

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

**Financial statements for the financial year
ended 31 December 2018**

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

<u>CONTENTS</u>	<u>PAGE</u>
Directors' report	1 - 25
Shariah Committee's report	26 - 27
Statement of financial position	28
Statement of profit or loss and other comprehensive income	29 - 31
Statement of changes in equity	32
Statement of cash flows	33
Notes to the financial statements	34 - 107
Statement by Directors	108
Statutory declaration	109
Independent auditors' report	110 - 113

Prudential BSN Takaful Berhad

1

(Company No. 740651-H)
(Incorporated in Malaysia)

Directors' report

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2018.

Principal activities

The Company is principally engaged in the underwriting of family takaful business which includes investment-linked business and investment of funds. The Company completed the transfer of its general takaful certificates to Syarikat Takaful Malaysia Am Berhad (Company No. 1246486-D) on 30 September 2018 as required by the Islamic Financial Services Act 2013 for all composite licensed takaful operators to convert their corporate takaful license to a single takaful license. The Company received its family takaful license from the Minister of Finance to carry on the family takaful business from 3 July 2018 onwards.

Holding company

The holding company is Bank Simpanan Nasional, a bank incorporated under the Bank Simpanan Nasional Act, 1974 and domiciled in Malaysia.

Results

Net profit for the year

RM'000
67,325

Dividend

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Directors

Directors who served since the date of the last report are:

Md Tajuddin bin Md Isa (Chairman, Independent Non-Executive Director)
Datuk Yunos bin Abd Ghani (Non-Independent Non-Executive Director)
Mazidah binti Abdul Malik (Independent Non-Executive Director)
Ezamshah bin Ismail (Independent Non-Executive Director)
Lilian Ng Lup-Yin (Non-Independent Executive Director)

Statement of Directors' Responsibility

In preparing the financial statements, the Directors have ensured that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and requirements of the Companies Act 2016 in Malaysia with reasonable and prudent judgements and estimates.

It is the responsibility of the Directors to ensure that the financial reporting of the Company presents a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and cash flows of the Company for the financial year ended 31 December 2018.

The financial statements are prepared on a going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

The Directors also have overall responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and for the implementation and continued operation of adequate accounting and internal control systems for the prevention and detection of fraud and other irregularities. The system of internal controls is designed to provide reasonable and not absolute assurance for achieving certain internal control standards and helps the Company manage the risk of failure to achieve business.

The Statement by Directors pursuant to Section 251 (2) of the Companies Act 2016 is set out on page 108.

Directors' interests

None of the Directors holding office at the end of the financial year end had any beneficial interest in the ordinary shares of the Company during the financial year ended 31 December 2018, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016.

Directors' benefits

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefits (other than the benefit included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements) by reason of a contract made by the Company with 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.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object 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 corporates.

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

3

Issue of shares and debentures

During the financial year, there was no issuance of new ordinary shares. As at 31 December 2018, the issued and paid-up capital of the Company comprise of 58,823,530 number of ordinary shares.

The Companies Act 2016, which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. Consequently, the amount standing to the credit of the share premium account of RM41,176,000 becomes part of the Company's share capital pursuant to the transitional provisions set out in Section 618 (2) of the Companies Act 2016. Notwithstanding this provision, the Company may within 24 months from the commencement of the Companies Act 2016, use the amount standing to the credit of its share premium account of RM41,176,000 for the purposes as set out in Section 618 (3) and (4) of the Companies Act 2016. As at the date of issuance of the financial statements, the Company did not utilise the share premium amounting to RM41,176,000.

There were no debentures issued during the financial year.

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Indemnity and takaful costs

During the financial year, the aggregate amount of Directors and Officers Liability takaful effected for all directors of the Company is RM80,000,000. The total amount of contribution for the certificate is RM94,500.

Corporate Governance

The Board of Directors (the Board) is committed to ensuring that the highest standards of corporate governance are practised in the Company. This is a fundamental part in discharging its responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

The Board also reviewed the manner in which the Bank Negara Malaysia (BNM) policy document on Corporate Governance BNM/RH/PD 029-9 (BNM CG) is applied in the Company, where applicable, as set out below.

1. Board of Directors (the Board)

(a) Roles and Responsibilities of the Board

The Board has overall responsibility for promoting the sustainable growth and financial soundness of the Company and for ensuring reasonable standards of fair dealing, without undue influence from any party. The Board must consider the short-term and long-term implications of the Board's decisions on the Company and its customers, officers and the general public and has established Terms of Reference (TOR) to assist in the discharge of this responsibilities.

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board.

Broadly, the responsibilities of the Board include, but are not limited to the following:

- (i) approving the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile;
- (ii) overseeing the selection, performance, compensation and succession plans of the Chief Executive Officer (CEO) and other members of Senior Management, such that the Board is satisfied with the collective competence of Senior Management to effectively lead the operations of the Company;
- (iii) overseeing the implementation of the Company's governance framework and internal control framework, and periodically review whether these remain appropriate in the light of material changes to the size, nature and complexity of the Company's operations;
- (iv) promoting, together with Senior Management, a sound corporate culture within the Company which reinforces ethical, prudent and professional behaviour;
- (v) promoting sustainability through appropriate environmental, social and governance considerations in the Company's business strategies;
- (vi) overseeing and approve the recovery and resolution as well as business continuity plans for the Company to restore its financial strength, critical operations and critical services when it comes under stress;
- (vii) promoting timely and effective communications between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company; and
- (viii) promoting Shariah compliance in accordance with expectations set out in the BNM policy document on Shariah Governance Framework for Islamic Financial Institutions and ensure its integration with the Company's business and risk strategies.

Corporate governance (continued)

1. Board of Directors (continued)

(a) Roles and Responsibilities of the Board (continued)

In discharging its responsibilities, the Board is equally responsible to ensure compliance with the Islamic Financial Services Act, 2013 and Bank Negara Malaysia (BNM) Guidelines/Circulars and other directives. It has to comply with the tenets of corporate governance by adopting best practices as stipulated under BNM CG and BNM Shariah Governance Framework for Islamic Financial Institutions BNM/RH/GL_012_3. Apart from its statutory responsibilities, the Board approves the Company's major investments, disposals, funding decisions, outsourcing arrangements and related parties transactions.

The Company has an organisational structure showing all reporting lines as well as documented job descriptions for all employees. The day-to-day business of the Company is managed by the CEO who is assisted by the management team. The CEO and his management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit function to the Audit Committee (AC), internal controls and risk management to the Board Risk Management Committee (BRMC). The Nominating Committee (NC) is delegated the authority to, inter alia, establish a formal and transparent procedure for the appointment of directors, principal officer and senior officers, and to assess the effectiveness of the Board, the principal officer, senior officers and Appointed Actuary. The Remuneration Committee (RC) is delegated the authority to, inter alia, provide a formal and transparent procedure for developing a remuneration policy for directors, principal officer and senior officers and ensuring that their compensation is competitive and consistent with the takaful operator's culture, objectives and strategy. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the CEO. This division of responsibilities between the Chairman and the CEO ensures an appropriate balance of power and authority, such that no one individual has unfettered powers of decision-making.

The Chairman leads the Board and ensures its smooth and effective overall functioning.

The CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Company for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, providing management of the day-to-day operations of the Company and tracking compliance and business progress.

Independent Non-Executive Directors (INEDs) are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the INEDs independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia (CCM) which is available at CCM's website at 'www.ssm.com.my'.

Corporate governance (continued)**1. Board of Directors (continued)****(b) Board Composition**

The Board comprises five (5) directors, four (4) of whom are non-executive and one (1) executive director. Of the non-executive directors, three (3) are independent.

All the Board members have complied with the requirement of serving on the Board of not more than 10 listed companies and 15 non-listed companies.

(c) Board Meetings

During the financial year ended 31 December 2018, the Board met ten (10) times to decide on the objectives, strategies and any other specific matters which are reserved for its decision. All Directors have attended more than 75% of the total Board meetings held during the financial year and complied with the requirements on attendance at Board meetings as stipulated in the BNM CG. Details of the attendance of each director are as follows:

Director	Attendance
Md Tajuddin bin Md Isa	10/10
Datuk Yunos bin Abd Ghani	10/10
Mazidah binti Abdul Malik	10/10
Ezamshah bin Ismail	10/10
Lilian Ng Lup-Yin	10/10

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

(d) Supply of Information

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and management's proposals which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary and Internal Auditors. All Directors also have access to independent professional advice at the Company's expense.

(e) Directors' Profile

- (i) **MD TAJUDDIN BIN MD ISA**
Chairman/Non-Executive/Independent
Age 62, Male, Malaysian

Md Tajuddin bin Md Isa graduated from the Australian Army, Officer Cadet School, Portsea, Victoria, Australia in 1978 and was commissioned as an officer with the rank of Second Lieutenant in the Royal Malay Regiment of the Malaysian Armed Forces. He resigned from the Malaysian Armed Forces in 1986 with the rank of Captain and proceeded to read law at the University of Sheffield, England, United Kingdom. He graduated with a second class (upper) LL.B (honours) degree in 1989 and thereafter obtained his Certificate of Legal Practice from the Legal Profession Qualifying Board and was admitted as an advocate and solicitor of the High Court of Malaya in 1991. He obtained his Post Graduate Diploma in Islamic Banking and Finance from the International Islamic University Malaysia (IIUM) in 2008.

Corporate governance (continued)

1. Board of Directors (continued)

(e) Directors' Profile (continued)

(i) MD TAJUDDIN BIN MD ISA (continued)

Md Tajuddin was appointed as Director of the Company and assumed the Board Chairmanship on 11 December 2017. He is currently a member of the Audit Committee, Board Risk Management Committee, Nominating Committee and Remuneration Committee of the Company.

Md Tajuddin began his career as a lawyer with Messrs Zain & Co in 1991 and thereafter set up his own legal firm as a Managing Partner at Messrs Md Tajuddin & Co, Advocates & Solicitors, Kuala Lumpur and has considerable experience in litigation, corporate and conveyancing matters with strong emphasis in Islamic Banking since 1991.

He was a member of the Board of Bank Simpanan Nasional (BSN) and a member of the Shariah Advisory Committee of BSN from 1 May 2011 to 31 December 2018.

He is a panel member of the Disciplinary Committee, Advocates & Solicitors Disciplinary Board.

(ii) MAZIDAH BINTI ABDUL MALIK

Non-Executive/Independent
Age 60, Female, Malaysian

Mazidah binti Abdul Malik holds a Masters of Law Executive (Banking Law) Degree from the International Islamic University, Malaysia. She also holds a Bachelor in Business Administration from Ohio University, USA and a Certificate in Islamic Financial Planning from the Islamic Banking and Finance Institute, Malaysia.

She was appointed as Director of the Company on 1 April 2017. She is currently the Chairman of the Board Risk Management Committee and Remuneration Committee and also a member of Audit Committee and Nominating Committee of the Company.

Mazidah served more than 30 years with BNM which included stints at the Representative Office in New York and London, Labuan Offshore Financial Services Authority and the International Centre for Education in Islamic Finance. She has extensive experience in money market operations and trading and investments in the international fixed income markets having spent 16 years at the Treasury department of BNM. Pn. Mazidah also served in other departments of BNM in various capacities with exposure on issues relating to macroeconomic policy, risk management, communications and international relations.

She is a member of the Board of Directors of Alliance Investment Bank Berhad, Bursa Malaysia Securities Berhad and Bursa Malaysia Securities Clearing Sdn Bhd.

(iii) EZAMSHAH BIN ISMAIL

Non-Executive/Independent
Age 61, Male, Malaysian

Ezamshah bin Ismail holds a Masters in Actuarial Science from North Eastern University, Boston, USA, and a Certificate in Shariah Law and LLM in Business Law from IIUM, Malaysia. He is also an associate member of the Society for Actuaries (US), a registered Financial Planner (RFP, MFPC) and a member of the International Centre for Leadership in Finance (ICLIF).

Corporate governance (continued)

1. Board of Directors (continued)

(e) Directors' Profile (continued)

(iii) EZAMSHAH BIN ISMAIL (continued)

Ezamshah was appointed as Director of the Company on 1 August 2017. He is currently the Chairman of the Audit Committee and Nominating Committee and also a member of Board Risk Management Committee and Remuneration Committee of the Company.

Ezamshah is a professional and academician with extensive experience in the insurance and Takaful industry. He was the CEO of Hong Leong Tokio Marine Takaful Berhad, CEO of Commerce Life Assurance Berhad for 14 years where he was instrumental in setting up its Takaful operations. He has also served in various consulting and management roles with the Mercer Consulting Group (US). While he was the President of the Life Insurance Association of Malaysia (LIAM), Ezamshah was actively involved in the setting up of the first Life Reinsurance Company (MLRe) and was its first Chairman. He was also the first President of the Malaysian Financial Planning Council (MFPC) as well as Vice President of the Malaysian Takaful Association (MTA).

Ezamshah currently lectures at International Centre for Education in Islamic Finance (INCEIF), Malaysia on Takaful & Risk Management and is the Dean of the School of Professional Studies at INCEIF. He is a Director of the Malaysian Insurance Institute and Harlow's & MGI Sdn Bhd. He is also a member of the Shariah Advisory Committee of RGA Global Re (Takaful, Labuan) and Ayady Takaful (Maldives) as well as the Chairman of the Takaful Examination Board (MTA/IBFIM).

(iv) DATUK YUNOS BIN ABD GHANI

Non-Executive/Non-Independent

Age 61, Male, Malaysian

Datuk Yunos Bin Abd Ghani received his Bachelor's Degree in BA (Finance) from Eastern Michigan University, United States in 1986.

He was appointed as Director of the Company on 26 May 2015 and is currently a member of Board Risk Management Committee, Nominating Committee and Remuneration Committee of the Company.

Datuk Yunos began his career in 1981 as Credit Officer of Bank Bumiputra Malaysia Berhad. In 1996, he assumed the position of General Manager for the Tokyo branch of Bank Bumiputra Malaysia Berhad in Japan. From November 2000 to June 2003, he was the General Manager of Bank Muamalat Malaysia Berhad Labuan Offshore branch and from July 2003 to 2005, he was the Vice President and Head of Consumer Banking of Bank Muamalat Malaysia Berhad in Kuala Lumpur. He joined BSN in 2005 and assumed the position of Director, Banking Operation. In September 2006, he joined Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) and was the Chief Executive Officer of PTPTN until March 2010.

Datuk Yunos is the Chief Executive of BSN, a position he has held since December 2017. His main responsibility includes overseeing the bank's overall operations and management. Besides BSN, Datuk Yunos is also a director of BSNC Corporation Berhad and Permodalan BSN Berhad.

Corporate governance (continued)

1. Board of Directors (continued)

(e) Directors' Profile (continued)

- (v) **LILIAN NG LUP-YIN**
Executive Director/Non-Independent
Age 53, Female, Australian

Lilian Ng Lup-Yin holds a Bachelor's Degree in Economics from Macquarie University, Australia in 1987. She is a registered Fellow member of the Institute of Actuaries of Australia (FIAA).

She was appointed as Director of the Company on 8 September 2017 and is a member of the Nominating Committee of the Company.

Lilian Ng joined Prudential Assurance Company Limited (Hong Kong) in 1994 and has spent 20 years with Prudential Group. She was appointed as the Chief Executive, Insurance of Prudential Corporation Asia (PCA) in June 2015. As the Chief Executive, Insurance of PCA, Ms Lilian Ng is tasked with the overall responsibility of managing Prudential's network of insurance business units in Asia. Lilian Ng is also currently a Director of Prudential Assurance Malaysia Berhad.

(f) Directors' Training

The Company recognises the importance of continuous professional development and training for its Directors.

All Directors have attended and completed the mandatory Financial Institutions Directors' Education (FIDE) Core Training Program within one year from their date of their appointment as required under the terms of their appointment imposed by BNM. The Company is a member of FIDE Forum which entitles its Directors to benefits of membership as set out in FIDE Forum website 'www.fideforum.org' and an additional training budget is also allocated for Directors' training programme by the Company.

Directors are encouraged to attend training programme and constantly update their knowledge as well as enhance their skills. The Board is also updated on the latest updates/amendments on BNM Guidelines and other regulatory requirements relating to the discharge of the Directors' duties and responsibilities.

