
| RM | +100 basis points | - | - | (732) | (529) | - | - |
| RM | -100 basis points | - | - | 114 | 610 | - | - |
| <u>Family Takaful Fund</u> | | | | | | | |
| RM | +100 basis points | - | - | - | - | (9,899) | (4,680) |
| RM | -100 basis points | - | - | - | - | 11,662 | 5,424 |

[^] Impact on Islamic money market instruments only.

^{*} 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 (CONTINUED)

34 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> | |
|--|---------------------------------------|------------------------------------|--------|--------------------------|--------|
| | | 2019 | 2018 | 2019 | 2018 |
| | | 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 (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 2019 | | | | |
| AFS investments: | | | | |
| Islamic debt securities, unquoted | 107,436 | 142,566 | 2,543 | 252,545 |
| | <u>107,436</u> | <u>142,566</u> | <u>2,543</u> | <u>252,545</u> |
| 31 December 2018 | | | | |
| AFS investments: | | | | |
| Malaysian Government Securities / | | | | |
| Government Investment Issue | - | - | 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) Fairvalue / carrying amount:

| | Financial assets with SPPI cash flows RM'000 | Other financial assets RM'000 | Total RM'000 |
|---|--|--|-----------------|
| <u>2019</u> | | | |
| Fair value at 31 December 2019 | 252,545 | 608,376 | 860,921 |
| Fair value changes during the financial period | 7,379 | 15,548 | 22,927 |
| Financial assets that do not have low credit risk: | | | |
| - Fair value/carrying amount at 31 December 2019 under MFRS 139 | - | N/A | N/A |
| <u>2018</u> | | | |
| Fair value at 31 December 2018 | 242,338 | 510,156 | 752,494 |
| Fair value changes during the financial period | (27) | (57,395) | (57,422) |
| Financial assets that do not have low credit risk: | | | |
| Fair value/carrying amount at 31 December 2018 under MFRS 139 | - | N/A | N/A |
| N/A – not applicable | | | |

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 SUBSEQUENT EVENT

In the first quarter 2020, the rapid spread of the Covid-19 has been declared a pandemic. Globally, increasing measures are being taken to contain it, and these have led to a significant volatility in the financial markets and resulting in an adverse impact on the global business and economic activity.

With the rapid development of Covid-19 outbreak in Malaysia, the Government issued a Movement Control Order ("MCO") beginning from 18 March 2020 until 31 March 2020. The MCO was subsequently extended to 12 May 2020.

The MCO imposes limitation on movement of people, suspension of non-essential business operations, travel restrictions, and quarantine measures. The Government has also introduced various economic stimulus plans to assist the citizens and businesses.

During the MCO period, Zurich Takaful Malaysia Berhad has ensured that the Company continues to provide core takaful services to its customers. The Company expects that the impact of Covid-19 may have a knock-on effect on the business operations and performance of the Company in the coming financial year. Due to uncertainty of when the outbreak will be fully contained, it is challenging to predict the exact extent of the impact to the Company at this juncture. Nevertheless, the Company will continue to monitor the situation and will take actions as needed to ensure it remains viable as a Company.

Zurich Takaful Malaysia Berhad

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