Prudential BSN Takaful Berhad

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

Financial statements for the financial year ended 31 December 2017

Prudential BSN Takaful Berhad
(Company No. 740651-H)
(Incorporated in Malaysia)

CONTENTS

Prudential BSN Takaful Berhad

(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 2017.

Principal activities

The Company is principally engaged in the underwriting of family takaful business which includes investment-linked business and, related thereto, the investment of funds and general takaful business. There has been no significant change in the nature of these activities during the financial year.

Ultimate holding company

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

Results

	RM'000
Net profit for the financial year	54,541

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 of the Company

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

Md Tajuddin bin Md Isa (Chairman) (Appointed w.e.f. 11 December 2017)
Datuk Yunos bin Abd Ghani
Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)
Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)
Lilian Ng Lup-Yin (Appointed w.e.f. 8 September 2017)
Gan Leong Hin (Resigned w.e.f. 18 May 2017)
Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)
Azim Khursheid Ahmed Mithani (Resigned w.e.f. 15 August 2017)
Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)
Datuk Adinan bin Maning (Resigned w.e.f. 30 November 2017)

One member of the Board is an Executive Director and four members of the Board are Non-Executive Directors. Three of the Non-Executive Directors are also Independent Directors. All the Board members have complied with the requirement of serving on the Board of not more than 15 companies.

The Board met 7 times during the financial year to decide on the objectives and strategies and any other specific matters which are reserved for its decision.

Shariah Committee

The Company is advised by a Shariah Committee (SC) and the attendance of the Shariah Committee are as follows:

Name	No. of Shariah Committee meetings attended
Dr. Mohd Fuad bin Md Sawari (Chairman)	10/10
Professor Dr. Saiful Azhar bin Rosly	10/10
Wan Rumaizi bin Wan Husin	10/10
Dr. Ahmad Zaki Salleh	10/10
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	8/10
Abdullaah bin Jalil	9/10

The SC met 10 times during the financial year.

Directors' interests

None of the Directors holding office at 31 December 2017 had any interest in the shares and options over shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the 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.

There were no arrangements during and at the end of the financial year which had 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 corporate.

Issue of shares and debentures

There were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

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 insurance costs

During the financial year, the aggregate amount of insurance effected for all directors of the Company together with the directors of local affiliated companies is RM 80,254,500.

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.

(a) Board responsibilities

In discharging its duties, the Board is equally responsible to ensure compliance with the Islamic Financial Services Act, 2013 and Bank Negara Malaysia (BNM) Guidelines and other directives. It has to comply with the tenets of corporate governance by adopting best practices as stipulated under Guidelines on Corporate Governance BNM/RH/PD 029-9 and 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 and funding decisions.

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

- ensure the implementation of appropriate systems to manage risks and also reviews and approves the strategies and financial objectives to be implemented by the management. It approves the risk appetite, business plans and other initiatives which would, singularly or cumulatively, have a material impact on the Company's risk profile.

- oversee 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.

- oversee the selection, performance, compensation and succession plans of the Chief Executive Officer (CEO), control function heads and other members of senior management, such that the Board is satisfied with the collective competence of senior management to effectively lead the operations of the Company and, together with the senior management, promotes a sound corporate culture within the Company which reinforces ethical, prudent and professional behavior.

- promote sustainability through appropriate environmental, social and governance considerations in the Company's business strategies.

- oversee 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.

- promote timely and effective communications between the Company and BNM on matters affecting or that may affect the safety and soundness of the Company.

- promote 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)

(a) Board responsibilities (continued)

These functions are carried out by the Board directly and/or through their various committees.

The Company has an organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees.

The Directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

The yearly Board and Board Committees meetings of the Company are planned in advance prior to the commencement of a new financial year and the tentative dates are circulated to the Directors in order for them to plan ahead.

During the financial year ended 31 December 2017, the Board met seven (7) 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 Guidelines on Corporate Governance.

(b) Profile of the Board of Directors

(i) *En. Md Tajuddin bin Md Isa (Chairman)*

Md Tajuddin Md Isa was appointed as Director and Chairman of the Company on 11 December 2017. Md Tajuddin Md Isa was 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 Malaya High Court in 1991.

He 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 obtained his Post Graduate Diploma in Islamic Banking and Finance from the International Islamic University Malaysia (IIUM) in 2008. He is a member of the Board of Directors, Bank Simpanan Nasional, a member of the Shariah Advisory Committee of Bank Simpanan Nasional; member of the Board of Trustees, Dana Amal Jariah and panel member of the Disciplinary Committee, Advocates & Solicitors, Disciplinary Board.

Corporate governance (continued)

(b) Profile of the Board of Directors (continued)

(ii) *Pn Mazidah binti Abdul Malik*

Mazidah 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. Mazidah served more than 30 years with Bank Negara Malaysia (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. 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) *En. Ezamshah bin Ismail*

Ezamshah is a professional and academician with extensive experience in the insurance and Takaful industry. He currently lectures at International Center for Education in Islamic Finance (INCEIF), Malaysia on Takaful & Risk Management and is the Dean of the School of Professional Studies at INCEIF. Ezamshah 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). Previously, he served as 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 serve 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. Ezamshah was also the first President of the Malaysian Financial Planning Council (MFPC) as well as Vice President of the Malaysian Takaful Association (MTA).

(iv) *Datuk Yunos Bin Abd Ghani*

Datuk Yunos bin Abd Ghani is the Chief Executive of Bank Simpanan Nasional (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. Datuk Yunos received his Bachelor Degree in BA (Finance) from Eastern Michigan University, United States in 1986. 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 2000 to 2002, he was the GM of Bank Muamalat Malaysia Berhad Labuan Offshore Branch and from 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 February 2010. He has no conflict of interest with the Company and does not hold any shares of the Company.

Corporate governance (continued)

(b) Profile of the Board of Directors (continued)

(v) *Ms. Lilian Ng Lup-Yin*

Lilian Ng was appointed as the Executive Director of the Company on 8 September 2017. Lilian 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, Lilian is tasked with the overall responsibility of managing Prudential's network of insurance business units in Asia. She is also currently a Director of Prudential Assurance Malaysia Berhad.

(c) Trainings and Education provided to the Board

All Directors have attended and completed the mandatory FIDE Core Training Program within one year from their date of appointment as required under the terms of their appointment imposed by BNM.

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

During the year, an in-house briefing was conducted by a representative of the Shariah Committee where the Directors were briefed and discussion held pertaining to the following matters:

i) Operationalisation of main Shariah contracts in business model and products;
ii) Operationalisation of supporting Shariah contracts; and
iii) Other application of Shariah concepts.

(d) Management accountability

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

(e) Corporate independence

All material related company transactions have been disclosed in the notes to the financial statements.

Corporate governance (continued)

(f) 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 established internal control framework which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as 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.

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

(i) First line comprising the business functions involved in the Risk Taking and Management of the Company (Business).

(ii) Second line which is the Risk Control and Oversight function reporting to the Chief Risk Officer, comprising:

- Risk function which supports the Board Risk Management Committee and responsible for the implementation and coordination of risk initiatives and requirements across the Business. The function monitors and sets the local risk appetite and escalates any breaches to the Management and Board, as and when necessary, and provides review and oversight on management actions and strategic direction from the perspective of prudent risk management. The function consists of Financial Risk, Operational Risk and Information Risk sections.