During the financial year ended 31 December 2018, the Company regularly organises in-house briefings conducted by internal and external professionals where the Directors were briefed and discussions held pertaining to the following matters:

Trainings by Internal Professionals

Conducted by the representatives of the Shariah Committee (SC):

- Model and Contracts applied for Financial Retakaful
- Zakat Calculation Methodologies and Issues
- Waqf Model and its application in Microtakaful
- Shariah Non-Compliance Repeating Procedures and Materiality Parameter

Corporate governance (continued)

1. Board of Directors (continued)

(f) Directors' Training (continued)

Trainings by Internal Professionals (continued)

Conducted by the Actuarial Team:

- Introduction to Financial Concepts
- Takaful Model
- Tabarru Fund and Shareholder's Fund position
- Risk Based Capital Takaful (RBCT) and Capital Adequacy Ratio (CAR)
- Internal Target Capital Level (ITCL) and Capital Management Plan (CMP)
- Training on Actuarial Pricing and Embedded Valuation

Conducted by the Investment Team:

- Training on Investment Management

Conducted by the Taxation Team:

- Taxation Update

Conducted by the Product Development Team:

- Training on the Company Product Development Process

Trainings by External Professionals:

- Actuarial Partners - Accounting For Insurance - From IFRS 4 to IFRS 17 (Applying IFRS 17 to Takaful)
- KPMG MFRS 17 Insurance Contract
- Eastspring Al-Wara Investment (EAIB) - Market Outlook and Fund Strategy

External Trainings

Directors also attended training organised by other bodies and organisations as follows:

Bursa Malaysia

- Bursa Malaysia and Malayan Banking Berhad - Invest Malaysia 2018: Connecting Strength, Advancing Performance
- Market Integrity Symposium Embracing Innovation, Changing the Game Electronic Trading

Securities Commission (SEC)

- World Capital Markets Symposium 2018
- Capital Market Directors Programme

BNM

- BNM & ISRA - Islamic Finance for Board of Directors Programme
- Global Islamic Finance Forum
- BNM & World Bank Group - Forum on Performance Measurement for DFIs

Corporate governance (continued)

1. Board of Directors (continued)

(f) Directors' Training (continued)

External Trainings (continued)

ICLIF Leadership and Governance Centre (ICLIF)

- Waqf Revival in the Context of 4IR
- Coaching ICLIF

Others

- Perbadanan Insurans Deposit Malaysia & FIDE Forum - 1st PIDM-FIDE Forum Annual Dialogue
- FIDE Forum - 1st Distinguished Board Leadership Series & BNM
- Institute of Strategic and International Studies (ISIS) Malaysia - Enterprise Risk Management: The New Paradigm
- Capital Markets Malaysia - Green Financing Forum: Forum Green Projects Through the Islamic Capital Market
- PricewaterhouseCoopers - Presentation on AML/CFT Review by PWC to BNM
- IBFIM - Forum Waqf: An Economic Perspective
- AIBIM - Global Islamic Finance Forum (GIFF)
- Performance Measurement for Development Financial Institutions by Bank Negara/World Bank
- Global Islamic Forum - Value Based Intermediation
- 4th World Bank, IRTI Islamic Finance Symposium on Financial Inclusion and Poverty Alleviation
- Industrial Revolution 4.0 - World Bank INCEIF Waqf Round Table
- The Actuarial Society of Hong Kong - Asia Actuarial Conference 2018
- Bain & Company, Inc - Bain Asia CEO Forum
- 2018 Fintech Festival
- The Insurance Authority (Hong Kong) - Asian Insurance Forum 2018

2. Management accountability

Whilst the Board is responsible for approving the framework and policies which the Company should be operating within, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

3. Corporate independence

All material related party transactions have been disclosed in the Note 28 to the financial statements.

Corporate governance (continued)**4. Internal control framework**

The Board exercises overall responsibility for the Company's internal controls and effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing them. The Company has an established internal control framework which covers all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner, as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action where necessary, is taken in a timely manner.

Under the internal control framework, the Company applies the three (3) lines of defence model, with the following groupings:

(a) First line of defence (Risk taking and management)

- (i) Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board.
- (ii) Identifies and reports the risks being generated, and those that are emerging.
- (iii) Escalate breaches to the limits or violations of policies, mandates or instructions.
- (iv) Manages the business in accordance with the control framework laid out in the strategies, policies and risk parameters set by the Board, Board Risk Management Committee (BRMC), or sub committees thereof.

(b) Second line of defence (Risk control and oversight)

- (i) Assists the Board, BRMC, or sub committees thereof to formulate and implement the approved risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes;
- (ii) Reviews the risk taking activities of the first line of defence and where appropriate challenges the actions being taken to manage and control risks.

(c) Third line of defence (Independent assurance)

- (i) Provides independent assurance on the design, effectiveness and implementation of the overall system of internal control which covers risk management and compliance.

Corporate governance (continued)**5. Audit Committee (AC)**

The AC is chaired by an independent director and comprises:

No.	Name	Designation
1	Ezamshah bin Ismail	Chairman, Independent Non-Executive Director
2	Mazidah binti Abdul Malik	Member, Independent Non-Executive Director
3	Md Tajuddin bin Md Isa	Member, Independent Non-Executive Director

Secretary

The Secretary to the AC is the Company Secretary of the Company.

The Internal Audit (IA) function is performed by the affiliated company's Group-wide Internal Audit (GwIA) through an outsourcing arrangement and together with compliance function report to the Board through the AC. The IA function carries out the audit of the internal control system on a continuous basis.

(a) Authority

The Committee is authorised by the Board to investigate any activity within its remit, seek any information that it requires from any employee, contractor, or committee which is necessary to satisfactorily discharge its duties. All employees of the Company are directed to cooperate with any request made by the Committee.

Members of the AC have the right to access to the affiliated company's Chairman of Audit Committee and the Regional Business CEO.

(b) Meetings

The AC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary. All meetings to review reports and financial statements are held prior to such reports and financial statements being presented to the Board for approval.

The quorum for AC meetings should be at least two thirds of the members with independent directors forming the majority. When the Chairman of the Committee is not available to attend a meeting, the remaining two members should agree for one of them to act as the chairperson for the meeting and document as such in the minutes.

The AC may invite any individual, whether external or internal to attend all or part of any meeting(s) of the AC in whatever capacity as the AC deems appropriate to assist the AC in the fulfilment of its duties. The affiliated company's Chief Risk Officer (CRO), Chief Compliance Officer and the GwIA Director for affiliated company, or their nominated delegates, have a standing invitation to attend any meeting(s) of the AC.

Corporate governance (continued)**5. Audit Committee (AC) (continued)****(b) Meetings (continued)**

The external auditor will be invited to attend the AC meetings on a regular basis.

The committee shall meet with the GwIA and external auditor in private (in separate meetings) at least once a year without the presence of the Company's Senior Management.

Senior Management comprises of CEO and senior officers of the Company. Senior officers refer to the Appointed Actuary, Head of Compliance, Head of Risk Management, Head of Shariah, Head of Legal and members of the Executive Committee (EXCO) other than the CEO. There is one (1) Other Material Risk Taker (OMRT) which is Head of New Business and Underwriting.

(c) Roles and Responsibilities of the AC

The functions of the AC include:

- (i) supporting the Board in ensuring that there is a reliable and transparent financial reporting process within the Company.
- (ii) overseeing the effectiveness of the internal audit function of the Company.
- (iii) fostering a quality audit of the Company by exercising oversight over the External Auditor, in accordance with the expectations set out in the BNM policy document on External Auditor.
- (iv) reviewing and updating the Board on all related party transactions.
- (v) reviewing the accuracy and adequacy of the disclosures in the Directors' Report, Corporate Governance Statements and announcements in relation to the preparation of financial statements.
- (vi) reviewing third-party opinions on the design and effectiveness of the Company's internal control framework.
- (vii) monitoring compliance with the Board's conflicts of interest policy.

(d) Activities

The AC carried out its duties in accordance with its terms of reference.

The AC met five (5) times during the financial year ended 31 December 2018 with timely notices of issues to be discussed. Details of the attendance of each AC member are as follows:

Director	Attendance
Ezamshah bin Ismail	5/5
Mazidah binti Abdul Malik	5/5
Md Tajuddin bin Md Isa	5/5

The AC reviewed the reports and financial statements of the Company. The AC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in the accounting and auditing issues, reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Company and discussed applicable accounting and auditing standards. The AC also reviewed the internal auditors' audit findings and recommendations as well as BNM's examination report on the Company.

The AC also reviewed outsourcing arrangements to related parties and various related party transactions carried out by the Company.

Corporate governance (continued)**6. Board Risk Management Committee (BRMC)**

The BRMC is chaired by an independent director and comprises:

No.	Name	Designation
1	Mazidah binti Abdul Malik	Chairman, Independent Non-Executive Director
2	Ezamshah bin Ismail	Member, Independent Non-Executive Director
3	Datuk Yunos bin Abd Ghani	Member, Non-Independent Non-Executive Director
4	Md Tajuddin bin Md Isa	Member, Independent Non-Executive Director

Secretary

The Secretary to the BRMC shall be any person nominated by the BRMC.

(a) Authority

The BRMC is authorised by the Board to oversee the Senior Management's activities in managing the key risk areas of the takaful operator and to ensure that the risk management process is in place and functioning effectively.

(b) Meetings

The BRMC meets at least four (4) times a year and may call for additional meeting(s) to examine and consider matters related to its responsibilities as and when necessary.

The quorum for BRMC meetings should be a majority of the members. The CRO of the Company or designated alternates shall attend each meeting.

The Chairman shall have the right to invite such other persons, whether within the Company or not, to attend as necessary.

The primary objective of the BRMC is to oversee the Senior Management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively. The BRMC is supported by the Risk Management Committee (RMC) which acts as an advisory committee on key risk matters. BRMC is also supported by the Investment Committee (IC) which is a Board appointed committee and overlooks investment risks.

Corporate governance (continued)**6. Board Risk Management Committee (BRMC) (continued)**

The Risk Management Framework for the Company comprises three main components i.e. Strategy and Culture, Methods and Approaches; and Tools and Infrastructure. The Company's approach on Risk Governance is premised on the principle of 'three lines of defence' i.e. Risk taking and management, Risk control and oversight and Independent assurance. The Risk Management Cycle is the ongoing process of identifying, assessing, controlling and reporting the risks to which the Company is exposed and includes assessing the solvency position of the Company. Risks have been classified into two main categories, which are made up of financial risk (including market risk, credit risk, liquidity risk and takaful risk) and non-financial risk (strategic risk, operational risk and business environment risk). Furthermore, Shariah non-compliance risk arises from the failure to comply with the Shariah rules and principles. The SC is the reference point in matters related to Shariah.

(c) Roles and Responsibilities of the BRMC

The functions of the BRMC include:

- (i) reviewing and recommending risk management strategies, policies and risk tolerance for approval by the Board.
- (ii) reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.
- (iii) ensuring adequate infrastructure, resources and systems are in place for an effective risk management (i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the takaful operator's risk taking activities).
- (iv) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

(d) Activities

The BRMC carried out its duties in accordance with its terms of reference.

The BRMC met five (5) times during the financial year ended 31 December 2018 with timely notices of issues to be discussed. Details of the attendance of each BRMC member are as follows:

Director	Attendance
Mazidah binti Abdul Malik	5/5
Ezamshah bin Ismail	5/5
Datuk Yunos bin Abd Ghani	5/5
Md Tajuddin bin Md Isa	4/5

The BRMC reviewed the adequacy and integrity of internal control systems, including risk management and relevant management information system. It also reviewed the processes put in place to identify, evaluate and manage the significant risks encountered by the Company.

Corporate governance (continued)**7. Nominating and Remuneration Committees**

The Board also takes responsibility in establishing the Nominating and Remuneration Committees. The Nominating and Remuneration Committee meet as and when required, at least once a year.

Nominating Committee (NC)

No.	Name	Designation
1	Ezamshah bin Ismail	Chairman, Independent Non-Executive Director
2	Mazidah binti Abdul Malik	Member, Independent Non-Executive Director
3	Datuk Yunos bin Abd Ghani	Member, Non-Independent Non-Executive Director
4	Lilian Ng Lup-Yin	Member, Non-Independent Executive Director
5	Md Tajuddin bin Md Isa	Member, Independent Non-Executive Director

The Secretary to the NC shall be any person nominated by the NC.

(a) Authority

The NC is authorised by the Board to establish a documented, formal, transparent procedure for the appointment of directors, principal officer and senior officers, and to assess the effectiveness of directors, and the Board as a whole and the various committees of the Board, the principal officer, senior officers and Appointed Actuary.

(b) Meetings

Meetings shall normally be scheduled at least once a year to deliberate on the above responsibilities. The Chairman of the NC may call for additional meeting(s) to examine and consider matters related to its responsibilities as the NC deems necessary.

The quorum for a meeting of the NC shall be a majority of the members. The Chairman shall have the right to invite such other persons, whether within the Company or not, to attend as necessary.

(c) Roles and Responsibilities of the NC

The function of the NC include:

- (i) to support the Board in carrying out its functions in the following matters concerning the Board, Senior Management, Appointed Actuary and Company Secretary's:
- appointments and removals
 - composition
 - performance evaluation and development
 - fit and proper assessments

Corporate governance (continued)**7. Nominating and Remuneration Committees (continued)****Nominating Committee (NC) (continued)****(d) Activities**

The NC carried out its duties in accordance with its terms of reference.

The NC met seven (7) times during the financial year ended 31 December 2018 with timely notices of issues to be discussed. Details of the attendance of each NC member are as follows:

Director	Attendance
Ezamshah bin Ismail	7/7
Mazidah binti Abdul Malik	7/7
Datuk Yunos bin Abd Ghani	7/7
Lilian Ng Lup-Yin	6/7
Md Tajuddin bin Md Isa	6/7

The NC reviewed the membership of the Board, the professional qualifications and experience of the directors and was satisfied that the Board composition in terms of size, the balance between executive, non-executive and independent directors and mix of skills are adequate. The NC also reviewed the performance of the Board against its terms of reference and was satisfied that the Board was competent and effective in discharging its function.

Remuneration Committee (RC)

The RC is chaired by an independent director and comprises:

No.	Name	Designation
1	Mazidah binti Abdul Malik	Chairman, Independent Non-Executive Director
2	Ezamshah bin Ismail	Member, Independent Non-Executive Director
3	Datuk Yunos bin Abd Ghani	Member, Non-Independent Non-Executive Director
4	Md Tajuddin bin Md Isa	Member, Independent Non-Executive Director

Secretary

The Secretary to the RC shall be any person nominated by the RC.

(a) Authority

The RC is authorised by the Board to provide a formal and transparent procedure for developing a remuneration policy for directors, principal officer and senior officers and ensuring that their compensation is competitive and consistent with the takaful operator's culture, objectives and strategy.

(b) Meetings

Meetings shall normally be scheduled at least once a year to deliberate on the above responsibilities. The Chairman of the RC may call for additional meeting(s) to examine and consider matters related to its responsibilities as the RC deems necessary.

The quorum for a meeting of the RC shall be a majority of the members. The Chairman shall have the right to invite such other persons, whether within the Company or not, to attend as necessary.

Corporate governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (RC) (continued)

(c) Role

The functions of the RC include:

- (i) support the Board in actively overseeing the design and operation of the Company's remuneration system.
- (ii) periodically review (not less than once in every 3 years) the compensation of Directors, particularly on whether compensation remains appropriate to each Director's contribution, taking into account the level of expertise, commitment and responsibilities undertaken.

(d) Design and Structure of the Remuneration System

The Remuneration Policy sets out the guidelines which support the Company's objective of having an effective approach in place to reward employees in an appropriate way which:

- (i) aligns incentives to business objectives to support the delivery of the Company's business plans, strategies and values;
- (ii) enables the recruitment and retention of high calibre employees and incentivises them to achieve success for the Company; and
- (iii) is consistent with the Company's risk appetite.

The objectives of the Company's remuneration system are to recruit and retain the highest caliber employees and to incentivise them by rewarding performance that leads to the success of the Company. The key features of the system include the following:

- (i) Performance Management
- (ii) Discretionary Annual Incentive Bonus
- (iii) Long Term Incentive Plan
- (iv) Base Salary Review
- (v) Benefits

The EXCO is accountable and responsible for the execution of the framework and policies approved by the Board and for the attainment of the Company's strategic objectives.

Corporate governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (continued)

(d) Design and Structure of the Remuneration System (continued)

The Company, through its performance management continue to nurture the performance driven culture in which employees are able to achieve the personal objectives while being recognised for their contributions to the success of the Company.

The Company's discretionary annual incentive bonus scheme is designed to link and reward annual performance of the Company against a set of financial and strategic objectives. These are then measured together with inputs from individual performance as well as a pre-agreed base bonus rate for each individual that reflects the criticality of the individual's contribution. This scheme is made available to all permanent employees of the Company.

For longer-term performance, the Company has a long term incentive plan, which is designed to incentivise individual contribution to the business' long term value and aim to reward past, present and anticipated business performance. Under this plan, the discretionary awards are determined by way of benchmarking to share price of an affiliated company to create an alignment of interest with our shareholders and to promote a culture of ownership. Award under this plan will vest after a prescribed period based on continued employment in the business throughout that period. This plan is not subject to claw back arrangement and should the awardee leaves before the vesting date or is serving a notice of termination, the award will lapse. The level of award for this plan would be based on the criticality of the individual's position and the expected contribution from the individual over the period of the award.

The base salary review is conducted annually with a percentage increase being applied to the base salary of the preceding year. Benefits are the other key element of the total remuneration which consists of schemes or programs that supplement the cash compensation by providing long-term security, protection and well-being benefits for employees. Fixed remuneration is in the form of salary and benefits, while variable remuneration is in the form of the discretionary annual incentive scheme and the long term incentive plan. The mix of the different forms of variable remuneration is determined by individual's performance and the criticality of the individual's position. In the event where the performance results are weak, adjustments to remuneration are effected by way of annual salary review, discretionary annual incentive bonus scheme and the long term incentive plan. The Company defines weak performance based on a factor that measure the deviation of achieved performance against a set of objectives with a pre-defined threshold.

In addition, the Company also offers a voluntary Shariah compliant investment plan, which involves a Shariah compliant investment made by the Company on behalf of employees who subscribed to this plan. The Shariah compliant investment is then benchmarked against the performance of a prescribed share and/or investment fund to facilitate the reward calculation. This Shariah compliant alternative plan has been approved by the SC.

Corporate governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (continued)

The Company has a Remuneration Policy in line with the requirement under the BNM CG. The Remuneration Policy sets out the general guidelines which support the objective of having an effective approach to reward employees in an appropriate way and takes into consideration regulatory requirement and best practice standards.

The policy also addresses specific areas on:

- (i) alignment of incentives to business objectives to support the delivery of the Company's business plans, strategies and values;
- (ii) recruitment and retention of high calibre employees and incentivises them to achieve success for the Company; and
- (iii) the Company's risk appetite.

(e) Activities

The RC carried out its duties in accordance with its terms of reference.

The RC met six (6) times during the financial year ended 31 December 2018 with timely notices of issues to be discussed. Details of the attendance of each RC member are as follows:

Director	Attendance
Mazidah binti Abdul Malik	6/6
Ezamshah bin Ismail	6/6
Datuk Yunos bin Abd Ghani	6/6
Md Tajuddin bin Md Isa	6/6

The level of remuneration of non-executive directors and independent directors reflects the level of responsibilities undertaken and linked their contribution to the effective functioning of the Board.

The fees of Directors are recommended by the RC and endorsed by the Board for approval by the shareholders of the Company at its general meeting.

Corporate governance (continued)**8. Public accountability**

As custodian of public funds, the Company's dealing with the public are always conducted fairly, honestly and professionally.

9. Financial reporting

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements to shareholders. The AC assists by scrutinising the information to be disclosed, to ensure accuracy, adequacy and completeness.

10. Shariah Committee (SC)

The Company is advised by SC. The SC members shall be appointed by the Board upon the recommendation of the NC. The number of SC members must not be less than five (5), the majority of whom must possess strong knowledge in Shariah and backed by the appropriate qualifications in that area.

The members of the SC are as follows:

No.	Name	Designation
1	Abdullaah bin Jalil	Chairman
2	Professor Dr. Saiful Azhar bin Rosly (resigned w.e.f. December 2018)	Member
3	Wan Rumaizi bin Wan Husin	Member
4	Dr. Ahmad Zaki Salleh	Member
5	Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	Member
6	Dr. Mohd Fuad bin Md Sawari	Member

Secretary

The Secretary to the SC is Shariah Secretariat & Research Shariah Department.

(a) Authority

Duties, Responsibilities & Accountability of the SC are as follows:

- (i) The SC is expected to understand 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.
- (ii) The SC is expected to advise the Company's Board and provide input to the Company on Shariah matters in order for the Company to comply with Shariah principles at all times.
- (iii) The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure that the contents do not contain elements which are not in line with Shariah.
- (iv) The SC is expected 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
 - The product manual, marketing advertisements, sale illustrations and brochures used to describe the product.

Corporate governance (continued)**10. Shariah Committee (SC) (continued)****(a) Authority (continued)**

- (v) The SC is responsible to assess the work carried out by Shariah review and Shariah audit to ensure compliance with Shariah matters which form part of their assessment of Shariah compliance and assurance information in the annual report.
- (vi) The related parties of the Company such as 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.
- (vii) The SC may advise the Company to consult the Shariah Advisory Council of BNM (SAC BNM) on Shariah matters that could not be resolved. The SC is required to provide written Shariah opinions in circumstances where the Company make reference to SAC BNM for further deliberation, or where the Company submits applications to BNM for new product approval.
- (viii) With regards to the Shariah Review exercise, the SC shall have the authority to identify issues with reference to the Shariah Review Report and where appropriate, to propose corrective measures. Accordingly, the final determination and confirmation as to the compliance status (i.e. whether compliant to Shariah or otherwise) shall be within the power and authority of the SC.

(b) Meetings

The minimum quorum of a SC meeting shall be attendance of majority members. Further, majority of attending members must be members with Shariah background. In the event that the Chairman of the SC is unable to attend the meeting, the members shall elect one (1) member among themselves to become the Alternate Chairman to preside over the meeting.

The SC met eleven (11) times during the financial year ended 31 December 2018 with timely notices of issues to be discussed. Details of the attendance of each SC member are as follows:

Name	No. of Shariah Committee meetings attended
Abdullaah bin Jalil (Chairman)	11/11
Professor Dr. Saiful Azhar bin Rosly	9/11
Wan Rumaizi bin Wan Husin	11/11
Dr. Ahmad Zaki Salleh	10/11
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	10/11
Dr. Mohd Fuad bin Md Sawari	10/11

Other statutory information

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that:

1. all known impaired debts have been written off and adequate provision made for doubtful debts, and
2. any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise.
3. there is adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims.

At the date of this report, the Directors are not aware of any circumstances:

1. that would render the amount written off for impaired debts or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or
2. that would render the value attributed to the current assets in the financial statements of the Company misleading, or
3. which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or
4. not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Company misleading, or
5. that would render the provision for incurred claims, including IBNR, inadequate to any substantial extent.

At the date of this report, there does not exist:

1. any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
2. any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from certificates of takaful underwritten in the ordinary course of business of the Company.

Other statutory information (continued)

Before the income statement and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provisions for its takaful liabilities in accordance with the valuation methods specified in Part B of the Risk Based Capital Framework for Takaful Operators.

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2018 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

Auditors


The auditors, Messrs KPMG PLT have indicated their willingness to accept re-appointment.

The auditors' remuneration is disclosed in Note 24 to the financial statements.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....
Datuk Yunus bin Abd Ghani



.....
Lilian Ng Lup-Yin

Date: 14 February 2019

Shariah Committee's Report

In the name of Allah, the Beneficent, the Merciful

In compliance with the letter of appointment, we are required to submit the following report:

In carrying out the roles and the responsibilities of Prudential BSN Takaful Berhad's Shariah Committee as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in accordance with our letter of appointment, we hereby provide our report for the financial year ended 31 December 2018.

We, the members of the Prudential BSN Takaful Berhad's Shariah Committee are responsible to advise the Board in the oversight and management of Shariah matters in the business implementation. Among others, our main responsibility and accountability is to assist the Board in ensuring that Prudential BSN Takaful Berhad's business does not have elements/activities that contravene the Shariah. In undertaking our duties, we shall adhere to the decisions and views of the Shariah Advisory Council of the relevant Malaysian financial regulators.

We had eleven (11) meetings during the financial year where we have reviewed products, transactions, services, processes and documents of Prudential BSN Takaful Berhad. In performing our roles and responsibilities, we have obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Prudential BSN Takaful Berhad has not violated Shariah principles and with the Shariah rulings, decisions and conditions made by us.

We have also assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each selected type of transaction, the relevant documentation and procedures adopted by Prudential BSN Takaful Berhad. The reports were deliberated in our meetings to confirm that Prudential BSN Takaful Berhad has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for Capital Market related matters) as well as our decisions.

The internal Shariah governance functions are augmented by written policies and procedures, the establishment of an organisational structure that provides an appropriate and well-defined division of responsibility and the communication of Shariah policies and guidelines of business conduct to all staff of the Company. We have always emphasised the importance of applying the highest standard of governance processes and have developed a system of monitoring and internal reporting which provides us the avenue to evaluate the level of prudence in accordance with the duties and responsibilities of the Company in the management of participants' takaful plans as well as all the relevant funds. Based on the proactive disclosures provided by the management which is facilitated by the Shariah risk function, appropriate preventive measures approved by the Shariah Committee and the Board of Directors have been put in place and reported to Bank Negara Malaysia in accordance to the Shariah non-compliance reporting requirement prescribed by the Islamic Financial Services Act 2013.

During the year, numerous Shariah trainings and briefing sessions were held to both the staff and the distribution agents of the Company. Among others, all staff are required to pass the Fundamental of Shariah and the Fundamental of Takaful and selected staff are required to pass the Shariah and Takaful Intermediate module. In addition to Shariah trainings provided internally, the Company has acquired the service of Islamic Banking & Finance Institute Malaysia (IBFIM) to provide training on Fundamental Certificate in Takaful to the staff. We have also stressed the importance of continuous effort to increase the understanding of Shariah and Takaful to the agents and review with regards to the effectiveness of the trainings is continuously being carried out.

Prudential BSN Takaful Berhad

27

(Company No. 740651-H)

(Incorporated in Malaysia)

The management of Prudential BSN Takaful Berhad is responsible for ensuring that the Company conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of Prudential BSN Takaful Berhad, and to report to you. Based on the internal and external controls that have been put in place, in our opinion and to the best of our knowledge, Prudential BSN Takaful Berhad has complied with all relevant Shariah principles and rulings.

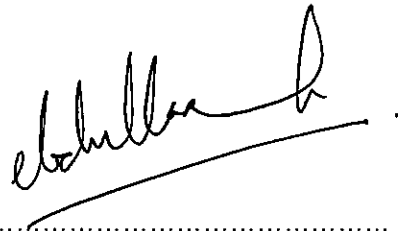
We have also reviewed the financial statements of Prudential BSN Takaful Berhad and confirm that the financial statements are in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. We are of the view that the contracts, transactions and dealings entered into by Prudential BSN Takaful Berhad during the financial year ended 31 December 2018, including the management of the Participant Risk Fund, that we have reviewed, are in compliance with Shariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. no earnings have been realised from sources or by means prohibited by Shariah principles; and
4. the calculation of zakat is in compliance with Shariah principles.

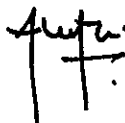
We, the members of the Shariah Committee of Prudential BSN Takaful Berhad, to the best of our knowledge and belief, do hereby confirm that the operations of Prudential BSN Takaful Berhad for the financial year ended 31 December 2018 have been conducted in conformity with Shariah principles.

On behalf of the Shariah Committee;



Chairman of the Shariah Committee:

.....
Abdullaah bin Jalil



Member of Shariah Committee:

.....
Dr. Ahmad Zaki bin Salleh

Kuala Lumpur,

Date: 14 February 2019

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2018

	Note	2018			2017		
		Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Assets							
Property and equipment	3	32,042	-	-	18,960	-	18,960
Intangible assets	4	76,314	-	-	37,484	-	37,484
Investments	5	296,645	2,503,195	-	266,111	2,383,811	2,648,211
Deferred tax assets	6	-	-	-	28	-	28
Retakaful assets	7	-	15,284	-	-	21,477	21,524
Takaful receivables	8	-	-	-	-	-	59
Trade and other receivables	9	207,608	18,671	10	161,110	16,912	79
Cash and cash equivalents	10	78,804	368,350	7,113	51,038	190,991	27,010
Total assets		691,413	2,905,500	7,123	534,731	2,613,191	3,038,683
Equity							
Capital							
Ordinary share	11	100,000	-	-	58,824	-	58,824
Share premium	11	-	-	-	41,176	-	41,176
Reserves		277,716	-	-	208,466	-	208,466
Total equity		377,716	-	-	308,466	-	308,466
Liabilities							
Participants' fund	12	-	2,602,113	-	-	2,313,957	13,781
Takaful contract liabilities	13	-	79,391	72	-	78,849	1,958
Provision for wakalah fees	14	40,068	-	-	31,141	-	-
Takaful payables	15	-	12,574	5	-	17,173	2,818
Trade and other payables	16	270,186	206,937	6,888	194,325	186,745	5,837
Current tax liabilities		2,656	3,325	158	799	4,935	2,801
Deferred tax liabilities	6	787	1,160	-	-	11,532	-
Total liabilities		313,697	2,905,500	7,123	226,265	2,613,191	27,195
Total equity and liabilities		691,413	2,905,500	7,123	534,731	2,613,191	3,038,683

The accompanying notes on pages 34 to 107 form an integral part of the financial statements.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

29

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2018

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
17	724,325	1,798,898	1,161	694,989	1,608,487	9,559
Operating revenue			1,822,524			1,635,927
18	701,616	-	-	676,898	-	-
Wakalah fee income						
17	-	1,751,541	641	-	1,569,527	8,770
Gross contributions			1,751,938			1,578,087
12(i)	-	(69,075)	(1,667)	-	(49,350)	(2,521)
Contributions ceded to retakaful			(70,742)			(51,871)
Change in unearned contribution reserves			1,015			8,964
	-	-	1,015	-	-	8,964
Net earned contributions			1,682,211		1,520,177	15,213
	-	1,682,466	(11)	-	1,520,177	15,213
			1,682,211			1,535,180
Surplus sharing from family takaful fund and general fund						
12(i)	62,378	-	-	33,620	-	-
19	22,709	47,357	520	18,091	38,960	789
Investment income			70,586			57,840
20	(448)	(8,534)	-	8	6,191	-
Realised (losses)/gains			(8,982)			6,199
21	861	(129,648)	-	1,034	98,554	-
Fair value (losses)/gains			(128,787)			99,588
22(i)	1,272	3,957	2,921	209	5,319	-
Other operating income			8,150			5,528
Other income			(59,033)			169,155
	86,772	(86,868)	3,441	52,962	149,024	789
Gross benefits and claims paid			(605,797)			(1,834)
Claims ceded to retakaful		(605,471)	(326)	-	(520,765)	(1,834)
Gross change in contract liabilities			65,815			416
Change in contract liabilities ceded to retakaful			67			571
23	-	(542)	609	-	(26,648)	(26,077)
Change in contract liabilities ceded to retakaful			(6,527)			(515)
Net benefits and claims			(546,442)		(501,062)	(1,362)
	-	(6,488)	(39)	-	5,178	(515)
			(6,527)			4,663
	-	(546,692)	250	-	(501,062)	(1,362)
			(546,442)			(502,424)

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2018 (continued)

	Note	2018			2017			
		Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Surplus sharing to takaful operator	12(i)	-	(60,150)	(2,228)	-	(30,120)	(3,500)	-
Wakalah fee expense	18	-	(701,515)	(101)	-	(673,931)	(2,967)	-
Management expenses	24	(323,618)	-	-	(323,618)	-	(309,028)	(309,028)
Commission expenses		(356,428)	-	-	(356,428)	-	(338,013)	(338,013)
Increase in provision for wakalah fees	14	(11,003)	-	-	(11,003)	-	(1,444)	(1,444)
Other operating expenses	22(ii)	(10,910)	(2,192)	-	(13,102)	(4,572)	(11,739)	(16,563)
Other expenses		(701,959)	(763,857)	(2,329)	(704,151)	(708,623)	(660,224)	(665,048)
Surplus attributable to participants before taxation		-	285,049	1,351	-	459,516	-	-
Tax expense attributable to participants	26	-	7,588	629	8,217	(11,960)	-	(14,852)
Surplus distributed to participants	12(i)	-	(4,776)	(4,507)	(9,283)	(12,836)	-	(12,836)
Net surplus attributable to participants		-	(287,861)	2,527	(285,090)	(434,720)	-	(439,539)
Profit before zakat and taxation		86,429	-	-	86,429	-	69,636	69,636
Zakat		(2,621)	-	-	(2,621)	-	(2,310)	(2,310)
Tax expense	26	(16,483)	-	-	(16,483)	-	(12,785)	(12,785)
Net profit for the year		67,325	-	-	67,325	-	54,541	54,541

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2018 (continued)

	← 2018 →			← 2017 →		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Net profit for the year attributable to owners of the Company	67,325	-	-	54,541	-	-
Items that will not be reclassified subsequently to profit or loss						
Revaluation of property and equipment	2,533	-	-	-	-	-
Tax effects thereon	(608)	-	-	-	-	-
	1,925	-	-	-	-	-
Total other comprehensive income for the year, net of tax	1,925	-	-	-	-	-
Total comprehensive income for the year attributable to owners of the Company	69,250	-	-	54,541	-	-

The accompanying notes on pages 34 to 107 form an integral part of the financial statements.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

Statement of changes in equity for the financial year ended 31 December 2018

	Non-distributable			Distributable				Total equity
	Capital			Retained earnings				
	Takaful operator Share capital (Note 11)	Share premium	Revaluation reserves	Takaful operator	Family takaful fund	General takaful fund	Company	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2017	58,824	41,176	-	153,925	-	-	153,925	253,925
Net profit and total comprehensive income for the year	-	-	-	54,541	-	-	54,541	54,541
At 31 December 2017/1 January 2018	58,824	41,176	-	208,466	-	-	208,466	308,466
Net profit and total comprehensive income for the year	-	-	1,925	67,325	-	-	67,325	69,250
Transfer in accordance with Section 618 (2) of the Companies Act 2016	41,176	(41,176)	-	-	-	-	-	-
At 31 December 2018	100,000	-	1,925	275,791	-	-	275,791	377,716

The accompanying notes on pages 34 to 107 form an integral part of the financial statements.