- Shariah team which supports the SC. The functions provides Shariah expertise and review to the Business, performs in-depth research and studies on Shariah issues, provides day-to-day Shariah advice and consultancy to relevant parties, acts as an intermediary between the business and the SC to ensure that Shariah related issues are being handled effectively and efficiently, conducts continuous Shariah review on the implementation of the business to assist the SC on its oversight role and conducts Shariah awareness training to the distribution force.

Corporate governance (continued)

(f) Internal control framework (continued)

(ii) Second line which is the Risk Control and Oversight function reporting to the Chief Risk Officer, comprising: (continued)

- Governance function comprising the following:

  - Compliance. In line with good governance, the Compliance Department reports to the Chief Risk Officer who has direct access to the Board. Its main function is to facilitate, advise, monitor and educate the business and support units/entities to act in accordance with laws, regulations and guidelines. The Compliance Department has adopted the Prudential Compliance Standards whereby the setting of compliance policies and standards with appropriate mechanisms and tools are driven at the group level to ensure consistency in approach in managing compliance risk across the local and regional entities within Prudential. Under the Compliance arrangements, all business are required to establish a Regulatory Compliance Matrix to ensure that the Company complies with regulatory requirements. The Regulatory Compliance Matrix is a document that encompasses relevant laws, regulations and guidelines that apply to the business. The Compliance Department conducts scheduled quality assurance reviews on the business. Compliance Department has unrestricted access to all information, records and business premises of the Company and has the authorisation to speak to any employee about any conduct, business practice, ethical matter or other issue relevant to discharging its duties. The annual compliance plan is tabled and approved by the Board. The Financial Crimes function, a unit within the Compliance Department maintains the Company's Anti Money Laundering and Counter Financing of Terrorism (AML/CFT) Policy, duly approved by the Board to facilitate consistency in managing the AML/CFT compliance across the Company.

  - Legal which provides legal advisory to the Corporate function and the Business, manages litigation and contentious matters for the Business, provides legal review for agreements, binding documents and letters and supports product implementation.

  - Company Secretarial which supports the effective functioning of the Board and information flows between the Board, Board Committees and Senior Management.

Corporate governance (continued)

(f) Internal control framework (continued)

(iii) The third line is the internal audit function supporting the Audit Committee. The internal audit function was established on 8 August 2006. The internal audit function carries out audit of the internal control system on a continuous basis. The internal audit function reports to the Board through the Audit Committee.

The key policies and procedures for each of the internal control/second line function are as follows:

- For the Risk function, the PruBSN Risk Framework is annually reviewed and approved by the Board.

- For the Shariah function, the Shariah Governance Manual has been structured to meet all relevant requirements by BNM and it highlights policies that explain the structure, roles, responsibilities and the scope of duties of various functions and departments.

- For the Compliance function the policies include:

  - PruBSN Compliance Manual which endeavours to set out the general compliance standards and key requirements that assist the business and its staff in the appropriate conduct of their day-to-day activities, including provision of principal laws and regulations governing PruBSN's operations.

  - PruBSN AML/CFT Policy which sets out requirements, standards and guidance that support PruBSN's compliance with Group and Bank Negara Malaysia's policies.

  - PruBSN Regulatory Engagement Policy which entails the interaction, communication, consultation and information exchange with any relevant regulatory body.

  - PruBSN Anti Bribery & Corruption Policy which sets out the minimum requirements that support PruBSN's compliance with the Group Anti-Bribery and Corruption Policy and the relevant Group-wide statutory and regulatory requirements.

  - PruBSN Gift & Hospitality (G&H) Policy which sets out minimum requirements relating to the giving and receiving of G&H and provides guidance on where G&H is not permitted in the context of anti-bribery and corruption.

  - PruBSN Conflict of Interest Policy which was established with its purpose to adopt measures to avoid any conflict of interest, identify the existence of any conflict of interest and to disclose the existence of conflict of interest.

- The Legal function operates within the framework set by the Company and the regional office PCA.

Corporate governance (continued)

(f) Internal control framework (continued)

The key policies and procedures for each of the internal control/second line function are as follows: (continued)

- Company Secretary operates in accordance to the statutory requirement enshrined in Malaysian Companies Act which stipulated the Company must have at least one Company Secretary who shall be a natural person, 18 years and above and citizen/permanent resident of Malaysia. Malaysian Companies Act further stipulated that the office of Company Secretary shall not be left vacant for more than 30 days at any one time. Unless BNM approves, Company Secretary must devote the whole of his professional time to the affairs of the Company and its affiliates.

(g) Audit Committee

No.	Name	Designation
1	Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)	Chairman
2	Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)	Member
3	Md Tajuddin bin Md Isa (Appointed w.e.f. 11 December 2017)	Member
4	Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)	Chairman (resigned)
5	Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)	Member (resigned)
6	Gan Leong Hin (Resigned w.e.f. 18 May 2017)	Member (resigned)

The internal audit function reports to the Board through the AC.The AC met four (4) times during the financial year ended 31 December 2017.

(i) Roles and Responsibilities of the AC

The functions of the AC include:

- support the Board in ensuring that there is a reliable and transparent financial reporting process within the Company.
- oversee the effectiveness of the internal audit function of the Company.
- foster 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.
- review and update the Board on all related party transactions.
- review the accuracy and adequacy of the disclosures in the Directors' Report, Corporate Governance Statements and announcements in relation to the preparation of financial statements.
- monitor compliance with the Board's conflicts of interest policy.
- review third-party opinions on the design and effectiveness of the Company's internal control framework.

Corporate governance (continued)

(h) Board Risk Management Committee

No.	Name	Designation
1	Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)	Chairman
2	Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)	Member
3	Datuk Yunos bin Abd Ghani	Member
4	Md Tajuddin bin Md Isa (Appointed w.e.f. 11 December 2017)	Member
5	Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)	Chairman (resigned)
6	Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)	Member (resigned)
7	Azim Khursheid Ahmed Mithani (Resigned w.e.f. 15 August 2017)	Member (resigned)

The Board established the Board Risk Management Committee (BRMC) on 17 July 2006. 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 Risk Management Committee (RMC) on the other hand acts as an advisory committee on key operational matters. BRMC is also supported by the Investment Committee (IC) which is a Board appointed Committee and overlooks investment risks.

The Risk Management Framework for the Company comprises three main components i.e. strategy and culture, methods and approaches and tools and infrastructure while the Risk Management Approach would be premised on three lines of defence i.e. risk taking and management, risk control and oversight and independent assurance. The Risk Management Cycle is the on-going process of identifying, assessing, controlling and reporting the risks to which the Company is exposed and of 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 (operational risk). Furthermore, Shariah non-compliance risk arises from the failure to comply with the Shariah rules and principles. The Shariah Committee (SC) is the reference point in matters related to Shariah compliance.

The BRMC met four (4) times during the financial year ended 31 December 2017.

(i) Roles and Responsibilities of the BRMC

The functions of the BRMC include:

- reviewing and recommending risk management strategies, policies and risk tolerance for approval by the board.

- 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.

- ensuring adequate infrastructure, resources and systems are in place for an effective risk management; (i.e: ensuring that the staff responsible for implementing risk mangement systems perform those duties independently of the takaful operator's risk taking activities).

- reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Corporate governance (continued)

(i) 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

No.	Name	Designation
1	Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)	Chairman
2	Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)	Member
3	Datuk Yunos bin Abd Ghani	Member
4	Lilian Ng Lup-Yin (Appointed w.e.f. 8 September 2017)	Member
5	Md Tajuddin bin Md Isa (Appointed w.e.f. 11 December 2017)	Member
6	Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)	Chairman (resigned)
7	Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)	Member (resigned)
8	Gan Leong Hin (Resigned w.e.f. 18 May 2017)	Member (resigned)
9	Azim Khursheid Ahmed Mithani (Resigned w.e.f. 15 August 2017)	Member (resigned)

The Nominating Committee met on five (5) occasions as well during the financial year ended 31 December 2017.