**Statement of cash flows for the financial year ended
31 December 2018**

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
Profit before zakat and taxation		86,429	69,636
Adjustments for:			
Depreciation on property and equipment	3	4,192	3,648
Intangible assets and property and equipment written off	3,4	2,155	-
Reversal of provisions of intangible assets and property and equipment	3,4	1,760	-
Amortisation of intangible assets	4	7,045	3,391
Investment income	19	(70,586)	(57,840)
Realised losses/(gains) on disposal of investments	20	8,982	(6,199)
Fair value losses/(gains) on investments	21	128,787	(99,588)
Gains on disposal of property and equipment	22(i)	(76)	(48)
Increase in provision for wakalah fee	14	11,003	1,444
Profit/(Loss) from operations before changes in operating assets and liabilities		179,691	(85,556)
(Decrease)/Increase in general takaful fund		(13,781)	5,030
Increase in family takaful fund		288,179	436,187
Decrease/(Increase) in retakaful asset		6,240	(6,444)
Decrease in takaful receivables		59	12
Increase in trade and other receivables		(5,883)	(2,755)
(Decrease)/Increase in takaful contract liabilities		(1,344)	17,113
(Decrease)/Increase in takaful payables		(7,412)	5,724
Increase in trade and other payables		42,827	54,266
Tax paid		(20,826)	(6,526)
Net cash generated from operating activities		467,750	417,051
Cash flows from investing activities			
Investment in intangible asset	4	(48,349)	(15,440)
Investment income received		69,643	54,602
Proceeds from maturity/disposal of investments	5(b)	16,459,394	12,148,243
Proceeds from disposal of property and equipment	3	465	87
Purchase of property and equipment	3	(16,571)	(9,742)
Purchase of investments	5(b)	(16,747,104)	(12,520,106)
Net cash used in investing activities		(282,522)	(342,356)
Net increase in cash and cash equivalents		185,228	74,695
Cash and cash equivalents at 1 January		269,039	194,344
Cash and cash equivalents at 31 December		454,267	269,039
Cash and cash equivalents comprise:			
Cash and bank balances			
- Takaful operator	10	78,804	51,038
- Family takaful fund	10	368,350	190,991
- General takaful fund	10	7,113	27,010
		454,267	269,039

The accompanying notes on pages 34 to 107 form an integral part of the financial statements.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

34

Notes to the financial statements

Prudential BSN Takaful Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company are as follows:

Level 8A, Menara Prudential
No. 10, Jalan Sultan Ismail
50250 Kuala Lumpur

The financial statements of the Company as at and for the financial year ended 31 December 2018 do not include other entities.

The Company is principally engaged in the underwriting of family takaful business which includes investment-linked business and investment of funds. The Company completed the transfer of its general takaful business to Syarikat Takaful Malaysia Am Berhad (Company No. 1246486-D) on 30 September 2018 and was issued a license by the Minister of Finance to carry on the family takaful business from 3 July 2018 onwards. Other than the transfer of general takaful business, there has been no significant change in the principal activities during the financial year.

The Company is a subsidiary of Bank Simpanan Nasional, a bank incorporated under the Bank Simpanan Nasional Act, 1974 and domiciled in Malaysia.

The financial statements were authorised for issue by the Board of Directors on 14 February 2019.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the requirements of Companies Act, 2016.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- (i) MFRS 16, *Leases*
- (ii) IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- (iii) Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- (iv) Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- (v) Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- (vi) Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- (vii) Amendments to MFRS 119, *Employee Benefits - Plan Amendment, Curtailment or Settlement*

1. Basis of preparation (continued)**(a) Statement of compliance (continued)*****MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019 (continued)***

- (viii) Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- (ix) Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- (i) Amendments to MFRS 3, *Business Combination – Definition of a Business*
- (ii) Amendments to MFRS 101, *Presentation of Financial Statements and MFRS 108, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- (i) MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- (i) Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- (i) from the annual period beginning on 1 January 2019 for those accounting standard that is effective for annual periods beginning on or after 1 January 2019, except for amendments to MFRS 3, MFRS 9, MFRS 11, MFRS 119, MFRS 123 and MFRS 128 which are not applicable to the Company.
- (ii) from the annual period beginning on 1 January 2020 for the accounting standard that is effective for annual periods beginning on or after 1 January 2020, except for amendments to MFRS 3 which are not applicable to the Company.
- (iii) from the annual period beginning on 1 January 2021 for the accounting standard that is effective for annual periods beginning on or after 1 January 2021.

MFRS 9, Financial Instruments

The Company has elected to apply the temporary exemption from MFRS 9 that permits, but does not require, the Company to apply MFRS 139, *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for its annual periods beginning before 1 January 2021. An insurer may apply the temporary exemption from MFRS 9 if:

- (i) it has not previously applied any version of MFRS 9 before; and
- (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

36

1. Basis of preparation (continued)

MFRS 9, *Financial Instruments* (continued)

The Company has not adopted MFRS 9 as of the date of this financial statements. The Company has performed an assessment and concluded that it qualifies for the temporary exemption from MFRS 9 under the Amendments to MFRS 4, as the majority of its liabilities are primarily related to the underwriting of the family takaful business. The percentage of the total carrying amount of the Company's liabilities connected with insurance relative to the total carrying amount of its liabilities is approximately 90%.

Based on the initial assessment undertaken by the Company, the following are the designation and valuation of the financial assets if MFRS 9 was adopted at the end of the reporting period. The estimated impact on initial application is based on assessment undertaken to date and the actual impacts of adopting the standard may change.

For the financial assets measured at FVTPL, the changes in fair value during the year is disclosed in Note 5(b) of the financial statements. As for the financial assets measured at amortised cost, the carrying value approximates its fair value.

	New classification under MFRS 9	Carrying amounts 1.1.2018 RM'000	Carrying amounts 31.12.2017 RM'000	Changes in carrying amounts RM'000
Investments				
Malaysian government securities	Fair value through profit and loss (FVTPL)	209,682	209,682	-
Islamic debt securities	FVTPL	1,093,374	1,093,374	-
Equity securities	FVTPL	1,020,760	1,020,760	-
Unit and property trust funds	FVTPL	101,531	101,531	-
Deposits with financial institutions	Amortised Cost	222,864	222,864	-
Retakaful and takaful receivables				
Trade and other receivables	Amortised Cost	21,583	21,583	-
Cash and cash equivalents	Amortised Cost	43,378	43,378	-
Total financial assets		2,982,211	2,982,211	-

MFRS 16, *Leases*

MFRS 16 replaces the guidance in MFRS 117, Leases, IC Interpretation 4, Determining whether an Arrangement contains a Lease, IC Interpretation 115, Operating Leases - Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The Company has completed a detailed assessment of the impact on its financial statements. No significant impact is expected on initial adoption as of 1 January 2019.

1. Basis of preparation (continued)**MFRS 17, Insurance Contracts**

MFRS 17 was issued by MASB in August 2017. The standard will replace the existing MFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. The Company is currently assessing the financial impact of adopting MFRS 17.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- (i) Note 2(f) and Note 26 - Income tax
- (ii) Note 2(i) - Impairment
- (iii) Note 2(m) - Provision for wakalah fee/ISA and PUA financing
- (iv) Note 2(s)(iii) - Provision for outstanding claims
- (v) Note 2(t)(iii) and (iv) - Provision for outstanding claims and actuarial reserves

(e) Changes in accounting policies

During the year, the Company had changed the basis of measurement of items of property from at cost less any accumulated depreciation and any accumulated impairment losses to revalued amount as disclosed in note 2(a)(i).

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other operating income" and "other operating expenses" respectively in profit or loss.

The Company adopted the revaluation model for property comprising land and building during the financial year. The Company revalues its property comprising land and building every three years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

The revalued amounts of property are determined by using the Comparison Method. The Comparison Method entails comparing the property with comparable property which have been sold/let or are being offered for sale/to let and making adjustments for factors which affect value such as location and accessibility, market conditions, size and restriction if any and other relevant characteristics.

Valuation of property involves a degree of judgement before arriving at the respective property's revalued amount.

As such, the revalued amount of the property may be different from its actual market price. Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is recognised in profit or loss.

2. Significant accounting policies (continued)**(a) Property and equipment (continued)****(ii) Subsequent costs**

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Property and equipment that are work-in-progress are not depreciated until the assets are ready for their intended use. The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over lease period
Building	50 years
Renovation	10 years or over lease period
Motor vehicles	5 years
Computer equipment	3 years
Office equipment, furniture and fittings	10 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period, and adjusted as appropriate.

(b) Intangible assets**(i) Other intangible assets**

Intangible assets that are acquired or software developed other than purchased software as disclosed in note 2(a)(i), which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

2. Significant accounting policies (continued)

(b) Intangible assets (continued)

(iii) Amortisation

Other intangible assets are amortised from the date that they are available for use. Amortisation is based on cost of an assets less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the current periods are as follows:

Software development cost and computer software	3 - 10 years
---	--------------

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

(c) Leased assets

(i) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Leasehold land which in substance is a finance lease is classified as property and equipment.

(ii) Operating lease

Leases, where the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

2. Significant accounting policies (continued)

(d) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

• ***Financial assets at fair value through profit or loss***

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

• ***Receivables, excluding takaful receivables***

Receivables category comprises debt instruments that are not quoted in an active market.

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

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

• ***Takaful receivables***

Takaful receivables are subsequently measured at amortised cost using the effective profit method.

Takaful receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(d)(iv), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(i)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at cost.

Financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

2. Significant accounting policies (continued)**(d) Financial instruments (continued)****(iii) Regular way purchase or sale of financial assets**

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- the recognition of an asset to be received and the liability to pay for it on the trade date, and
- derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all of the risks and rewards of ownership of the financial asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligations specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Retakaful

The family takaful and general takaful funds (the fund) cedes takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's policies and are in accordance with the related retakaful contracts.

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

2. Significant accounting policies (continued)

(e) Retakaful (continued)

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 fund 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 fund will receive from the retakaful operator. The allowance for impairment loss is accounted 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.

Contributions and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the ceded retakaful business. Retakaful liabilities represent balances due to retakaful operators. 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 expired 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 an explicit identified contribution or fee to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective profit method when accrued.

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

2. Significant accounting policies (continued)

(f) Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax liability is recognised for all taxable temporary differences.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(g) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments. It excludes deposits which are held for investment purpose.

(h) Qard receivable

Any deficits arising in the Takaful funds are made good via a benevolent loan, or Qard, granted by the takaful operator to the Takaful funds. The Qard receivable is stated at cost less any allowance for impairment loss. The Qard shall be repaid from future surpluses of the Takaful funds.

Qard receivable is eliminated in preparing the Company's statement of financial position. There were no outstanding Qard as at 31 December 2017 and 2018.

(i) Impairment

(i) Financial assets

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

Allowance for impairment loss in respect of receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Financial assets (continued)

For takaful receivables, an objective evidence of impairment is deemed to exist where the principal or interest or both for takaful receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Takaful Operators issued by BNM.

For trade receivables in relation to financing for ISA and PUA (Note 2(m)(ii)) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the expected collectability of the receivable. Allowance for impairment loss is recognised on trade receivables that are related to financing of lapsed certificates. Allowance for impairment loss on the trade receivables that are related to in-force certificates is determined by using an estimated lapse ratio and is included within the provision for wakalah fee as disclosed in Note 2 (m)(ii).

(ii) Other assets

The carrying amounts of other assets (except for deferred tax asset and Qard receivable) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (group of cash-generating units) and then to reduce the carrying amount of the other assets in the cash-generating unit (groups of cash-generating units) on a pro-rata basis.

2. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Other assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(iii) Qard receivable

The Qard receivable is tested for impairment at each reporting period via an assessment of the estimated surpluses or cash flows from the Takaful funds to determine whether there is objective evidence of impairment. If the Qard receivable is impaired, an amount comprising the difference between its cost and its recoverable amount, less any impairment loss previously recognised in profit or loss, is recognised in profit or loss.

Impairment losses are subsequently reversed in profit or loss if objective evidence exists that the Qard receivable is no longer impaired.

(j) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Distributions of assets to owners of the Company

The Company measures a liability to distribute assets as a dividend to the owners of the Company at the fair value of the assets to be distributed. The carrying amount of the dividend is remeasured at each reporting period and at the settlement date, with any changes recognised directly in equity as adjustments to the amount of the distribution. On settlement of the transaction, the Company recognises the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the liability in profit or loss.

2. Significant accounting policies (continued)**(k) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(l) Employee benefits**(i) Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The Company's contributions to statutory pension funds 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.

(iii) Long-term employee benefits

Long-term employee benefit obligations in respect of long-term incentives given to management staff and above are based on certain criteria set by the Company.

A liability is recognised for the amount expected to be paid under long-term benefit plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based plan

A cash-settled share-based payment to participating employees, in which the settlement value is based on the higher of share price of an affiliated company or value of a Shariah compliant equity fund, are measured on a fair-value basis.

A liability is recognised for the amount expected to be paid based on the fair value of the equity fund or the investment instrument, over the period that the employees become entitled to the reward.

2. Significant accounting policies (continued)

(m) Provision for wakalah fee/ISA and PUA financing

(i) Provision for wakalah fee

A provision is made to record certain future expected losses, if any, to the takaful operator arising from servicing of individual certificate contracts with participants.

- **Single contribution products**

Provision is estimated based on actuarial present value of future maintenance expense.

- **Other products**

Provision is estimated based on discounted future net cash flows to the takaful operator using an actuarial method used for non-unit reserving called sterling reserves methodology.

The assumptions used are consistent with that used in the valuation of tabarru' fund and the takaful operator expense assumptions are based on the Company's experience study.

(ii) Financing for Individual Special Account (ISA) and Protection Unit Account (PUA)

The Company provides financing (trade receivables as disclosed in Note 9) to participants to settle outstanding tabarru' charges to the family takaful fund for amounts which are in shortfall in each participant's ISA and PUA fund. These trade receivables are subject to impairment assessment as described in Note 2 (i)(i).

(n) Fair value measurements

Fair value of an asset or liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(o) Takaful, trade and other payables

Takaful, trade and other payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective profit method.

2. Significant accounting policies (continued)**(p) Wakalah fee, surplus transfer, management expenses and commission expenses**

In accordance with the principles of Wakalah, as approved by the Company's SC, and agreed between the participants and the Company, wakalah fee comprises the following:

- (i) upfront wakalah fee;
- (ii) risk management wakalah fee;
- (iii) service charge;
- (iv) investment management fee;
- (v) top up fee; and
- (vi) switching fee.

The upfront wakalah fee is charged at the pre-agreed percentage and deducted from the gross contribution received for the services rendered by takaful operator in managing the Takaful funds. This fee is used to cover the management expenses and commission expenses incurred on behalf of the family and general takaful funds.

Risk management wakalah fee is accrued by the takaful operator as a proportion of tabarru' charges payable to the tabarru' fund by participants for certificates underwritten prior to the implementation of Bank Negara Malaysia's guidelines on Takaful Operating Framework (TOF). Risk management wakalah fee is incurred by the tabarru' fund as a recognition of work undertaken by the takaful operator to administer the tabarru' fund on behalf of participants. This fee can be used to cover any deficit position in tabarru' fund and shall only be recognised by the takaful operator subsequent to the recommendation by the Appointed Actuary and approval by the SC and the Board of Directors.

For certificates underwritten after the implementation of TOF, the takaful operator shall be entitled to surplus transfer from the corresponding tabarru' fund and this shall be limited to a maximum of 50 percent of the distributable surplus of each corresponding fund. This shall only be recognised as surplus by the takaful operator subsequent to the recommendation by the Appointed Actuary and approval by the SC and the Board of Directors.

Service charge is credited to the takaful operator by unit deduction for unit-linked certificates, and contribution deduction from participant's account (Individual Saving Account) for non-linked certificates. Service charge is accrued by the takaful operator to cover certificate servicing expenses.

Investment management fee is credited to the takaful operator at agreed rate on the daily net asset value for unit-linked certificates. For non-linked certificates and tabarru' funds, an agreed percentage of fund-under-management is used to compute the relevant investment management fee to the respective participant's account (ISA) and tabarru' fund. The investment management fee is accrued by the takaful operator to cover investment management expenses incurred on behalf of the different funds.

Collectively, wakalah fee is payable to takaful operator for various services rendered to participants by the takaful operator.

2. Significant accounting policies (continued)

(p) Wakalah fee, surplus transfer, management expenses and commission expenses (continued)

Management expenses are costs incurred in managing and administering the funds on behalf of the family and general takaful fund.

Commission expenses, which are costs directly incurred in securing contributions on takaful certificates are recognised by the takaful operator as incurred and properly allocated to the periods in which it is probable they give rise to income.

(q) Other revenue recognition

Investment income is recognised on a time proportion basis that takes into account the effective profit of the asset.

(r) Zakat

This represents tithes payable by the Company to comply with the Principles of Shariah and as approved by the SC of the Company. Total zakat payable is calculated based on 2.5% of current assets method.

(s) General takaful fund

The general takaful fund is maintained in accordance with the Islamic Financial Services Act, 2013 and consists of unearned contribution reserves and accumulated surplus/deficit. Any actuarial deficit in the general takaful fund will be made good by the takaful operator via a benevolent loan or Qard. Surplus is distributable in accordance with the terms and conditions prescribed by the SC of the Company.

The general takaful underwriting results are determined for each class of takaful business after taking into account retakaful, unearned contributions and claims incurred.

(i) Contribution income

Contributions are recognised in a financial period in respect of risks assumed during that particular financial period based on the inception date. Outward retakaful contributions are recognised in the same accounting period as the original certificate to which the retakaful relates.