(i) Roles and Responsibilities of the Nominating Committee

The function of the Nominating Committee include:

- support the Board in carrying out its functions in the following matters concerning the Board, Senior Management and Company Secretary's:-

  - appointments and removals
  - composition
  - performance evaluation and development
  - fit and proper assessments

Remuneration Committee

No.	Name	Designation
1	Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)	Chairman
2	Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)	Member
3	Datuk Yunos bin Abd Ghani	Member
4	Md Tajuddin bin Md Isa (Appointed w.e.f. 11 December 2017)	Member
5	Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)	Chairman (resigned)
6	Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)	Member (resigned)
7	Azim Khursheid Ahmed Mithani (Resigned w.e.f. 15 August 2017)	Member (resigned)

The Remuneration Committee met three (3) times during the financial year ended 31 December 2017.

Corporate governance (continued)

(i) Nominating and Remuneration Committees (continued)

Remuneration Committee (continued)

(i) Roles and Responsibilities of the Remuneration Committee

The functions of the Remuneration Committee include:

- support the Board in actively overseeing the design and operation of the Company's remuneration system.

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

(ii) 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:

- aligns incentives to business objectives to support the delivery of the Company's business plans, strategies and values;
- enables the recruitment and retention of high calibre employees and incentivises them to achieve success for the Company; and
- 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:

- Performance Management
- Discretionary Annual Incentive Bonus
- Long Term Incentive Plan
- Base Salary Review
- Benefits

Senior Officers of the Company sit in the Executive Committee (EXCO) which is chaired by the Chief Executive Officer. The nine (9) member EXCO comprises the Chief Executive Officer, Chief Distribution Officer, Chief Operations Officer, Chief Human Resources Officer, Chief Risk Officer, Chief Marketing Officer, Chief Actuary, Chief Financial Officer and Chief Information Officer. The EXCO is accountable and responsible for the execution of the framework and policies created by the Board and for the attainment of the Company's strategic objectives.

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.

Corporate governance (continued)

(i) Nominating and Remuneration Committees (continued)

Remuneration Committee (continued)

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

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 rewards 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 through 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 forms of salary and benefits, while variables remuneration is in the forms 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.

The Company is applying the transitional arrangements as per Part G of BNM Guidelines on Corporate Governance (BNM/RH/PD 029-9) and currently is reviewing the design and structure of the remuneration system to be fully aligned and compliant with the requirement of Part D of the guidelines. In particular, the requirements with regards to alignment of the remuneration for individuals with prudent risk taking, multi-year framework with payout schedules which reflect the time horizon of risks and promoting behaviours that are aligned to the intended effects of incentive structure.

Corporate governance (continued)

(i) Nominating and Remuneration Committees (continued)

Remuneration Committee (continued)

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

The quantitative remuneration disclosure is shown in Note 26 of the Financial Statements.

(j) Directors' attendance at Board and Board Committee meeting during the financial year ended 31 December 2017.

	Schedule of meeting				
	Board	Audit Committee	Board Risk Management Committee	Nominating Committee	Remuneration Committee
Md Tajuddin bin Md Isa ** (Appointed w.e.f 11 December 2017)	-	-	-	-	-
Datuk Yunos bin Abd Ghani	5 out of 7	*	2 out of 4	3 out of 5	1 out of 3
Mazidah binti Abdul Malik (Appointed w.e.f. 1 April 2017)	5 out of 5	3 out of 3	3 out of 3	3 out of 3	1 out of 1
Ezamshah bin Ismail (Appointed w.e.f. 1 August 2017)	3 out of 3	2 out of 2	2 out of 2	2 out of 2	1 out of 1
Lilian Ng Lup-Yin (Appointed w.e.f. 8 September 2017)	2 out of 2	*	*	1 out of 1	*
Gan Leong Hin (Resigned w.e.f. 18 May 2017)	2 out of 2	1 out of 1	*	2 out of 2	*
Abdul Khalil bin Abdul Hamid (Resigned w.e.f. 13 July 2017)	4 out of 4	2 out of 2	2 out of 2	3 out of 3	2 out of 2
Azim Khursheid Ahmed Mithani (Resigned w.e.f. 15 August 2017)	4 out of 4	*	2 out of 2	3 out of 3	2 out of 2
Dato' Ghazali bin Awang (Resigned w.e.f. 15 November 2017)	6 out of 6	3 out of 3	3 out of 3	5 out of 5	3 out of 3
Datuk Adinan bin Maning (Resigned w.e.f. 30 November 2017)	4 out of 6	*	*	*	*

* Not a member

** No Board and Committee meetings were held after Md Tajuddin bin Md Isa was appointed on 11 December 2017

Corporate governance (continued)

(k) Public accountability

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

(l) 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 Audit Committee of the Board assists by scrutinising the information to be disclosed, to ensure accuracy, adequacy and completeness.

Other statutory information

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

i) all known impaired debts have been written off and adequate provision made for doubtful debts, and

ii) 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.

iii) 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:

i) 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

ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or

iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or

iv) 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

v) 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:

i) 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

ii) 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.

Prudential BSN Takaful Berhad
(Company No. 740651-H)
(Incorporated in Malaysia)

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 (re)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 2017 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 25 to the financial statements.

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

....
Datuk Yunos Bin Abd Ghani

....
Lilian Ng Lup-Yin

Date: 14 February 2018

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 2017.

We had ten (10) 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 issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions 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 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 except for four (4) Shariah non-compliance events. The cases are due to operational lapses which do not result to invalidation of contract or the need to purify any tainted revenue.

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.

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.

Prudential BSN Takaful Berhad

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

Based on the above, in our opinion:

1. notwithstanding the incidences mentioned above, 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 2017, 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 2017 have been conducted in conformity with Shariah principles.

On behalf of the Shariah Committee;

Chairman of the Shariah Committee: ....
Dr. Mohd Fuad bin Md Sawari

Shariah Committee: ....
Wan Rumaizi bin Wan Husin

Kuala Lumpur,

Date: 14 February 2018

Statement of financial position as at 31 December 2017

	Note	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Assets									
Property and equipment	3	33,521	-	-	33,521	22,602	-	-	22,602
Intangible assets	4	22,923	-	-	22,923	15,738	-	-	15,738
Investments	5	266,111	2,383,811	-	2,648,211	216,005	1,955,949	-	2,170,561
Deferred tax assets	6	28	-	-	28	745	-	65	810
Retakaful assets	7	-	21,477	47	21,524	-	14,518	562	15,080
Takaful receivables	8	-	-	59	59	-	-	71	71
Trade and other receivables	9	161,110	16,912	79	43,378	169,974	14,583	55	37,385
Current tax assets	10	-	-	-	-	8,111	-	-	8,111
Cash and cash equivalents	11	51,038	190,991	27,010	269,039	27,611	142,532	24,201	194,344
Total assets		534,731	2,613,191	27,195	3,038,683	460,786	2,127,582	24,954	2,464,702
Equity									
Capital									
Ordinary share	12	58,824	-	-	58,824	58,824	-	-	58,824
Share premium	12	41,176	-	-	41,176	41,176	-	-	41,176
Reserves		208,466	-	-	208,466	153,925	-	-	153,925
Total equity		308,466	-	-	308,466	253,925	-	-	253,925
Liabilities									
Participants' fund	13	-	2,313,957	13,781	2,326,027	-	1,877,452	8,751	1,884,810
Takaful contract liabilities	14	-	78,849	1,958	80,807	-	52,201	11,493	63,694
Provision for wakalah fees	15	31,141	-	-	31,141	29,697	-	-	29,697
Takaful payables	16	-	17,173	2,818	19,991	-	13,175	1,092	14,267
Trade and other payables	17	194,325	186,745	5,837	252,184	177,164	177,169	3,353	210,459
Current tax liabilities		799	4,935	2,801	8,535	-	3,811	265	4,076
Deferred tax liabilities	6	-	11,532	-	11,532	-	3,774	-	3,774
Total liabilities		226,265	2,613,191	27,195	2,730,217	206,861	2,127,582	24,954	2,210,777
Total equity and liabilities		534,731	2,613,191	27,195	3,038,683	460,786	2,127,582	24,954	2,464,702

The accompanying notes on pages 26 to 102 form an integral part of the financial statements.

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2017

	Note	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Operating revenue	18	694,989	1,608,487	9,559	1,635,927	633,026	1,402,445	9,231	1,426,550
Wakalah fee income	19	676,898	-	-	-	617,659	-	-	-
Gross contributions	18	-	1,569,527	8,770	1,578,087	-	1,364,708	8,618	1,372,833
Contributions ceded to retakaful	13(i)	-	(49,350)	(2,521)	(51,871)	-	(33,131)	(1,447)	(34,578)
Increase in unearned contribution reserves		-	-	8,964	8,964	-	-	(2,515)	(2,515)
Net earned contributions		-	1,520,177	15,213	1,535,180	-	1,331,577	4,656	1,335,740
Surplus sharing from family takaful fund and general fund	13(i)	33,620	-	-	-	47,500	-	-	-
Investment income	20	18,091	38,960	789	57,840	15,367	37,737	613	53,717
Realised gains/(losses)	21	8	6,191	-	6,199	(871)	2,838	-	1,967
Fair value gains/(losses)	22	1,034	98,554	-	99,588	1,035	(35,241)	-	(34,206)
Other operating income	23(i)	209	5,319	-	5,528	308	3,670	247	4,225
Other income		52,962	149,024	789	169,155	63,339	9,004	860	25,703
Gross benefits and claims incurred		-	(520,765)	(1,834)	(522,599)	-	(464,672)	(834)	(465,506)
Claims ceded to retakaful		-	41,173	416	41,589	-	20,973	151	21,124
Gross change to contract liabilities		-	(26,648)	571	(26,077)	-	17,921	212	18,133
Change in contract liabilities ceded to retakaful		-	5,178	(515)	4,663	-	5,785	5	5,790
Net benefits and claims	24	-	(501,062)	(1,362)	(502,424)	-	(419,993)	(466)	(420,459)

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2017 (continued)

	Note	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Surplus sharing to takaful operator	13(i)	-	(30,120)	(3,500)	-	-	(47,500)	-	-
Wakalah fee expense	19	-	(673,931)	(2,967)	-	-	(614,941)	(2,718)	-
Management expenses	25	(309,028)	-	-	(309,028)	(285,956)	-	-	(285,956)
Commission expenses		(338,013)	-	-	(338,013)	(315,123)	-	-	(315,123)
(Increase)/Decrease in provision for wakalah fees	15	(1,444)	-	-	(1,444)	34	-	-	34
Other operating expenses	23(ii)	(11,739)	(4,572)	(252)	(16,563)	(11,124)	(4,652)	-	(15,776)
Other expenses		(660,224)	(708,623)	(6,719)	(665,048)	(612,169)	(667,093)	(2,718)	(616,821)
Surplus attributable to participants before taxation		-	459,516	7,921	-	-	253,495	2,332	-
Tax expense attributable to participants	27	-	(11,960)	(2,892)	(14,852)	-	(1,172)	(596)	(1,768)
Surplus distributed to participants	13(i)	-	(12,836)	-	(12,836)	-	(10,778)	-	(10,778)
Net surplus attributable to participants		-	(434,720)	(5,029)	(439,539)	-	(241,545)	(1,736)	(242,788)
Profit before zakat and taxation		69,636	-	-	69,636	68,829	-	-	68,829
Zakat		(2,310)	-	-	(2,310)	(2,401)	-	-	(2,401)
Tax expense	27	(12,785)	-	-	(12,785)	(15,289)	-	-	(15,289)
Net profit and total comprehensive income for the year		54,541	-	-	54,541	51,139	-	-	51,139

The accompanying notes on pages 26 to 102 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 2017

	Non-distributable		Distributable				
	Capital		Retained earnings				
	Takaful operator Share capital (Note 12)	Share premium	Takaful operator	Family takaful fund	General takaful fund	Company	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	58,824	41,176	102,786	-	-	102,786	202,786
Net profit and total comprehensive income for the year	-	-	51,139	-	-	51,139	51,139
At 31 December 2016/1 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	58,824	41,176	208,466	-	-	208,466	308,466

The accompanying notes on pages 26 to 102 form an integral part of the financial statements.

Statement of cash flows for the financial year ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Profit before zakat and taxation		69,636	68,829
Adjustments for:			
Depreciation on property and equipment	3	3,648	3,107
Amortisation of intangible assets	4	3,391	6,056
Investment income	20	(57,840)	(53,717)
Realised gains on disposal of investments	21	(6,199)	(1,967)
Fair value (gains)/losses on investments	22	(99,588)	34,206
Gains on disposal of property and equipment	23(i)	(48)	(275)
Increase/(Decrease) in provision for wakalah fee	15	1,444	(34)
(Loss)/Profit from operations before changes in operating assets and liabilities		(85,556)	56,205
Increase in general takaful fund		5,030	1,736
Increase in family takaful fund		436,187	240,959
Increase in retakaful assets		(6,444)	(5,787)
Decrease in takaful receivables		12	3,734
Increase in trade and other receivables		(2,755)	(15,697)
Increase/(Decrease) in takaful contract liabilities		17,113	(15,619)
Increase in takaful payables		5,724	7,158
Increase in trade and other payables		54,266	36,477
Tax paid		(6,526)	(15,616)
Net cash generated from operating activities		417,051	293,550
Cash flows from investing activities			
Investment income received		54,602	52,823
Proceeds from disposal of property and equipment/ intangible assets		87	277
Purchase of property and equipment/intangible assets	3,4	(25,182)	(18,804)
Proceeds from disposal of investments		308,448	281,993
Purchase of investments	5(b)	(680,311)	(577,892)
Net cash used in investing activities		(342,356)	(261,603)
Net increase in cash and cash equivalents		74,695	31,947
Cash and cash equivalents at 1 January		194,344	162,397
Cash and cash equivalents at 31 December		269,039	194,344
Cash and cash equivalents comprise:			
Cash and bank balances			
- Takaful operator	11	51,038	27,611
- Family takaful fund	11	190,991	142,532
- General takaful fund	11	27,010	24,201
		269,039	194,344

The accompanying notes on pages 26 to 102 form an integral part of the financial statements.

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 2017 do not include other entities.

The Company is principally engaged in the underwriting of family takaful business which includes investment-linked business and, related thereto, the investment of funds and general takaful business. There has been no significant change in the nature of these 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 2018.

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, the requirements of Companies Act, 2016, Islamic Financial Services Act, 2013, Takaful Guidelines/Circulars issued by Bank Negara Malaysia ("BNM") and the Principles of Shariah.