(ii) Unearned contribution reserves

The unearned contribution reserves (UCR) represent the portion of the net contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year.

In determining the UCR at the reporting date, the method that most accurately reflects the actual unearned contributions is used which is based on 1/365th method for all general takaful business within Malaysia. This is reduced by deductions as a corresponding percentage of accounted gross direct refundable business commissions but not exceeding limits specified by BNM.

2. Significant accounting policies (continued)**(s) General takaful fund (continued)****(ii) Unearned contribution reserves (continued)**

At each reporting date, the Company reviews its unexpired risks to determine whether there is any overall excess of expected claims over unearned contributions. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general takaful technical provisions. If these estimates show that the carrying amount of the unearned contributions less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

(iii) Provision for outstanding claims

A liability for outstanding claims is recognised in respect of direct takaful business. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries, if any, to settle the present obligation at the reporting date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported (IBNR) at reporting date, using a mathematical method of estimation by a qualified actuary of the Company.

Provision for IBNR is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

2. Significant accounting policies (continued)

(t) Family takaful fund

The family takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and includes actuarial liabilities, seed money (where applicable) and participants' account.

The participants' account consists of the accumulated surplus attributable to the participants determined by an annual actuarial valuation of the family takaful fund's unallocated surplus by a qualified actuary appointed by the Company, net asset value attributable to unitholders and other reserves, as applicable. Any actuarial deficit in the tabarru' fund will be made good by the takaful operator via a benevolent loan or Qard. Surplus distributable to participants is determined after deducting claims/benefits paid and payable, retakaful, provisions, reserves, as well as repayment of Qard, if any, and distributed in accordance with the terms and conditions prescribed by the SC of the Company.

(i) Contribution income

Contribution is recognised as soon as the amount of the contribution can be reliably measured.

• ***Investment-linked business***

First contribution income is recognised on the assumption of risk and subsequent contributions are recognised on a cash basis. Subsequent risk is assumed based on sufficiency of units of the participant.

• ***Non-linked business***

First contribution income is recognised from inception date and subsequent contributions are recognised on a cash basis. At the end of the financial year, all due contributions are accounted for to the extent that they can be reliably measured.

(ii) Investment-linked business

Investments of investment-linked business are stated at closing market prices. Any increase or decrease in value of these investments is taken into profit or loss of the investment-linked business.

2. Significant accounting policies (continued)

(t) Family takaful fund (continued)

(iii) Provision for outstanding claims

A liability for outstanding claims is recognised when a claimable event occurs and/or the Company is notified.

Claims and provisions for claims arising from 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 family takaful certificates are recognised as follows:

- maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates.
- death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the participant or occurrence of contingency covered.
- for individual family takaful business, provision for mortality IBNR claims is made at statement of financial position date. The ultimate cost of outstanding claims is estimated by using Chain Ladder method, a standard actuarial claims projection technique and is subsequently signed-off by a qualified actuary of the Company. Similarly, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

(iv) Actuarial reserves

The actuarial liability for the investment-linked products and non-investment-linked products is calculated using the discounted cash flow method to ensure that any future negative cash flow resulting from insufficient tabarru' charges to meet expected benefit outgo are eliminated.

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

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits less the present value of future gross contributions arising from the certificate discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of liabilities. For Family Takaful Fund with liability of surrender benefit, the higher of surrender benefit inforce and liabilities are kept as actuarial reserves.

2. Significant accounting policies (continued)

(t) Family takaful fund (continued)

(iv) Actuarial reserves (continued)

In the case of a family certificate where a part of, or the whole of the contributions are accumulated in a fund, the accumulated amount, as declared to the participants, are set as the liabilities. Zerorisation is applied at certificate level and no certificate is treated as an asset under the valuation method adopted.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originated from margins of adverse deviations on run-off contracts, are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

The liability is derecognised when the contract expires, is discharged or is cancelled. At each reporting date, an assessment is made on whether the recognised family takaful liabilities are adequate by using an existing liability adequacy test.

Any inadequacy is recorded in profit or loss by establishing technical reserves for the loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

As with all projections, there are elements of uncertainty and thus the projected liabilities may be different from its actual liabilities due to the significant level of uncertainty involved in the discount rate used as well as mortality and morbidity assumptions.

(v) Provision for Expense Overrun

A liability is recognised when maintenance expense overrun higher than budgeted. The Expense Overrun Provision is derecognised when expense overrun is closer to budgeted.

(u) Product classification

The family takaful fund and general takaful fund consist of contracts that transfer takaful risk and financial risk.

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

Takaful contracts are those contracts that transfer significant takaful risk. A takaful contract is a contract under which the fund has accepted significant takaful risk from another party (the certificate holders) by agreeing to compensate participants if a specified uncertain future event (the claimable event) adversely affects the participants. As a general guideline, to determine whether a contract has significant takaful risk, benefits paid are compared with benefits payable if the insured event did not occur.

2. Significant accounting policies (continued)

(u) Product classification (continued)

Investment contracts are those contracts that do not transfer significant takaful risk. There are no contracts that are classified as investment contracts in the family and general takaful funds.

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.

Takaful contracts in the current portfolio are classified as being without discretionary participation features (DPF) as it does not satisfy the criteria for DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- (i) that are likely to be a significant portion of the total contractual benefits;
- (ii) whose amount or timing is contractually at the discretion of the issuer; and
- (iii) that are contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the fund.

(v) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the Company's functional currencies at exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the reporting date, except for those that are measured at fair value that are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss.

2. Significant accounting policies (continued)

(w) Fair value measurements

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

3. Property and equipment Takaful operator and Company

	Note	Leasehold land RM'000	Building RM'000	Renovation RM'000	Motor Vehicles RM'000	Computer Equipment RM'000	Office equipment, furniture and fittings RM'000	Capital Work-in- progress RM'000	Total RM'000
Cost									
At 1 January 2017		1,078	2,965	13,362	2,229	5,234	3,385	826	29,079
Additions for the year		-	-	2,588	330	2,780	172	3,872	9,742
Disposals		-	-	(454)	(270)	(5)	(60)	-	(789)
Capitalisation		-	-	1,306	-	-	-	(1,306)	-
At 31 December 2017/		1,078	2,965	16,802	2,289	8,009	3,497	3,392	38,032
1 January 2018		-	-	132	400	348	566	15,125	16,571
Additions for the year		-	-	-	(1,042)	-	(16)	-	(1,058)
Disposals		-	-	-	-	(1,569)	-	-	(1,569)
Transfer to intangible assets	4	-	-	-	-	-	-	(194)	(194)
Property and equipment written off		-	-	-	-	-	-	(1,233)	(1,233)
Reversal of provisions		-	-	-	-	-	-	(259)	-
Capitalisation		-	-	259	-	-	-	(259)	-
Revaluation of PPE		442	1,215	-	-	-	-	-	1,657
At 31 December 2018		1,520	4,180	17,193	1,647	6,788	4,047	16,831	52,206
Accumulated depreciation									
At 1 January 2017		201	515	8,954	806	4,215	1,483	-	16,174
Charge for the year	24	22	59	1,982	427	832	326	-	3,648
Disposals		-	-	(440)	(270)	(5)	(35)	-	(750)
At 31 December 2017/		223	574	10,496	963	5,042	1,774	-	19,072
1 January 2018		21	58	2,282	403	1,068	360	-	4,192
Charge for the year	24	-	-	-	-	(1,555)	-	-	(1,555)
Transfer to intangible assets	4	-	-	-	(659)	-	(10)	-	(669)
Disposals		-	-	-	-	-	-	-	-
Offset of accumulated depreciation on revaluation		(244)	(632)	-	-	-	-	-	(876)
At 31 December 2018		-	-	12,778	707	4,555	2,124	-	20,164
Carrying amounts									
At 1 January 2017		877	2,450	4,408	1,423	1,019	1,902	826	12,905
At 31 December 2017/		855	2,391	6,306	1,326	2,967	1,723	3,392	18,960
1 January 2018		1,520	4,180	4,415	940	2,233	1,923	16,831	32,042
At 31 December 2018		1,520	4,180	4,415	940	2,233	1,923	16,831	32,042

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

59

4. Intangible assets

	Note	Computer software RM'000	Capital Work-in-progress RM'000	Total RM'000
Takaful operator and Company				
Cost				
At 1 January 2017		32,382	9,697	42,079
Additions		7,660	7,780	15,440
Capitalisation		2,916	(2,916)	-
At 31 December 2017/1 January 2018		42,958	14,561	57,519
Additions for the year		9,301	39,048	48,349
Capitalisation		25,898	(25,898)	-
Transfer from computer equipment	3	1,569	-	1,569
Intangible assets written off		-	(1,961)	(1,961)
Reversal of provisions		-	(527)	(527)
At 31 December 2018		79,726	25,223	104,949
Accumulated amortisation				
At 1 January 2017		16,644	-	16,644
Amortisation for the year	24	3,391	-	3,391
At 31 December 2017/1 January 2018		20,035	-	20,035
Amortisation for the year	24	7,045	-	7,045
Transfer from computer equipment	3	1,555	-	1,555
At 31 December 2018		28,635	-	28,635
Carrying amounts				
At 1 January 2017		15,738	9,697	25,435
At 31 December 2017/1 January 2018		22,923	14,561	37,484
At 31 December 2018		51,091	25,223	76,314

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

5. Investments

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Malaysian government investment issue	3,287	186,912	-	3,310	206,372	-
Islamic debts securities	148,478	1,055,823	-	138,175	955,199	-
Equity securities	-	1,100,123	-	-	1,020,760	-
Unit trust funds	55,004	49,333	-	53,050	48,481	-
Deposits with financial institutions	88,188	111,004	-	69,865	152,999	-
Investment-linked funds	1,688	-	-	1,711	-	-
	<u>296,645</u>	<u>2,503,195</u>	<u>-</u>	<u>266,111</u>	<u>2,383,811</u>	<u>-</u>
						<u>2,648,211</u>

(a) The Company's financial investments are summarised by categories as follows:

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Receivables						
- Deposits with financial institutions	88,188	111,004	-	69,865	152,999	-
Fair value through profit or loss						
- Held-for-trading						
Malaysian government investment issue	3,287	186,912	-	3,310	206,372	-
Islamic debts securities	148,478	1,055,823	-	138,175	955,199	-
Equity securities	-	1,100,123	-	-	1,020,760	-
Unit trust funds	55,004	49,333	-	53,050	48,481	-
Investment-linked funds	1,688	-	-	1,711	-	-
	<u>208,457</u>	<u>2,392,191</u>	<u>-</u>	<u>196,246</u>	<u>2,230,812</u>	<u>-</u>
						<u>2,425,347</u>
	<u>296,645</u>	<u>2,503,195</u>	<u>-</u>	<u>266,111</u>	<u>2,383,811</u>	<u>-</u>
						<u>2,648,211</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

5. Investments (continued)

(b) Carrying values of financial investments are as follows:

Company	Note	Receivables RM'000	FVTPL RM'000	Total RM'000
At 1 January 2017		172,079	1,998,482	2,170,561
Purchases		11,890,580	629,526	12,520,106
Maturities/disposals		(11,839,795)	(302,249)	(12,142,044)
Fair value gains recognised in profit or loss	21	-	99,588	99,588
At 31 December 2017/1 January 2018		222,864	2,425,347	2,648,211
Purchases		16,001,842	745,262	16,747,104
Maturities/disposals		(16,025,514)	(442,862)	(16,468,376)
Fair value losses recognised in profit or loss	21	-	(128,787)	(128,787)
At 31 December 2018		199,192	2,598,960	2,798,152

6. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) presented after appropriate offsetting are as follows:

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Deferred tax assets	-	-	-	28	-	28
Deferred tax liabilities	(787)	(1,160)	-	-	(11,532)	(11,532)
	(787)	(1,160)	-	28	(11,532)	(11,504)

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

6. Deferred tax assets/(liabilities) (continued)

Movement in recognised temporary differences during the year:

	At 1.1.2017 RM'000	Recognised in profit or loss RM'000	At 31.12.2017/ 1.1.2018 RM'000	Recognised in profit or loss RM'000	Recognised in other comprehensive Income RM'000	At 31.12.2018 RM'000
Takaful operator						
Property and equipments	-	-	-	-	(608)	(608)
Provisions	151	54	205	(52)	-	153
Fair value losses/(gains)	71	(248)	(177)	(155)	-	(332)
Others	523	(523)	-	-	-	-
	745	(717)	28	(207)	(608)	(787)
Family takaful fund						
Fair value (gains)/losses	(3,774)	(7,758)	(11,532)	10,372	-	(1,160)
	(3,774)	(7,758)	(11,532)	10,372	-	(1,160)
General takaful						
Others	65	(65)	-	-	-	-
	65	(65)	-	-	-	-
Company						
Property and equipments	-	-	-	-	(608)	(608)
Provisions	151	54	205	(52)	-	153
Fair value (gains)/losses	(3,703)	(8,006)	(11,709)	10,217	-	(1,492)
Others	588	(588)	-	-	-	-
	(2,964)	(8,540)	(11,504)	10,165	(608)	(1,947)

Note

26

26

26

7. Retakaful assets

Note	2018		2017	
	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Family takaful fund RM'000
Retakaful for actuarial liabilities	2,080	-	2,080	1,785
Retakaful for takaful contract liabilities	13,204	-	13,204	19,692
	15,284	-	15,284	21,477
				47
				47
				1,785
				19,739
				21,524

8. Takaful receivables

	2018		2017	
	General takaful fund RM'000	Company RM'000	General takaful fund RM'000	Company RM'000
Due contributions including agents balances	-	-	66	66
Less: Allowance for impairment loss	-	-	(7)	(7)
	-	-	59	59
Due from retakaful and cedants	-	-	519	519
Less: Allowance for impairment loss	-	-	(519)	(519)
	-	-	-	-
	-	-	59	59

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

9. Trade and other receivables

Note	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Trade receivables						
Due contributions	27,121	-	-	20,117	-	-
Less: Allowance for impairment loss	(9,427)	-	(9,427)	(6,795)	-	(6,795)
	17,694	-	17,694	13,322	-	13,322
Other receivables	12,065	1,404	10	11,601	288	79
Income due and accrued	1,764	17,267	-	1,464	16,624	-
Amount due from family takaful fund	174,219	-	-	131,177	-	-
Amount due from general takaful fund	1,866	-	-	3,546	-	-
	207,608	18,671	10	161,110	16,912	79
			50,204			43,378

The amounts due from general takaful fund and family takaful fund are unsecured, free of rate of return and are repayable on demand.

Offsetting of financial assets and financial liabilities

As at the end of the current financial year, the Company has no financial assets and liabilities that have been set off (2017: Nil).

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

65

10. Cash and cash equivalents

	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
2018				
Cash and bank balances	13,827	39,252	1,671	54,750
Fixed and call deposits with licensed financial institutions with maturity less than three months	64,977	329,098	5,442	399,517
	<u>78,804</u>	<u>368,350</u>	<u>7,113</u>	<u>454,267</u>
2017				
Cash and bank balances	5,915	35,228	1,379	42,522
Fixed and call deposits with licensed financial institutions with maturity less than three months	45,123	155,763	25,631	226,517
	<u>51,038</u>	<u>190,991</u>	<u>27,010</u>	<u>269,039</u>

11. Capital

	← 2018 →		← 2017 →	
	Number of shares	Amount RM'000	Number of shares	Amount RM'000
Takaful operator				
Issued and fully paid shares classified as equity instruments:				
Ordinary shares				
At 1 January	58,823,530	58,824	58,823,530	58,824
Transfer from share premium account in accordance with Section 618 (2) of the Companies Act 2016		41,176		-
Share Premium		-		41,176
At 31 December		<u>100,000</u>		<u>100,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

In accordance with Section 618 of Companies Act 2016, any amount standing to the credit of the share premium account has become part of the Company's share capital. The Company has twenty-four months upon the commencement of Companies Act 2016 on 31 January 2017 to utilise the credit in accordance with Section 618 (3) and (4) of Companies Act 2016 on or before 30 January 2019 (24 months from commencement of Section 74 of Companies Act 2016). As at the date of issuance of the financial statements, the Company did not utilise the share premium amounting to RM41,176,000.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

12. Participants' fund

(i) Family takaful fund

Family takaful fund at end of the year comprise the following:

	2018		2017	
	Gross RM'000	Retakaful (Note 7) RM'000	Gross RM'000	Retakaful (Note 7) RM'000
Actuarial liabilities	131,631	(2,080)	106,144	(1,785)
Seed money	1,688	-	1,711	-
Participants' account	2,468,794	-	2,206,102	-
	<u>2,602,113</u>	<u>(2,080)</u>	<u>2,313,957</u>	<u>(1,785)</u>
				<u>2,312,172</u>

The total participants' fund and its movements are analysed as follows:

	Note	2018		2017	
		Gross RM'000	Retakaful (Note 7) RM'000	Gross RM'000	Retakaful (Note 7) RM'000
Total participants' fund					
At 1 January		2,313,957	(1,785)	1,877,452	(4)
Gross earned contributions	17	1,751,541	(69,075)	1,569,527	(49,350)
Benefits and claims paid during the year	23	(605,471)	65,809	(520,765)	41,173
Experience variation		(10,001)	2,971	(27,862)	6,396
Fees deducted		(699,750)	-	(673,184)	-
Credit of profit or change in unit-prices		(90,825)	-	143,705	-
Surplus sharing to takaful operator		(60,150)	-	(30,120)	-
Profit paid to participants		(4,776)	-	(12,836)	-
Tax expense	26	7,588	-	(11,960)	-
		<u>2,602,113</u>	<u>(2,080)</u>	<u>2,313,957</u>	<u>(1,785)</u>
At 31 December					<u>2,312,172</u>

12. Participants' fund (continued)

(i) Family takaful fund (continued)

Valuation of actuarial liabilities

The liability for family takaful contracts is based on current assumptions, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, investment returns, expenses, lapse, surrender rates and discount rates. The mortality and morbidity assumptions are based on retakaful operators' tables adjusted when appropriate to reflect the unique risk exposure, product characteristics, target markets, own claims severity and frequency experiences. As the Company credible own experience is available, the mortality and morbidity assumptions will be re-assessed to be based on own experience.