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 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018 (continued)

- Amendments to MFRS 4, *Insurance Contracts - Applying MFRS 9 Financial Instruments with* MFRS 4 *Insurance Contracts*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*

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

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- 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 2021

- MFRS 17, *Insurance Contracts*

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

- 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:

- from the annual period beginning on 1 January 2018 for those accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2018, except for amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements 2014 – 2016 Cycle)* and Amendments to MFRS 140, *Investment Property – Transfers of Investment Property* which are not applicable to the Company and MFRS 9 which the Company is eligible for temporary exemption that permits, but does not require, the insurer to apply MFRS 139 *Financial Instruments: Recognition and Measurement* rather than MFRS 9 for annual periods beginning before 1 January 2021.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

- 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, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*, amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*, amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)* and amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures* which are not applicable to the Company.

- 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*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 15, *Revenue from Contracts with Customers*

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The implementation of MFRS 15 is not expected to have significant impact on the financial statements of the Company.

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*.

The Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

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.

1. Basis of preparation (continued)

(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:

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

In previous year, the Company has changed the basis of estimation of impairment loss as disclosed in Note 2(i)(i). In prior years, the impairment loss for trade receivables relating to financing of Individual Special Account (ISA) and Protection Unit Account (PUA) was provided in full for both lapsed and in-force certificates, directly against the trade receivables.

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 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.

(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.

2. Significant accounting policies (continued)

(a) Property and equipment (continued)

(iii) Depreciation (continued)

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	99 years
Building	50 years
Renovation	10 years
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, 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.

(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:

Computer software and licences	3 - 10 years

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

2. Significant accounting policies (continued)

(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

(a) 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.

(b) Loans and receivables, excluding takaful receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

Financial assets categorised as loans and 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)

(c) Takaful receivables

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

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:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and

(b) 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 2016 and 2017.

(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 loans and 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 an affiliated 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.

(a) **Single contribution products**

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

(b) **Other products**

Provision is estimated based on discounted future net cash flows to the takaful operator using an actuarial method consistent with that used for non-unit reserving in a conventional life insurer 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 Shariah Committee, and agreed between the participants and the Company, wakalah fee comprises the following:

- upfront wakalah fee;
- risk management wakalah fee;
- service charge;
- investment management fee;
- top up fee; and
- 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 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 is 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 Shariah Committee 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 Shariah Committee 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 administrating 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 Shariah Committee 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 Shariah Committee 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 Shariah Committee 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 contribution is 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:

(a) maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates.

(b) 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.

(c) 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.

(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:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- 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 liabiility in an orderly transactions between market participants at the measurement date. The measurement assumes that the transactions 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.

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

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 2016		1,078	2,965	12,692	2,093	4,375	2,505	2,754	28,462
Additions for the year		-	-	670	935	859	883	15,403	18,750
Disposals		-	-	-	(799)	-	(3)	-	(802)
Transfer to intangible assets		-	-	-	-	-	-	(7,634)	(7,634)
At 31 December 2016/ 1 January 2017		1,078	2,965	13,362	2,229	5,234	3,385	10,523	38,776
Additions for the year		-	-	2,588	330	2,780	172	11,652	17,522
Disposals		-	-	(454)	(270)	(5)	(60)	-	(789)
Transfer to intangible assets	4	-	-	-	-	-	-	(2,916)	(2,916)
Capitalisation		-	-	1,306	-	-	-	(1,306)	-
At 31 December 2017		1,078	2,965	16,802	2,289	8,009	3,497	17,953	52,593
Accumulated depreciation									
At 1 January 2016		179	456	7,040	1,115	3,900	1,177	-	13,867
Charge for the year	25	22	59	1,914	490	315	307	-	3,107
Disposals		-	-	-	(799)	-	(1)	-	(800)
At 31 December 2016/ 1 January 2017		201	515	8,954	806	4,215	1,483	-	16,174
Charge for the year	25	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
Carrying amounts									
At 1 January 2016		899	2,509	5,652	978	475	1,328	2,754	14,595
At 31 December 2016/ 1 January 2017		877	2,450	4,408	1,423	1,019	1,902	10,523	22,602
At 31 December 2017		855	2,391	6,306	1,326	2,967	1,723	17,953	33,521

4. Intangible assets

	Note	Computer software and license RM'000
Takaful operator and Company		
Cost		
At 1 January 2016		24,694
Additions		54
Transfer from property and equipment	3	7,634
At 31 December 2016/1 January 2017		32,382
Additions for the year		7,660
Transfer from property and equipment	3	2,916
At 31 December 2017		42,958
Accumulated depreciation		
At 1 January 2016		10,588
Amortisation for the year	25	6,056
At 31 December 2016/1 January 2017		16,644
Amortisation for the year	25	3,391
At 31 December 2017		20,035
Carrying amounts		
At 1 January 2016		14,106
At 31 December 2016/1 January 2017		15,738
At 31 December 2017		22,923

5. Investments

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Malaysian government investment issue	3,310	206,372	-	209,682	3,306	204,995	-	208,301
Islamic debts securities	138,175	955,199	-	1,093,374	127,691	852,820	-	980,511
Equity securities	-	1,020,760	-	1,020,760	-	743,891	-	743,891
Unit trust funds	53,050	48,481	-	101,531	32,287	33,492	-	65,779
Deposits with financial institutions	69,865	152,999	-	222,864	51,328	120,751	-	172,079
Investment-linked funds	1,711	-	-	-	1,393	-	-	-
	266,111	2,383,811	-	2,648,211	216,005	1,955,949	-	2,170,561

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

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Loans and receivables ("L&R")								
- Deposits with financial institutions	69,865	152,999	-	222,864	51,328	120,751	-	172,079
Fair value through profit or loss ("FVTPL")								
- Held-for-trading								
Malaysian government investment issue	3,310	206,372	-	209,682	3,306	204,995	-	208,301
Islamic debts securities	138,175	955,199	-	1,093,374	127,691	852,820	-	980,511
Equity securities	-	1,020,760	-	1,020,760	-	743,891	-	743,891
Unit trust funds	53,050	48,481	-	101,531	32,287	33,492	-	65,779
Investment-linked funds	1,711	-	-	-	1,393	-	-	-
	196,246	2,230,812	-	2,425,347	164,677	1,835,198	-	1,998,482
	266,111	2,383,811	-	2,648,211	216,005	1,955,949	-	2,170,561

5. Investments (continued)

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

Company	Note	L&R RM'000	FVTPL RM'000	Total RM'000
At 1 January 2016		108,724	1,798,177	1,906,901
Purchases		63,355	514,537	577,892
Maturities/disposals		-	(280,026)	(280,026)
Fair value gains recognised in profit or loss	22	-	(34,206)	(34,206)
At 31 December 2016/1 January 2017		172,079	1,998,482	2,170,561
Purchases		50,785	629,526	680,311
Maturities/disposals		-	(302,249)	(302,249)
Fair value losses recognised in profit or loss	22	-	99,588	99,588
At 31 December 2017		222,864	2,425,347	2,648,211

6. Deferred tax assets/(liabilities)

Recognised deferred tax assets/(liabilities)

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

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Deferred tax assets	28	-	-	28	745	-	65	810
Deferred tax liabilities	-	(11,532)	-	(11,532)	-	(3,774)	-	(3,774)
	28	(11,532)	-	(11,504)	745	(3,774)	65	(2,964)

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

Movement in recognised temporary differences during the year:

	Note	At 1.1.2016 RM'000	Recognised in profit or loss RM'000	At 31.12.2016/ 1.1.2017 RM'000	Recognised in profit or loss RM'000	At 31.12.2017 RM'000
Takaful operator						
Provisions		317	(166)	151	54	205
Fair value (gains)/ losses		153	(82)	71	(248)	(177)
Others		412	111	523	(523)	-
	27	882	(137)	745	(717)	28
Family takaful fund						
Fair value (gains)/ losses		(6,593)	2,819	(3,774)	(7,758)	(11,532)
	27	(6,593)	2,819	(3,774)	(7,758)	(11,532)
General takaful fund						
Others		125	(60)	65	(65)	-
	27	125	(60)	65	(65)	-
Company						
Provisions		317	(166)	151	54	205
Fair value (gains)/ losses		(6,440)	2,737	(3,703)	(8,006)	(11,709)
Others		537	51	588	(588)	-
		(5,586)	2,622	(2,964)	(8,540)	(11,504)

Unrecognised in deferred tax assets

Deferred tax asset has not been recognised in respect of the provision for wakalah fee reserve relating to the general takaful business of RM 627,000 as at 31 December 2017 (2016: Nil) as it is not probable that future taxable profits will be available against which it can be utilised, for reasons disclosed in Note 36.

7. Retakaful assets

	Note	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Retakaful for actuarial liabilities	13(i)	1,785	-	1,785	4	-	4
Retakaful for takaful contract liabilities	14	19,692	47	19,739	14,514	562	15,076
		21,477	47	21,524	14,518	562	15,080

8. Takaful receivables

	2017 General takaful fund RM'000	2017 Company RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Due contributions including agents balances	66	66	50	50
Less: Allowance for impairment loss	(7)	(7)	-	-
	59	59	50	50
Due from retakaful and cedants	519	519	295	295
Less: Allowance for impairment loss	(519)	(519)	(274)	(274)
	-	-	21	21
	59	59	71	71

9. Trade and other receivables

	Note	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Trade receivables									
Due contributions		20,117	-	-	20,117	15,600	-	-	15,600
Less: Allowance for impairment loss		(6,795)	-	-	(6,795)	(3,425)	-	-	(3,425)
		13,322	-	-	13,322	12,175	-	-	12,175
Other receivables		11,601	288	79	11,968	9,177	1,128	55	10,360
Income due and accrued		1,464	16,624	-	18,088	1,395	13,455	-	14,850
Amount due from family takaful fund	17	131,177	-	-	-	147,082	-	-	-
Amount due from general takaful fund	17	3,546	-	-	-	145	-	-	-
		161,110	16,912	79	43,378	169,974	14,583	55	37,385

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

In previous year, the takaful operator has changed the estimation basis for the allowance impairment for impairment loss of trade receivables as disclosed in Note 1(d).

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 (2016: Nil).

10. Current tax assets

Tax recoverable is subject to approval by the Inland Revenue Board of Malaysia.

11. Cash and cash equivalents

	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
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
	51,038	190,991	27,010	269,039
2016				
Cash and bank balances	1,572	22,788	600	24,960
Fixed and call deposits with licensed financial institutions with maturity less than three months	26,039	119,744	23,601	169,384
	27,611	142,532	24,201	194,344

12. Capital

	2017 Number of shares	2017 Amount RM'000	2016 Number of shares	2016 Amount RM'000
Takaful operator				
Authorised:				
Ordinary shares of RM1 each	-	-	500,000,000	500,000
Issued and fully paid:				
Ordinary shares of RM1 each	58,823,530	58,824	58,823,530	58,824
Share premium		41,176		41,176

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 capital. The Company has twenty-four months upon the commencement of Companies Act, 2016 on 31 January 2017 to utilise the credit. The Company is considering the options available and the proposed option would be subject to Board of Director's approval.

13. Participants' fund

(i) Family takaful fund

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

	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
Actuarial liabilities	106,144	(1,785)	104,359	80,182	(4)	80,178
Seed money	1,711	-	1,711	1,393	-	1,393
Participants' account	2,206,102	-	2,206,102	1,795,877	-	1,795,877
	2,313,957	(1,785)	2,312,172	1,877,452	(4)	1,877,448

The family takaful contract liabilities and its movements are analysed as follows:

	Note	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
Total Participants' fund							
At 1 January		1,877,452	(4)	1,877,448	1,635,908	(7)	1,635,901
Contribution received	18	1,569,527	(49,350)	1,520,177	1,364,708	(33,131)	1,331,577
Liabilities paid for death, maturities, surrenders, benefits and claims	24(a)	(520,765)	41,173	(479,592)	(464,672)	20,973	(443,699)
Benefits and claims experience variation		(30,638)	6,396	(24,242)	14,442	12,161	26,603
Fees deducted		(673,184)	-	(673,184)	(615,923)	-	(615,923)
Credit of profit or change in unit-prices		143,705	-	143,705	5,334	-	5,334
Changes in assumptions		579	-	579	(1,063)	-	(1,063)
Certificate movement		(1,609)	-	(1,609)	(2,649)	-	(2,649)
Other movements		3,806	-	3,806	817	-	817
Profit attributable to the takaful operator		(30,120)	-	(30,120)	(47,500)	-	(47,500)
Profit paid to participants		(12,836)	-	(12,836)	(10,778)	-	(10,778)
Taxation	27	(11,960)	-	(11,960)	(1,172)	-	(1,172)
At 31 December		2,313,957	(1,785)	2,312,172	1,877,452	(4)	1,877,448

13. Participants' fund (continued)

(i) Family takaful fund (continued)

Valuation of family takaful contract 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 and 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 also 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.

13. Participants' fund (continued)

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

	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
(ii) General takaful fund						
Participants account	13,781	-	13,781	8,751	-	8,751
(iii) Company						
Actuarial liabilities	106,144	(1,785)	104,359	80,182	(4)	80,178
Participants account	2,219,883	-	2,219,883	1,804,628	-	1,804,628
	2,326,027	(1,785)	2,324,242	1,884,810	(4)	1,884,806

14. Takaful contract liabilities

(a) Family takaful fund

	Note	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
Provision for claims reported by participants		56,075	(19,692)	36,383	34,996	(14,514)	20,482
Provision for IBNR		22,774	-	22,774	17,205	-	17,205
Provision for outstanding claims		78,849	(19,692)	59,157	52,201	(14,514)	37,687
At 1 January		52,201	(14,514)	37,687	70,122	(8,729)	61,393
Claims incurred during the year		541,844	(46,351)	495,493	442,391	(26,758)	415,633
Claims paid during the year	24(a)	(520,765)	41,173	(479,592)	(464,672)	20,973	(443,699)
Increase in IBNR		5,569	-	5,569	4,360	-	4,360
At 31 December		78,849	(19,692)	59,157	52,201	(14,514)	37,687

14. Takaful contract liabilities (continued)

(b) General takaful fund

	Note	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
Provision for claims reported by participants		203	-	203	829	(411)	418
Provision for IBNR		517	(39)	478	462	(143)	319
Provision for outstanding claims		720	(39)	681	1,291	(554)	737
Provision for unearned contributions		1,238	(8)	1,230	10,202	(8)	10,194
		1,958	(47)	1,911	11,493	(562)	10,931