Estimates are made as to future investment income arising from the assets backing family takaful contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments and allowing for future growth of the business, as appropriate. Expenses are borne by the takaful operator and do not affect the family takaful fund.

Lapse rate is based on the historical experience of lapses. Discount rate for liabilities accord a level of guarantee no less certain than that accorded by a Government Islamic Issue.

12. Participants' fund (continued)

Participants' fund at end of the year comprise the following:

	2018		2017	
	Gross RM'000	Retakaful (Note 7) RM'000	Gross RM'000	Retakaful (Note 7) RM'000
				Net RM'000
				Net RM'000
(ii) General takaful fund				
Participants account	-	-	13,781	-
At 1 January	13,781	-	13,781	-
Business transfer	(11,254)	-	(11,254)	-
Movement for the year	(2,527)	-	(2,527)	-
At 31 December	-	-	13,781	-

Note

35

(iii) Company

Actuarial liabilities	131,631	(2,080)	129,551	106,144	(1,785)	104,359
Participants account	2,468,794	-	2,468,794	2,219,883	-	2,219,883
	2,600,425	(2,080)	2,598,345	2,326,027	(1,785)	2,324,242

13. Takaful contract liabilities

(a) Family takaful fund

	2018		2017			
	Gross RM'000	Retakaful (Note 7) RM'000	Gross RM'000	Retakaful (Note 7) RM'000		
				Net RM'000		
				Net RM'000		
Provision for claims reported by participants	53,599	(13,204)	40,395	56,075	(19,692)	36,383
Provision for IBNR	25,792	-	25,792	22,774	-	22,774
Provision for outstanding claims	79,391	(13,204)	66,187	78,849	(19,692)	59,157
At 1 January	78,849	(19,692)	59,157	52,201	(14,514)	37,687
Claims incurred during the year	602,995	(59,321)	543,674	541,844	(46,351)	495,493
Benefits and claims paid during the year	(605,471)	65,809	(539,662)	(520,765)	41,173	(479,592)
Increase in IBNR	3,018	-	3,018	5,569	-	5,569
At 31 December	79,391	(13,204)	66,187	78,849	(19,692)	59,157

Note

23(a)

13. Takaful contract liabilities (continued)

(b) General takaful fund

	Note	2018		2017	
		Retakaful		Retakaful	
		Gross RM'000	Net RM'000	Gross RM'000	Net RM'000
Provision for claims reported by participants		72	72	203	203
Provision for IBNR		-	-	517	(39)
Provision for outstanding claims		72	72	720	(39)
Provision for unearned contributions		-	-	1,238	(8)
		72	72	1,958	(47)
(i) Provision for outstanding claims					
At 1 January		720	(39)	1,291	(554)
Claims incurred in the current accident year		220	(5)	1,766	(160)
Adjustment to claims incurred in prior accident years due to changes in assumptions		(503)	38	(503)	259
Claims paid during the year	23(b)	(326)	6	(1,834)	416
Business transfer - IBNR	35	(39)	-	-	-
At 31 December		72	72	720	(39)
(ii) Provision for unearned contributions					
At 1 January		1,238	(8)	10,202	(8)
Contributions written in the year		641	(1,667)	8,770	(2,521)
Contributions earned during the year		(1,255)	1,575	(5,684)	2,521
Business transfer		(215)	-	-	-
Contributions retained in participant account	35	-	-	(3,375)	-
Model and assumption update		(409)	-	(8,675)	-
At 31 December		-	-	1,238	(8)

13. Takaful contract liabilities (continued)**(b) General takaful fund (continued)****Valuation of general takaful contract liabilities**

As disclosed in Note 35, the Company has transferred its General Takaful business certificates to Syarikat Takaful Malaysia Am Berhad.

For general takaful contracts, estimates for prior year was made for both the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position's liability. The ultimate cost of outstanding claims was estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornheutter-Ferguson and Ultimate Loss Ratio methods.

The main assumption underlying these techniques was that past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development was mainly analysed by accident years as well as by significant business lines and claims type. Large claims were usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions were made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used were those implicit in the historical claims development data on which the projections were based.

Additional qualitative judgements were used to assess the extent to which past trends may not apply in future, for example, isolated occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, certificate features and claims handling procedures.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

13. Takaful contract liabilities (continued)

(c) Company

	2018		2017	
	Gross RM'000	Retakaful (Note 7) RM'000	Gross RM'000	Retakaful (Note 7) RM'000
Provision for claims reported by participants	53,671	(13,204)	56,278	(19,692)
Provision for IBNR	25,792	-	23,291	(39)
Provision for outstanding claims	79,463	(13,204)	79,569	(19,731)
Provision for unearned contributions	-	-	1,238	(8)
	<u>79,463</u>	<u>(13,204)</u>	<u>80,807</u>	<u>(19,739)</u>
				<u>61,068</u>
				<u>61,068</u>

14. Provision for wakalah fee

Takaful operator and Company

	Note	2018 RM'000	2017 RM'000
At 1 January		31,141	29,697
Increase during the year		11,003	1,444
Business transfer	35	(2,076)	-
At 31 December		<u>40,068</u>	<u>31,141</u>

Included in provision for wakalah fee is the allowance for impairment loss of trade receivables that are related to in-force certificates that is determined by using an estimated lapsed ratio.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

15. Takaful payables

	2018		2017	
	Family takaful fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General takaful fund RM'000
Amount due to retakaful operators and cedants	12,574	5	17,173	2,818
			Company RM'000	Company RM'000
			12,579	19,991

16. Trade and other payables

	2018		2017	
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Trade payables				
Commission payable	87,418	-	87,418	69,211
Other payables				
Amount due to affiliated companies	57,684	-	57,684	17,788
Other payables and accruals	125,084	32,718	162,824	107,326
Amount due to takaful operator	-	174,219	-	-
	182,768	206,937	220,508	125,114
	270,186	206,937	307,926	194,325
			186,745	5,837
			186,745	5,837
			182,973	182,973
			252,184	252,184

The amounts due to affiliated companies and takaful operator are unsecured, free of rate of return and are repayable on demand.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

17. Operating revenue

Note	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
18	701,616	-	-	676,898	-	-
Gross earned contributions	-	1,751,541	641	-	1,569,527	8,770
19	22,709	47,357	520	18,091	38,960	789
Investment income	724,325	1,798,898	1,161	694,989	1,608,487	9,559
			1,822,524			1,635,927

18. Wakalah fee income/(expenses)

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Upfront wakalah fee	579,877	(579,777)	(100)	562,443	(559,479)	(2,964)
Service charge	48,331	(48,331)	-	46,396	(46,396)	-
Investment management fee	17,073	(17,073)	-	13,709	(13,709)	-
Risk management wakalah fee	56,335	(56,334)	(1)	54,350	(54,347)	(3)
	701,616	(701,515)	(101)	676,898	(673,931)	(2,967)

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

19. Investment income

	2018			2017			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Dividend income	1,939	28,476	-	1,679	23,761	-	25,440
Profit income from:							
Malaysian government investment issue	135	7,995	-	135	8,255	-	8,390
Islamic debt securities	6,949	47,785	-	6,355	42,032	-	48,387
Deposits with financial institutions	5,223	13,127	861	3,407	7,989	1,135	12,531
Transfer from ISA and Tabarru' to takaful operator	12,067	(12,010)	(57)	11,006	(10,948)	(58)	-
Transfer to participants' fund	-	(37,939)	(284)	-	(32,055)	(288)	(32,343)
Investment expenses	(3,604)	(77)	-	(4,491)	(74)	-	(4,565)
	<u>22,709</u>	<u>47,357</u>	<u>520</u>	<u>18,091</u>	<u>38,960</u>	<u>789</u>	<u>57,840</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

20. Realised (losses)/gains

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Financial assets at FVTPL:						
Realised gains:						
Islamic debts securities	-	4	-	14	137	-
Equity securities	-	45,229	-	-	30,921	-
Unit trust funds	-	-	-	24	-	-
Realised losses:						
Islamic debts securities	(448)	(874)	-	(30)	(72)	-
Equity securities	-	(52,893)	-	-	(24,794)	-
Unit trust funds	-	-	-	-	(1)	-
	(448)	(8,534)	-	8	6,191	-
			(8,982)			6,199

21. Fair value (losses)/gains

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Financial assets at FVTPL	861	(129,648)	-	1,034	98,554	-
Note	5(b)		(128,787)			99,588

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

22. Other operating income/(expenses)

(i) Other operating income

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Gains on disposal of property and equipment	76	-	-	48	-	-
Refakaful surplus distribution	-	52	-	-	2,905	-
Others	1,196	3,905	2,921	161	2,414	-
	1,272	3,957	2,921	209	5,319	-

(ii) Other operating expenses

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
No claims bonus	(10,491)	-	-	(11,735)	-	-
Others	(419)	(2,192)	-	(4)	(4,572)	(252)
	(10,910)	(2,192)	-	(11,739)	(4,572)	(252)

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

77

23. Net benefits and claims

(a) Family takaful fund

	Note	2018 RM'000	2017 RM'000
Gross benefits and claims paid	13	605,471	520,765
Claims paid ceded to retakaful companies	13	(65,809)	(41,173)
Gross change in contract liabilities		542	26,648
Change in contract liabilities ceded to retakaful companies		6,488	(5,178)
Net benefits paid and payable		<u>546,692</u>	<u>501,062</u>

(b) General takaful fund

	Note	2018		
		Fire RM'000	Miscella- neous RM'000	Total RM'000
Gross claims paid less salvage	13	326	-	326
Retakaful recoveries	13	(6)	-	(6)
Net claims paid	13	<u>320</u>	<u>-</u>	<u>320</u>
Net outstanding claims:				
At end of the year		66	6	72
At beginning of the year		(462)	(219)	(681)
Business transfer - IBNR	35	39	-	39
Net claims incurred		<u>(37)</u>	<u>(213)</u>	<u>(250)</u>

	Note	2017		
		Fire RM'000	Miscella- neous RM'000	Total RM'000
Gross claims paid less salvage	13	953	881	1,834
Retakaful recoveries	13	(12)	(404)	(416)
Net claims paid	13	<u>941</u>	<u>477</u>	<u>1,418</u>
Net outstanding claims:				
At end of the year		462	219	681
At beginning of the year		(189)	(548)	(737)
Net claims incurred		<u>1,214</u>	<u>148</u>	<u>1,362</u>

(c) Company

	Note	2018 RM'000	2017 RM'000
Gross benefits and claims paid		605,797	522,599
Claims paid ceded to retakaful companies		(65,815)	(41,589)
Gross change in contract liabilities		(67)	26,077
Change in contract liabilities ceded to retakaful companies		6,488	(4,663)
Business transfer - IBNR	35	39	-
Net benefits paid and payable		<u>546,442</u>	<u>502,424</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

78

24. Management expenses

Takaful operator and Company

	Note	2018 RM'000	2017 RM'000
Management expenses		<u>323,618</u>	<u>309,028</u>
Management expenses for the year is arrived at after charging:			
Personnel expenses (including key management personnel)			
Salaries and bonus		71,849	74,835
Contributions to defined contribution plans		10,910	12,065
Other personnel expenses		<u>5,904</u>	<u>9,630</u>
		88,663	96,530
Audit related fees			
- Audit fee		520	496
- Non audit fee		102	132
Depreciation of property & equipments	3	4,192	3,648
Amortisation of intangible assets	4	7,045	3,391
Directors' fees and other remunerations	24(i)	542	569
Shariah Committees' fees and remunerations	24(ii)	251	249
Rental of office premises		3,749	3,877
Impairment loss on trade receivables		<u>2,632</u>	<u>3,370</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

79

24. Management expenses (continued)

	Note	2018 RM'000	2017 RM'000
Directors			
<i>Non-deferred remuneration</i>			
Fixed remuneration			
Fees		470	478
Other remuneration		72	91
	24(i)	<u>542</u>	<u>569</u>
Shariah Committee members			
<i>Non-deferred remuneration</i>			
Fixed remuneration			
Fees		184	186
Other remuneration		67	63
	24(ii)	<u>251</u>	<u>249</u>

(i) The total remuneration received by Directors during the financial year are as follows:

2018	Fees RM'000	Other remunerations RM'000	Total RM'000
Non-Executive Directors			
Datuk Yunos bin Abd Ghani	100	17	117
Mazidah binti Abdul Malik	122	19	141
Ezamshah bin Ismail	123	19	142
Md Tajuddin bin Md Isa	125	17	142
	<u>470</u>	<u>72</u>	<u>542</u>
2017			
Non-Executive Directors			
Dato' Ghazali bin Awang* ¹	109	11	120
Abdul Khalil bin Abdul Hamid* ²	53	26	79
Datuk Adinan bin Maning* ³	92	5	97
Datuk Yunos bin Abd Ghani	100	8	108
Mazidah binti Abdul Malik* ⁴	75	32	107
Ezamshah bin Ismail* ⁵	42	9	51
Md Tajuddin bin Md Isa* ⁶	7	-	7
	<u>478</u>	<u>91</u>	<u>569</u>

*1 Resigned w.e.f 15 November 2017

*2 Resigned w.e.f 13 July 2017

*3 Resigned w.e.f 30 November 2017

*4 Appointed w.e.f 1 April 2017

*5 Appointed w.e.f 1 August 2017

*6 Appointed w.e.f 11 December 2017

The total remuneration received by Directors during the financial year is fixed and non-deferral remuneration.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

80

24. Management expenses (continued)

(ii) The total remuneration received by SC members during the financial year are as follows:

2018	Fees RM'000	Other remunerations RM'000	Total RM'000
Shariah Committee members			
Dr. Mohd Fuad bin Md Sawari	33	11	44
Professor Dr. Saiful Azhar bin Rosly	28	10	38
Wan Rumaizi bin Wan Husin	30	12	42
Dr. Ahmad Zaki Salleh	30	11	41
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	30	11	41
Abdullaah bin Jalil	33	12	45
	<u>184</u>	<u>67</u>	<u>251</u>
2017			
Shariah Committee members			
Dr. Mohd Fuad bin Md Sawari	36	11	47
Professor Dr. Saiful Azhar bin Rosly	30	11	41
Wan Rumaizi bin Wan Husin	30	11	41
Dr. Ahmad Zaki Salleh	30	11	41
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	30	9	39
Abdullaah bin Jalil	30	10	40
	<u>186</u>	<u>63</u>	<u>249</u>

The total remuneration received by SC during the financial year is fixed remuneration and non-deferral remuneration.

25. Key management personnel compensation

The key management personnel compensation are as follows:

Takaful operator and Company

	2018 RM'000	2017 RM'000
Key management personnel		
<i>Non-deferred remuneration</i>		
Fixed remuneration		
Cash-based	6,453	6,053
Contributions to defined contribution plans	980	860
	<u>7,433</u>	<u>6,913</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

81

25. Key management personnel compensation (continued)

Key management personnel (continued)

	2018 RM'000	2017 RM'000
Variable remuneration		
Cash-based	2,736	3,683
Contributions to defined contribution plans	424	395
Others	422	605
	<u>3,582</u>	<u>4,683</u>
<i>Deferred remuneration</i>		
Variable remuneration		
Cash-based	5,048	2,944
Contributions to defined contribution plans	735	283
	<u>5,783</u>	<u>3,227</u>
	<u>16,798</u>	<u>14,823</u>
	2018	2017
Number of key management personnel receiving variable remuneration	<u>11</u>	<u>9</u>
	2018	2017
	RM'000	RM'000
Total amount outstanding deferred remuneration (unvested)		
Cash-based	<u>3,381</u>	<u>9,686</u>

None of the key management personnel receives guaranteed bonuses, sign-on awards and severance payment. The key management personnel's deferred remuneration is not exposed to explicit adjustments. The key management personnel's unvested deferred remuneration is subject to implicit adjustments on benchmarked share price of an affiliated company.