(i) Provision for outstanding claims

	Note	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
At 1 January		1,291	(554)	737	1,503	(549)	954
Claims incurred in the current accident year		1,766	(160)	1,606	991	(90)	901
Adjustment to claims incurred in prior accident years due to changes in assumptions		(503)	259	(244)	(369)	(66)	(435)
Claims paid during the year	24(b)	(1,834)	416	(1,418)	(834)	151	(683)
At 31 December		720	(39)	681	1,291	(554)	737

(ii) Provision for unearned contributions

	Note	2017 Gross RM'000	2017 Retakaful (Note 7) RM'000	2017 Net RM'000	2016 Gross RM'000	2016 Retakaful (Note 7) RM'000	2016 Net RM'000
At 1 January		10,202	(8)	10,194	7,688	(8)	7,680
Contributions written in the year		8,770	(2,521)	6,249	8,617	(1,447)	7,170
Contributions earned during the year		(5,684)	2,521	(3,163)	(6,103)	1,447	(4,656)
Contributions retained in participant account		(3,375)	-	(3,375)	-	-	-
Model and assumption update		(8,675)	-	(8,675)	-	-	-
At 31 December		1,238	(8)	1,230	10,202	(8)	10,194

14. Takaful contract liabilities (continued)

(b) General takaful fund (continued)

Valuation of general takaful contract liabilities

For general takaful contracts, estimates have to be 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 is 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 is 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 is mainly analysed by accident years as well as by significant business lines and claims type. Large claims are 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 are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

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.

14. Takaful contract liabilities (continued)

(c) Company

	2017			2016		
	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000
Provision for claims reported by participants	56,278	(19,692)	36,586	35,825	(14,925)	20,900
Provision for IBNR	23,291	(39)	23,252	17,667	(143)	17,524
Provision for outstanding claims	79,569	(19,731)	59,838	53,492	(15,068)	38,424
Provision for unearned contributions	1,238	(8)	1,230	10,202	(8)	10,194
	80,807	(19,739)	61,068	63,694	(15,076)	48,618

15. Provision for wakalah fee

Takaful operator and Company	2017 RM'000	2016 RM'000
At 1 January	29,697	29,731
Increase/(Decrease) during the year	1,444	(34)
At 31 December	31,141	29,697

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.

16. Takaful payables

	2017			2016		
	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Amount due to retakaful operators and cedants	17,173	2,818	19,991	13,175	1,092	14,267

17. Trade and other payables

		2017				2016			
	Note	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Trade payables									
Commission payable		69,211	-	-	69,211	54,180	-	-	54,180
Other payables									
Amount due to affiliated companies	29	16,387	-	-	16,387	35,389	-	-	35,389
Other payables and accruals		108,727	55,568	2,291	166,586	87,595	30,087	3,208	120,890
Amount due to takaful operator	9	-	131,177	3,546	-	-	147,082	145	-
		125,114	186,745	5,837	182,973	122,984	177,169	3,353	156,279
		194,325	186,745	5,837	252,184	177,164	177,169	3,353	210,459

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

18. Operating revenue

	Note	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Wakalah fee	19	676,898	-	-	-	617,659	-	-	-
Gross earned contributions		-	1,569,527	8,770	1,578,087	-	1,364,708	8,618	1,372,833
Investment income	20	18,091	38,960	789	57,840	15,367	37,737	613	53,717
		694,989	1,608,487	9,559	1,635,927	633,026	1,402,445	9,231	1,426,550

19. Wakalah fee income/(expenses)

	2017 Takaful operator RM'000	2017 Family takaful fund RM'000	2017 General takaful fund RM'000	2017 Company RM'000	2016 Takaful operator RM'000	2016 Family takaful fund RM'000	2016 General takaful fund RM'000	2016 Company RM'000
Upfront wakalah fee	562,443	(559,479)	(2,964)	-	507,559	(504,845)	(2,714)	-
Service charge	46,396	(46,396)	-	-	41,982	(41,982)	-	-
Investment management fee	13,709	(13,709)	-	-	10,539	(10,539)	-	-
Risk management wakalah fee	54,350	(54,347)	(3)	-	57,579	(57,575)	(4)	-
	676,898	(673,931)	(2,967)	-	617,659	(614,941)	(2,718)	-

20. Investment income

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Dividend income	1,679	23,761	-	25,440	472	18,813	-	19,285
Profit income from:								
Malaysian government investment issue	135	8,255	-	8,390	143	8,253	-	8,396
Islamic debt securities	6,355	42,032	-	48,387	6,578	40,628	-	47,206
Deposits with financial institutions	3,407	7,989	1,135	12,531	1,913	7,084	783	9,780
Transfer from ISA and Tabarru' to takaful operator	11,006	(10,948)	(58)	-	9,898	(9,856)	(42)	-
Transfer to participants' fund	-	(32,055)	(288)	(32,343)	-	(27,130)	(128)	(27,258)
Investment expenses	(4,491)	(74)	-	(4,565)	(3,637)	(55)	-	(3,692)
	18,091	38,960	789	57,840	15,367	37,737	613	53,717

21. Realised gains/(losses)

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Financial assets at FVTPL:								
Realised gains:								
Islamic debts securities	14	137	-	151	295	2,504	-	2,799
Equity securities	-	30,921	-	30,921	-	6,685	-	6,685
Unit trust funds	24	-	-	24	25	-	-	25
Realised losses:								
Islamic debts securities	(30)	(72)	-	(102)	(1,191)	(1,961)	-	(3,152)
Equity securities	-	(24,794)	-	(24,794)	-	(4,390)	-	(4,390)
Unit trust funds	-	(1)	-	(1)	-	-	-	-
	8	6,191	-	6,199	(871)	2,838	-	1,967

22. Fair value gains/(losses)

		2017				2016			
	Note	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Financial assets at FVTPL	5(b)	1,034	98,554	-	99,588	1,035	(35,241)	-	(34,206)

23. Other operating income/(expenses)

(i) Other operating income

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Gains on disposal of property and equipment	48	-	-	48	275	-	-	275
Retakaful surplus distribution	-	2,905	-	2,905	-	2,150	-	2,150
Others	161	2,414	-	2,575	33	1,520	247	1,800
	209	5,319	-	5,528	308	3,670	247	4,225

(ii) Other operating expenses

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
No claims bonus	(11,735)	-	-	(11,735)	(11,070)	-	-	(11,070)
Others	(4)	(4,572)	(252)	(4,828)	(54)	(4,652)	-	(4,706)
	(11,739)	(4,572)	(252)	(16,563)	(11,124)	(4,652)	-	(15,776)

24. Net benefits and claims

(a) Family takaful fund

	Note	2017 RM'000	2016 RM'000
Gross benefits and claims paid	14	520,765	464,672
Claims paid ceded to retakaful companies	14	(41,173)	(20,973)
Gross change in contract liabilities		26,648	(17,921)
Change in contract liabilities ceded to retakaful companies		(5,178)	(5,785)
Net benefits paid and payable		501,062	419,993

(b) General takaful fund

	Note	2017 Fire RM'000	2017 Miscella-neous RM'000	2017 Total RM'000
Gross claims paid less salvage	14	953	881	1,834
Retakaful recoveries	14	(12)	(404)	(416)
Net claims paid	14	941	477	1,418
Net outstanding claims:				
At end of the year		462	219	681
At beginning of the year		(189)	(548)	(737)
Net claims incurred		1,214	148	1,362

	Note	2016 Fire RM'000	2016 Miscella-neous RM'000	2016 Total RM'000
Gross claims paid less salvage	14	465	369	834
Retakaful recoveries	14	(19)	(132)	(151)
Net claims paid	14	446	237	683
Net outstanding claims:				
At end of the year		188	549	737
At beginning of the year		(345)	(609)	(954)
Net claims incurred		289	177	466