The total remuneration received by Chief Executive Officers (including benefits-in-kind) during the financial year is as follows:

	2018 RM'000	2017 RM'000
Chief Executive Officers		
<i>Non-deferred remuneration</i>		
Fixed remuneration		
Cash-based	927	1,279
Contributions to defined contribution plans	145	153
	<u>1,072</u>	<u>1,432</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

82

25. Key management personnel compensation (continued)

Key management personnel (continued)

	2018 RM'000	2017 RM'000
Chief Executive Officers (continued)		
Variable remuneration		
Cash-based	403	1,131
Contributions to defined contribution plans	62	-
Others	86	209
	<u>551</u>	<u>1,340</u>
<i>Deferred remuneration</i>		
Variable remuneration		
Cash-based	652	815
Contributions to defined contribution plans	84	-
	<u>736</u>	<u>815</u>
	<u>2,359</u>	<u>3,587</u>

26. Tax expense

Domestic corporate income tax for general takaful fund and takaful operator fund is calculated at the Malaysian statutory tax rate of 24% based on the estimated assessable profit for the year while the taxation charge on family takaful fund which is based on the method prescribed under the Income Tax Act, 1967, is calculated at the tax rate of 8%.

For general takaful fund and takaful operator fund, the corporate income tax rate is 24% and for the family takaful fund, the tax rate is 8%. Consequently, deferred tax assets and liabilities are measured using these tax rates.

Since year of assessment 2015, wakalah fees (comprising of fees as disclosed in Note 18) or any other fee receivable by the takaful operator fund in connection with the family fund as disclosed in Note 16 (except for any other fee receivable in respect of an investment fund from the family fund) are not subject to tax and its constituent outgo i.e. management expenses and commission expenses incurred in connection with family business are no longer tax deductible.

26. Tax expense (continued)

Note	2018			2017			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Malaysian taxation							
- Current year tax expense	20,156	3,327	158	12,825	4,627	2,801	12,825
- (Over)/Under provision in prior years	(3,880)	(543)	(787)	(757)	(425)	26	(757)
	<u>16,276</u>	<u>2,784</u>	<u>(629)</u>	<u>12,068</u>	<u>4,202</u>	<u>2,827</u>	<u>12,068</u>
Deferred tax assets/liabilities							
- Reversal and origination of temporary differences	207	(10,372)	-	717	7,758	65	717
	<u>16,483</u>	<u>(7,588)</u>	<u>(629)</u>	<u>12,785</u>	<u>11,960</u>	<u>2,892</u>	<u>12,785</u>

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

	2018			2017			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Profit/surplus before taxation	86,429	285,049	1,351	69,636	459,516	7,921	69,636
Taxation at applicable Malaysian statutory tax rate	20,743	22,804	324	16,713	36,761	1,901	16,713
Income not subject to tax	(166,483)	(29,910)	(693)	(159,331)	(24,376)	-	(159,331)
Non-deductible expenses	166,090	-	527	155,533	-	839	155,533
	<u>20,350</u>	<u>(7,106)</u>	<u>158</u>	<u>12,915</u>	<u>12,385</u>	<u>2,740</u>	<u>12,915</u>
(Over)/Under provision of current tax in prior year	(3,880)	(482)	(787)	(757)	(425)	26	(757)
Effect of unrecognised deferred tax assets	-	-	-	627	-	126	627
Others	13	-	-	-	-	-	-
	<u>16,483</u>	<u>(7,588)</u>	<u>(629)</u>	<u>12,785</u>	<u>11,960</u>	<u>2,892</u>	<u>12,785</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

85

28. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities. The related parties of the Company are:

(i) Holding company

The holding company is Bank Simpanan Nasional, a bank incorporated under the Bank Simpanan Nasional Act, 1974 and domiciled in Malaysia.

(ii) Affiliated company

The affiliated company comprises the following:

(a) a company having an equity interest of between 20% to 50% in the Company and including other corporations related to the first mentioned corporation.

(b) a company that has a number of common Directors with the Company.

(iii) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all members of EXCO of the Company and Other Material Risk Taker.

Significant related party transactions

The significant related party transactions of the Company, other than key management personnel compensation as disclosed in Note 25, are as follows:

	Transaction amount for the year ended 31 December (Income)/Expense	
	2018 RM'000	2017 RM'000
Holding company - Malaysia		
Investment income	(1,388)	(1,705)
Commission expenses	6,375	6,777
Sales related expense	5,247	4,031
Affiliated companies - Malaysia		
Software development ^	9,161	3,553
Renovation ^	1,214	486
Signage ^	1,144	-
Office rental	893	996
Fund management fees	5,503	7,266
Personnel and other expenses	2,005	1,537
Information Technology (IT) related expenses	532	2,161
Zakat	2,310	2,401

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

86

28. Related parties (continued)

Significant related party transactions (continued)

	Transaction amount for the year ended 31 December (Income)/Expense	
	2018	2017
	RM'000	RM'000
Affiliated companies - Malaysia		
Outsourcing fees		
- Other management expenses	46,861	44,055
- Sales related expenses	22,970	26,391
- IT services	19,311	26,033
- Operation and other services	776	813
- Project management ^	166	-

^ Capital expenditure

Significant related party balances

	Gross balance outstanding 31 December	
	2018	2017
	RM'000	RM'000
Amount due to related companies		
(i) Prudential Assurance Malaysia Berhad	32,582	8,925
(ii) Prudential Services Asia Sdn Bhd	17,260	6,221
(iii) Prudential Corporation Asia	2,034	299
(iv) Eastspring Investments Berhad	134	558
(v) Eastspring Al-Wara' Investments Berhad	2,842	-
(vi) Prudential Vietnam Assurance	-	385
(vii) PruBSN Prihatin	2,832	1,400

29. Investment-linked business

Statement of financial position as at 31 December 2018

	2018	2017
	RM'000	RM'000
Assets		
Investments	1,326,729	1,249,450
Income due and accrued	4,170	5,223
Amount due from family takaful fund	64,314	30,725
Cash and bank balances	2,153	2,403
Total Investment-linked business assets	<u>1,397,366</u>	<u>1,287,801</u>
Liabilities		
Other payables	5,080	32,726
Taxation	(123)	791
Amount due to takaful operator	10,463	9,728
Deferred tax liabilities	543	11,491
Total Investment-linked business liabilities	<u>15,963</u>	<u>54,736</u>
Net asset value of funds	<u>1,381,403</u>	<u>1,233,065</u>
Represented by:		
Unit holders' account	<u>1,381,403</u>	<u>1,233,065</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

87

29. Investment-linked business (continued)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	2018 RM'000	2017 RM'000
Investment income	36,071	28,913
Realised (losses)/gains	(8,057)	6,122
Fair value (losses)/gains	(136,844)	91,862
Investment management fees	(17,932)	(13,887)
Other operating income	2,154	1,570
Investment and other expense before taxation	(124,608)	114,580
Tax expense	(177)	(8,213)
Investment and other expense after taxation	(124,785)	106,367

30. Takaful risk management

The Board assumes the overall responsibility for the Company's risk management including takaful risk management and it is supported by BRMC. Risk Management Committee and Investment Committee supports BRMC through regular updates.

The Company has in place policies, guidelines and limits in managing its takaful risk. Management of risks includes the selection and pricing of risks, product diversification, monitoring of actual experience, and using retakaful to diversify risk and limit potential net losses.

Takaful risk to the Company includes mortality, morbidity, expenses, lapses, surrenders, investments return, persistency and discount rate.

Family takaful investment-linked certificates

The family takaful investment-linked certificates are mainly made up of regular contribution investment-linked products which can be attached to various riders such as medical, contributor, hospital income and accidental riders. The main products are PruBSN SmartLink, PruBSN FirstLink, PruBSN TakafulLink, UmmahLink, PruBSN Warisan, PruBSN Setia and PruBSN Impian. The main riders are HealthEnrich+, Contributor, Accidental Death & Disablement, Crisis Shield and Health Protector.

Family takaful non-investment-linked certificates

The family takaful non-investment-linked certificates consist of protection plans (for death, TPD and critical illness), savings plan and credit related reducing sum covered protection plan. The main products are Mortgage Reducing Term Takaful, Takaful Personal Financing, PruBSN Protect, PruBSN Crisis Cover, Platinum, Premier One-i, Premier Legacy and Anugerah.

30. Takaful risk management (continued)**General takaful contracts**

The general takaful contracts consist of fire, personal accident, workmen's compensation and employers' liability, liabilities and engineering and others. The major plan is Fire which mainly provides coverage mainly for residential homes.

Not all risks are borne by the Risk fund, and more details can be found in the Key Assumptions section of this note. Risks that are specific to the various types of takaful certificates are elaborated below:

(a) Family takaful contracts**Concentration of takaful risk**

Concentration of risk may arise when the occurrence of a particular event or a series of events can significantly impact to the fund solvency. Examples of such events may include natural disasters, influenzas, pandemics and catastrophes in certain geographical area.

Takaful risk also arises from participants' right to pay reduced or no future contribution, or to terminate the certificates completely. This risk would affect expected future profits and reduce takaful liabilities simultaneously due to the non-guaranteed nature of our takaful products. Insufficient money in participant account to pay for tabarru charges will result in certificate lapsing. This risk has been allowed for in the assumptions used to measure the liabilities.

The underwriting strategy ensures that the portfolio of takaful certificates is well diversified in terms of type and level of risk. This is achieved by enforcing proper risk selection and risk classification.

The risk selection process determines the groups of takaful risk that are acceptable so that diversification of takaful risk types is achieved. This is to ensure that within each of these risk types, there is a sufficiently large population of risks to reduce the variability of the expected outcome.

In the certificates classification process, certificates are classified into separate categories of standard and degree of substandard. Medical selection and financial underwriting guidelines included in the underwriting procedures allow the correct assignment of takaful risk to the appropriate class. Each class has varied takaful charges to reflect the health and medical history of the applicants.

The retakaful arrangements for risks undertaken by the fund have also limited the fund's risk exposure. There is a maximum retention limit for any single covered life. Generally, the fund retains low counterparty risk by having retakaful with high credit rating retakaful operators.

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

89

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Concentration of takaful risk (continued)

Concentration of risk based on participants' fund balance

	Gross RM'000	Retakaful RM'000	Net RM'000
2018			
Endowment	1,991,877	-	1,991,877
Term	336,147	-	336,147
Mortgage	274,089	(2,080)	272,009
Total family takaful fund	<u>2,602,113</u>	<u>(2,080)</u>	<u>2,600,033</u>
2017			
Endowment	1,786,838	-	1,786,838
Term	294,606	-	294,606
Mortgage	232,513	(1,785)	230,728
Total family takaful fund	<u>2,313,957</u>	<u>(1,785)</u>	<u>2,312,172</u>

Key assumptions

Material judgement and analysis are required in the choice of assumptions to estimate the liabilities. The assumptions are based on past experience, current internal data and external market indices and benchmarks which reflect current observable market prices and published information. The assumptions used in the valuation of liabilities are based on prudent estimates. This ensures that the fund is financially sound to meet participants' obligation.

Actual results may differ from these estimates. Assumptions are evaluated on a continuous basis in order to ensure realistic and reasonable valuations. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Mortality and morbidity

The Company derives best estimate mortality or morbidity assumptions for each product type. These best estimates are based on studies which are derived from the existing portfolio. In practice, as the portfolio is dominated by new business sales which the experience is affected by underwriting selection effect, the best estimate assumption is not established entirely based on the portfolio experience but also with reference to retakaful risk rates tables.

Underwriting practices influences the mortality and morbidity experience of the fund. Monitoring and experience studies need to be performed if there are changes to underwriting practice.

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Key assumptions (continued)

Longevity

As there are no annuity products, longevity is not a significant assumption for the portfolio.

Investment return

The operational model of the takaful contracts is based on Tabarru' charges deducted from the participant funds to the Risk fund monthly. Investment risk is largely passed on to the participants. As a result, the Risk fund is not exposed to movements in rate of return and market values of the underlying assets.

Expenses

Expenses are borne entirely by the takaful operator and not the takaful funds. Expense assumption has no impact to the Risk funds.

Persistency

Persistency has marginal impact to the takaful funds as charges are deducted monthly and claims paid only if the certificate is in-force.

Discount rate

Discount rate has a significant impact on provisions for contract liabilities. Lower discount rates will increase provisions required as the investment return that can be earned on the provisions are lower. Conversely, a higher discount rate reduces the provisions.

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross contract liabilities, net contract liabilities, surplus and takaful operator's profit or loss. 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.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

91

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Sensitivities (continued)

	Change in assumptions %	Impact on gross contract liabilities RM'000	Impact on net contract liabilities RM'000	Impact on tabarru surplus RM'000	Impact on takaful operator's profit or loss RM'000
2018					
Mortality/Morbidity	+10	62,475	60,454	(49,983)	(40,175)
Investment return	+/-1	403	371	(371)	(187)
Lapse and surrender rates	-10	733	702	(702)	(310)
Discount rate	-1	11,452	11,377	(11,377)	(3,278)
2017					
Mortality/Morbidity	+10	49,717	47,973	(42,752)	(34,027)
Investment return	+/-1	36	6	(6)	(1)
Lapse and surrender rates	-10	517	490	(490)	(285)
Discount rate	-1	9,528	9,461	(9,461)	(7,268)

The +1%/-1% investment return was applied to the investment return sensitivity whichever gives a higher liability.

Morbidity assumption has the largest impact as the benefit outgo of the riders constitutes a major portion of the takaful portfolio.

For pre-Takaful Operating Framework (TOF) businesses, losses in the family takaful fund are supported by risk management wakalah fees and if insufficient, a profit rate loan (Qard) is provided by the takaful operator in that order. Surpluses in the family takaful funds will be used to meet risk management charges before they are distributed to the participants. Losses for post-TOF businesses will be supported by a profit rate loan (Qard) from takaful operator.

In the sensitivities above, the impact on surplus takes account of total surplus available before the distribution of surplus arising and surplus carried forward. As a result, an impact to the takaful operator's profit or loss would only occur if the stress fully utilises the total available surplus as is the case with the mortality stress where a profit rate loan (Qard receivable) from the takaful operator will be issued to put right the deficit in the Tabarru' fund.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

92

30. Takaful risk management (continued)

(b) General takaful contracts

As disclosed in Note 35, the Company has transferred its General Takaful business certificates to Syarikat Takaful Malaysia Am Berhad as such only the comparatives will be presented as follows:

Concentration of takaful risk

Concentration of risk may arise when the occurrence of a particular event or a series of events can significantly impact the fund solvency. This can be particularly onerous if the risks were concentrated on a particular geographical region. For the general takaful fund portfolio, this was not a key concern as the certificates type was mainly fire coverage for residential homes. Proportional and non-proportional retakaful treaties were also in place to ensure that the general takaful fund can withstand these risks.

The table below shows the concentration of general takaful contract liabilities by type of contract on written contribution.

General takaful fund	Gross RM'000	Retakaful RM'000	Net RM'000
2017			
Fire	8,608	(2,179)	6,429
Motor others	-	-	-
Personal accident	162	(342)	(180)
Contribution written in the year	8,770	(2,521)	6,249

Key assumptions

The principal assumptions underlying the estimation of contract liabilities was that the future claims development will follow a similar pattern to past claims development experience.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in future, for example, isolated occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors, such as, portfolio mix, certificate features and claims handling procedures. Other key circumstances affecting the reliability of assumptions include delays in settlement.

30. Takaful risk management (continued)**(b) General takaful contracts (continued)****Sensitivities**

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

The analysis below was performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net contract liabilities and underwriting surplus. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on surplus RM'000
2017				
Average claims	+10	53	50	(50)

Claims development table

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

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

Prudential BSN Takaful Berhad

(Company No. 740651-H)

(Incorporated in Malaysia)

30. Takaful risk management (continued)

(b) General takaful contracts (continued)

Gross general takaful provision for outstanding claims for 2017:

	Note	2012 and prior RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Accident year								
At end of accident year		13,159	3,824	7,176	573	923	1,655	
One year later		12,366	3,060	4,468	340	721	-	
Two years later		11,217	3,052	4,432	342	-	-	
Three years later		10,680	3,041	4,430	-	-	-	
Four years later		10,275	3,040	-	-	-	-	
Five years later		10,074	-	-	-	-	-	
Current estimate of cumulative claims incurred (UL)		10,074	3,040	4,430	342	721	1,655	20,262
Accident year								
At end of accident year		(2,744)	(180)	(472)	(268)	(710)	(948)	
One year later		(4,728)	(3,036)	(4,402)	(330)	(721)	-	
Two years later		(9,050)	(3,036)	(4,429)	(332)	-	-	
Three years later		(9,159)	(3,038)	(4,429)	-	-	-	
Four years later		(9,197)	(3,038)	-	-	-	-	
Five years later		(10,074)	-	-	-	-	-	
Cumulative payments to-date		(10,074)	(3,038)	(4,429)	(332)	(721)	(948)	(19,542)
Gross general takaful provision for outstanding claims per statement of financial position	13(b)	-	2	1	10	-	707	720

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

30. Takaful risk management (continued)

(b) General takaful contracts (continued)

Net general takaful provision for outstanding claims for 2017:

	Note	2012 and prior RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
Accident year								
At end of accident year		8,075	2,015	1,824	561	771	1,606	
One year later		6,528	223	612	340	589	-	
Two years later		5,328	224	559	342	-	-	
Three years later		4,926	214	557	-	-	-	
Four years later		4,898	213	-	-	-	-	
Five years later		4,837	-	-	-	-	-	
Current estimate of cumulative claims incurred (UL)		4,837	213	557	342	589	1,606	8,144
Accident year								
At end of accident year		(1,966)	(141)	(326)	(268)	(576)	(937)	
One year later		(4,064)	(210)	(546)	(330)	(589)	-	
Two years later		(4,246)	(210)	(556)	(332)	-	-	
Three years later		(4,326)	(212)	(556)	-	-	-	
Four years later		(4,364)	(212)	-	-	-	-	
Five years later		(4,837)	-	-	-	-	-	
Cumulative payments to-date		(4,837)	(212)	(556)	(332)	(589)	(937)	(7,463)
Net general takaful provision for outstanding claims per statement of financial position	13(b)	-	1	1	10	-	669	681

31. Financial Instruments

Financial risk (other than takaful risk) management objectives and policies

As disclosed in Note 30, the BRMC is also supported by Risk Management Committee and Investment Committee on financial risk management in addition to takaful risk management through the regular updates.

The Risk Management Committee is established to be responsible in reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval. The Committee has adopted a Risk Management Framework that requires all businesses and functions to establish processes for identifying, evaluating and managing the key risks faced by the Company.

The Investment Committee will oversee the investment of all investment funds maintained by the Company. This includes reviewing of the investment performance, setting up benchmarks and obtaining third party advice, if necessary.

Specific risks that affect the Company's financial position are:

Credit risk

Credit risk is the risk of potential financial loss to the Company and it arises from the risks of loss of principal or income on the failure of a obligator or counterparty to meet its contractual obligations. The Company's exposure to credit risk arises mainly from investment in debt instruments issued by the Malaysian government, Islamic debts securities, amounts due from retakaful and cedants, trade and other receivables, cash and cash equivalents and as well as deposits placed with licensed financial institutions in Malaysia. This is managed through regular evaluation of minimum credit ratings of financial instruments issued by the Malaysian government and private companies for investment purposes. At reporting date, other than the investments in financial instruments issued by the Malaysian government and private companies, there were no other significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

31. Financial Instruments (continued)

Credit risk (continued)

(a) Credit rating of financial assets

In view of the following sound credit rating of counterparties, the Company does not expect any counterparty to fail in meeting its obligation except for allowance for impairment loss recognised in respect of takaful receivables and trade and other receivables as disclosed in Note 8 and 9.

	2018			2017		
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000
Receivables						
Deposits with financial institutions	88,188	111,004	-	69,865	152,999	-
Retakaful assets	-	15,284	-	-	21,477	47
Takaful receivables	-	-	-	-	-	59
Trade and other receivables	207,608	18,671	10	161,110	16,912	79
Cash and cash equivalents	78,804	368,350	7,113	51,038	190,991	27,010
	<u>374,600</u>	<u>513,309</u>	<u>7,123</u>	<u>282,013</u>	<u>382,379</u>	<u>27,195</u>
Financial assets at FVTPL:						
Malaysian government investment issue	3,287	186,912	-	3,310	206,372	-
Islamic debts securities	148,478	1,055,823	-	138,175	955,199	-
	<u>151,765</u>	<u>1,242,735</u>	<u>-</u>	<u>141,485</u>	<u>1,161,571</u>	<u>-</u>
						<u>222,864</u>
						<u>21,524</u>
						<u>43,378</u>
						<u>269,039</u>
						<u>556,864</u>
						<u>209,682</u>
						<u>1,093,374</u>
						<u>1,303,056</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

31. Financial Instruments (continued)

Credit risk (continued)

	2018					2017					Total RM'000	Non- rated RM'000	Total RM'000	
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	B RM'000	Non- rated RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000				B RM'000
Takaful operator														
Receivables														
Deposits with financial institutions	88,188	-	-	-	-	-	30,317	39,548	-	-	-	-	-	69,865
Trade and other receivables	-	-	-	-	-	207,608	-	-	-	-	-	161,110	-	161,110
Cash and cash equivalents	78,350	398	2	-	-	54	48,473	58	-	-	-	2,507	-	51,038
Financial assets at FVTPL:														
Malaysian government investment issue*	-	-	-	-	-	3,287	-	-	-	-	-	3,310	-	3,310
Islamic debts securities	58,931	71,712	-	-	-	17,835	39,622	80,957	-	-	-	17,596	-	138,175
Family takaful fund														
Receivables														
Deposits with financial institutions	100,120	-	-	-	-	10,884	95,720	48,580	-	-	-	8,699	-	152,999
Retakaful assets*	-	15,284	-	-	-	-	-	19,720	929	828	-	-	-	21,477
Trade and other receivables	-	-	-	-	-	18,671	-	-	-	-	-	16,912	-	16,912
Cash and cash equivalents	329,935	1,380	-	-	-	37,035	157,044	1,509	-	-	-	32,438	-	190,991
Financial assets at FVTPL:														
Malaysian government investment issue*	-	-	-	-	-	186,912	-	-	-	-	-	206,372	-	206,372
Islamic debts securities	253,550	520,939	-	-	-	281,334	186,573	531,916	-	-	-	236,710	-	955,199

* Equivalent rating was used for rating agencies other than Rating Agency of Malaysia and Malaysian Rating Corporation Berhad.

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

31. Financial Instruments (continued)

Credit risk (continued)	2018						2017							
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	B RM'000	Non- rated RM'000	Total RM'000	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	B RM'000	Non- rated RM'000	Total RM'000
General takaful fund														
Receivables														
Retakaful assets*	-	-	-	-	-	-	-	-	-	-	-	-	47	47
Takaful receivables*	-	-	-	-	-	-	-	-	-	-	-	-	59	59
Trade and other receivables	-	-	-	-	-	10	10	-	-	-	-	-	79	79
Cash and cash equivalents*	5,251	110	-	-	-	1,752	7,113	2,964	5	-	-	-	24,041	27,010
Company														
Receivables														
Deposits with financial institutions	188,308	-	-	-	-	10,884	199,192	126,037	88,128	-	-	-	8,699	222,864
Retakaful assets*	-	15,284	-	-	-	-	15,284	-	19,720	929	-	828	47	21,524
Takaful receivables*	-	-	-	-	-	-	-	-	-	-	-	-	59	59
Trade and other receivables	-	-	-	-	-	50,204	50,204	-	-	-	-	-	43,378	43,378
Cash and cash equivalents*	413,536	1,888	2	-	-	38,841	454,267	208,481	1,572	-	-	-	58,986	269,039
Financial assets at FVTPL:														
Malaysian government investment issue*	-	-	-	-	-	190,199	190,199	-	-	-	-	-	209,682	209,682
Islamic debts securities	312,481	592,651	-	-	-	299,169	1,204,301	226,195	612,873	-	-	-	254,306	1,093,374

* Equivalent rating was used for rating agencies other than Rating Agency of Malaysia and Malaysian Rating Corporation Berhad.

31. Financial Instruments (continued)

Credit risk (continued)

(b) Aging of takaful receivables and trade and other receivables

The ageing of takaful receivables and trade and other receivables as at the end of the reporting period was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
Takaful operator			
2018			
Not due	189,914	-	189,914
Due 0 - 60 days	27,121	(9,427)	17,694
	<u>217,035</u>	<u>(9,427)</u>	<u>207,608</u>
2017			
Not due	147,788	-	147,788
Due 0 - 60 days	20,117	(6,795)	13,322
	<u>167,905</u>	<u>(6,795)</u>	<u>161,110</u>
Family takaful fund			
2018			
Not due	18,671	-	18,671
	<u>18,671</u>	<u>-</u>	<u>18,671</u>
2017			
Not due	16,912	-	16,912
	<u>16,912</u>	<u>-</u>	<u>16,912</u>

There is no collective impairment for takaful receivables and trade and other receivables as at the end of the reporting period.

31. Financial Instruments (continued)

Credit risk (continued)

	Gross RM'000	Individual impairment RM'000	Net RM'000
General takaful fund			
2018			
Not due	10	-	10
	<u>10</u>	<u>-</u>	<u>10</u>
2017			
Not due	664	(526)	138
	<u>664</u>	<u>(526)</u>	<u>138</u>
Company			
2018			
Not due	32,510	-	32,510
Due 0 - 60 days	27,121	(9,427)	17,694
	<u>59,631</u>	<u>(9,427)</u>	<u>50,204</u>
2017			
Not due	30,641	(526)	30,115
Due 0 - 60 days	20,117	(6,795)	13,322
	<u>50,758</u>	<u>(7,321)</u>	<u>43,437</u>

There is no collective impairment for takaful receivables and trade and other receivables as at the end of the reporting period.

31. Financial Instruments (continued)***Credit risk (continued)***

Takaful receivables and trade and other receivables mainly consist of inter-fund receivables. The Directors have assessed the recoverability and are of the opinion that collective impairment provision is not required at 31 December 2018.

The allowance account in respect of receivables is used to record impairment losses. Unless the Company is satisfied that recovery of the amount is possible, the amount considered irrecoverable is written off against the receivable directly.

Liquidity risk

The Company monitors daily the cash flows and holds a sufficient quantity of financial assets that can readily be converted into cash to meet contractual and regulatory financial obligations and to undertake new transactions.

Maturity profile of financial liabilities

The maturity profile of the Company's financial liabilities which include takaful contract liabilities, takaful payables and trade and other payables as at the end of the reporting period based on remaining undiscounted contractual obligations, including profit payable are payable within a year.

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

Operational risk relates to the risk of potential loss from a breakdown in internal processes, systems, deficiencies in people and management or operational failure arising from external events. The Company mitigates operational risk by establishing appropriate policies, internal control and procedures and contingency planning.

Market risk

Market risk is the risk of potential losses of income or market value due to fluctuations in factors such as profit rates, foreign exchange rates, equity prices or change in volatility or correlating of such factors.

The Company is mainly exposed to profit rate risk and equity risks for its investment activities.

(a) Profit rate risk of financial assets

The Company accounts for fixed rate financial assets at fair value through profit or loss. Therefore, these financial assets are exposed to a risk of change in their fair value due to changes in profit rates. When profit rates move up, the fair value of the financial assets will move down, and vice versa.

Profit rate risk is an external factor which is beyond the Company's control. However the Company regularly monitors the profit rate movement. The financial assets bought are also intended to be held to maturity; hence an upward movement in the profit rate will only incur unrealised losses in the financial statements.

The analysis below assumes that all other variables remain constant and the Company's Islamic debt securities fair value moved in correlation with the prevailing market rate of return:

31. Financial Instruments (continued)

(a) Profit rate risk of financial assets (continued)

	Change in variables %	Impact on profit or loss / surplus			
		Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
2018					
Rate of return	+1	(8,712)	(73,351)	-	(82,063)
Rate of return	-1	8,712	73,351	-	82,063
2017					
Rate of return	+1	(7,597)	(66,953)	-	(74,550)
Rate of return	-1	7,597	66,953	-	74,550

(b) Equity risk

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

The Company's equity risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Company's exposure to equity is indirect through the investment-linked unit funds whereby the risks are borne by participants. There is no direct exposure to equities in the shareholder's fund.

The analysis below assumes that all other variables remain constant and the Company's equity investments moved in correlation with FTSE Bursa Malaysia Emas Shariah Index ("FBMSHA") and Dow Jones Islamic Market Greater China Index ("DJIMGC").

	Change in variables %	Impact on surplus	
		2018 RM'000	2017 RM'000
FBMSHA	+10	110,012	102,076
FBMSHA	-10	(110,012)	(102,076)
DJIMGC	+10	4,825	4,848
DJIMGC	-10	(4,825)	(4,848)

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

104

31. Financial Instruments (continued)

Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value				Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
Company						
2018						
Malaysian government investment issue	-	190,199	-	190,199	190,199	190,199
Islamic debt securities	-	1,204,301	-	1,204,301	1,204,301	1,204,301
Equity securities	1,100,123	-	-	1,100,123	1,100,123	1,100,123
Unit trust fund	104,337	-	-	104,337	104,337	104,337
	<u>1,204,460</u>	<u>1,394,500</u>	<u>-</u>	<u>2,598,960</u>	<u>2,598,960</u>	<u>2,598,960</u>
2017						
Malaysian government investment issue	-	209,682	-	209,682	209,682	209,682
Islamic debt securities	-	1,093,374	-	1,093,374	1,093,374	1,093,374
Equity securities	1,020,760	-	-	1,020,760	1,020,760	1,020,760
Unit trust fund	101,531	-	-	101,531	101,531	101,531
	<u>1,122,291</u>	<u>1,303,056</u>	<u>-</u>	<u>2,425,347</u>	<u>2,425,347</u>	<u>2,425,347</u>

There are no financial instruments which are not carried at fair value.

31. Financial Instruments (continued)**Fair value information (continued)**

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2017: no transfer in either directions).

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities.

32. Operating leases**Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	2018 RM'000	2017 RM'000
Less than one year	3,156	2,934
Between one and three years	1,118	2,791
	<u>4,274</u>	<u>5,725</u>

The Company leases office buildings under operating leases. The leases typically run for a period of 3 years, with an option to renew the lease after the end of the period. Lease payments may be increased every 3 years to reflect market rentals.

The Company has committed to lease a new office premise under a 15 years non-cancellable leases which has yet to commence during the financial period.

	2018 RM'000	2017 RM'000
Less than one year	3,695	-
Between one and three years	33,865	-
More than three years	83,230	-
	<u>120,790</u>	<u>-</u>

Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

106

33. Capital commitments

	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Intangible assets		
Authorised but not contracted for	41,233	15,875
Contracted but not provided for	6,465	33,787
	<u>47,698</u>	<u>49,662</u>
Tangible assets		
Authorised but not contracted for	15,520	46,207
Contracted but not provided for	8,572	4,831
	<u>24,092</u>	<u>51,038</u>

34. Regulatory capital requirements

The capital structure of the Company as at 31 December 2018, as prescribed under the Risk Based Capital Framework for takaful operators (RBCT) is provided below:

	2018 RM'000	2017 RM'000
Eligible Tier 1 Capital		
Ordinary share	100,000	58,824
Share premium	-	41,176
Reserves, including retained earnings	364,197	291,055
	<u>464,197</u>	<u>391,055</u>
Tier 2 Capital		
Revaluation Reserve	1,925	-
	<u>(90,574)</u>	<u>(55,739)</u>
Amounts deducted from capital	<u>(90,574)</u>	<u>(55,739)</u>
Total capital available	<u>375,548</u>	<u>335,316</u>

35. General takaful business

The Islamic Financial Services Act 2013 (IFSA 2013), which came into effect on 30 June 2013, requires all licensed Takaful Operators carrying on both Family Takaful business and General Takaful business (composite licensed Takaful Operator) to convert their businesses to a Single Takaful business.

As such, the Company entered into a proposed transfer of its general takaful certificates to Syarikat Takaful Malaysia Am Berhad (Company No.1246486D) and this was completed on 30 September 2018, on which the transfer of certificates, including takaful contract liabilities in relation to the business, was made.

As the General Takaful business is not significant to the Company, the comparative statement of profit or loss and other comprehensive income has not been re-presented to show the discontinued operations separately from continuing operations.

Prudential BSN Takaful Berhad

108

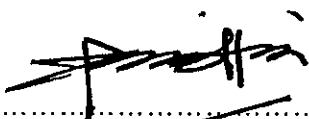
(Company No. 740651-H)

(Incorporated in Malaysia)

Statement by Directors pursuant to Section 251(2) of the Companies Act 2016

In the opinion of the Directors, the financial statements set out on pages 28 to 107 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and 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 of 31 December 2018 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....
Datuk Yunus bin Abd Ghani
Director



.....
Lilian Ng Lup-Yin
Director

Date: 14 February 2019

Prudential BSN Takaful Berhad

109

(Company No. 740651-H)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 251(1)(b) of the Companies Act 2016

I, New Kheng Chee, the officer primarily responsible for the financial management of Prudential BSN Takaful Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 107 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, New Kheng Chee, NRIC: 750406-10-5535 at Kuala Lumpur in the Federal Territory on 14 February 2019.



.....
New Kheng Chee

Before me:



Lot 333, 3rd Floor, Wisma MPL,
Jalan Raja Chulan,
50200 Kuala Lumpur.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor Darul Ehsan, Malaysia

Telephone +60 (3) 7721 3388
Fax +60 (3) 7721 3399
Website www.kpmg.com.my

Independent auditors' report to the members of Prudential BSN Takaful Berhad

(Company No. 740651-H)
(Incorporated in Malaysia)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Prudential BSN Takaful Berhad, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 107.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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 auditors' 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.

Company No. 740651-H

*Prudential BSN Takaful Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2018*

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 the information included in the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the Directors' Report 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 Directors' Report and, in doing so, consider whether the Directors' Report 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 the Directors' Report, 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 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 ability of the Company 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.

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.

Company No. 740651-H

*Prudential BSN Takaful Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2018*

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:

- 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.
- 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 internal control of the Company.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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 ability of the Company 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Company No. 740651-H

*Prudential BSN Takaful Berhad
Independent Auditors' Report for the
Financial Year Ended 31 December 2018*

Other Matter

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.



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants



Loh Kam Hian
Approval Number: 02941/09/2020 J
Chartered Accountant

Petaling Jaya
14 February 2019