(c) Company

	2017 RM'000	2016 RM'000
Gross benefits and claims paid	522,599	465,506
Claims paid ceded to retakaful companies	(41,589)	(21,124)
Gross change in contract liabilities	26,077	(18,133)
Change in contract liabilities ceded to retakaful companies	(4,663)	(5,790)
Net benefits paid and payable	502,424	420,459

25. Management expenses

Takaful operator and Company

	Note	2017 RM'000	2016 RM'000
Personnel expenses (including key management personnel)			
Salaries and bonus		74,835	66,650
Contributions to defined contribution plans		12,065	9,784
Others		9,630	6,103
		96,530	82,537
Audit related fees			
- Audit fee		496	497
- Non audit fee		132	17
Depreciation	3	3,648	3,107
Amortisation of intangible assets	4	3,391	6,056
Directors' fees	26	569	293
Shariah Committee remuneration and related expenses	26	249	225
Rental of office premises		3,877	3,860
Information technology cost		613	3,574
Professional and consultancy fees		7,230	9,956
Outsourcing fees		73,604	76,770
Printing and stationery expenses		2,145	7,316
Advertising cost		5,830	4,584
Agency awards and incentives		47,213	39,449
Bank charges		7,959	6,484
Stamp duty		1,644	1,853
Postage		1,582	3,830
Impairment loss on trade receivables/ (Reversal of impairment loss)		3,370	(6,327)
Retirement gratuity benefits		14,436	10,215
Telecommunications		1,162	1,133
Others		33,348	30,527
		309,028	285,956

26. Key management personnel compensation

The key management personnel compensation are as follows:

Takaful operator and Company

	Note	2017 RM'000	2016 RM'000
Directors			
Non-deferred remuneration			
Fixed remuneration			
Fees		478	234
Other emoluments		91	59
	25	569	293
Shariah Committee members			
Non-deferred remuneration			
Fixed remuneration			
Fees		186	186
Other emoluments		63	39
	25	249	225
Key management personnel			
Non-deferred remuneration			
Fixed remuneration			
Cash-based		6,053	5,053
Contributions to defined contribution plans		860	751
		6,913	5,804
Variable remuneration			
Cash-based		3,683	2,106
Contributions to defined contribution plans		395	326
Others		605	580
		4,683	3,012
Deferred remuneration			
Variable remuneration			
Cash-based		2,944	1,661
Contributions to defined contribution plans		283	258
		3,227	1,919
		14,823	10,735

Key management personnel comprise persons including CEO which other than the Directors of the entity, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

26. Key management personnel compensation (continued)

	2017	2016
Number of key management personnel receiving variable remuneration	9	9

	2017 RM'000	2016 RM'000
Total amount outstanding deferred remuneration (unvested)		
Cash-based	9,686	6,947

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:

	2017 RM'000	2016 RM'000
Chief Executive Officers		
Non-deferred remuneration		
Fixed remuneration		
Cash-based	1,279	1,241
Contributions to defined contribution plans	153	177
	1,432	1,418
Variable remuneration		
Cash-based	1,131	575
Contributions to defined contribution plans	-	89
Others	209	270
	1,340	934
Deferred remuneration		
Variable remuneration		
Cash-based	815	541
Contributions to defined contribution plans	-	84
	815	625
	3,587	2,977

26. Key management personnel compensation (continued)

2017	Fees RM'000	Other emoluments RM'000	Total RM'000
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
Pn. Mazidah binti Abdul Malik*[4]	75	32	107
En. Ezamshah bin Ismail*[5]	42	9	51
En. Md Tajuddin bin Md Isa*[6]	7	-	7
	478	91	569

2016	Fees RM'000	Other emoluments RM'000	Total RM'000
Non-Executive Directors			
Dato' Ghazali bin Awang	75	26	101
Abdul Khalil bin Abdul Hamid	53	23	76
Datuk Adinan bin Maning	53	4	57
Datuk Yunos bin Abd Ghani	53	6	59
	234	59	293

*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 remuneration and no remuneration are deferred.

26. Key management personnel compensation (continued)

The total remuneration received by Shariah Committee members during the financial year are as follows:

2017	Fees RM'000	Other emoluments RM'000	Total RM'000
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 Alhabshi	30	9	39
Ustaz Abdullaah Jalil	30	10	40
	186	63	249

2016	Fees RM'000	Other emoluments RM'000	Total RM'000
Shariah Committee members			
Dr. Mohd Fuad bin Md Sawari	36	7	43
Professor Dr. Saiful Azhar bin Rosly	30	6	36
Wan Rumaizi bin Wan Husin	30	7	37
Dr. Ahmad Zaki Salleh	30	7	37
Prof. Datuk Dr. Syed Othman Alhabshi	30	5	35
Ustaz Abdullaah Jalil	30	7	37
	186	39	225

The total remuneration received by Shariah Committee during the financial year is fixed remuneration and no remuneration are deferred.

27. 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% for year of assessment 2016 and subsequent years of assessment. For the family takaful fund, the tax rate is 8% for year of assessment 2016 and subsequent years of assessment. 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 19) or any other fee receivable by the takaful operator fund in connection with the family fund as disclosed in Note 19 (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. The temporary tax differences previously recognised by the takaful operator fund was released in 2015.

27. Tax expense (continued)

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company 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	12,825	4,627	2,801	12,825	15,658	3,814	491	15,658
- (Over)/Under provision in prior years	(757)	(425)	26	(757)	(506)	177	45	(506)
	12,068	4,202	2,827	12,068	15,152	3,991	536	15,152
Deferred tax assets/liabilities								
- Reversal and origination of temporary differences	717	7,758	65	717	137	(2,819)	60	137
	12,785	11,960	2,892	12,785	15,289	1,172	596	15,289

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:

27. Tax expense (continued)

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Profit/surplus before taxation	69,636	459,516	7,921	69,636	68,829	253,495	2,332	68,829
Taxation at applicable Malaysian statutory tax rate	16,713	36,761	1,901	16,713	16,519	20,280	560	16,519
Income not subject to tax	(159,331)	(24,376)	-	(159,331)	(145,161)	(19,285)	(31)	(145,161)
Non-deductible expenses	155,533	-	839	155,533	144,437	-	22	144,437
	12,915	12,385	2,740	12,915	15,795	995	551	15,795
(Over)/Under provision of current tax in prior year	(757)	(425)	26	(757)	(506)	177	45	(506)
Effect of unrecognised deferred tax assets	627	-	126	627	-	-	-	-
Change in tax rate	-	-	-	-	-	-	-	-
	12,785	11,960	2,892	12,785	15,289	1,172	596	15,289

28. Segment information on cash flows

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Cash flows generated from/(used in):								
Operating activities	79,563	335,785	2,020	417,051	45,743	255,404	6,946	293,550
Investing activities	(56,136)	(287,326)	789	(342,356)	(38,004)	(238,838)	696	(261,603)
Net increase	23,427	48,459	2,809	74,695	7,739	16,566	7,642	31,947

29. 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 the Directors of the Company, and certain members of senior management of the Company.

29. Related parties (continued)

Significant related party transactions

The significant related party transactions of the Company, other than key management personnel compensation as disclosed in Note 26, are as follows:

	Note	Transaction amount for the year ended 31 December Dr/(Cr) 2017 RM'000	2016 RM'000	Gross balance outstanding 31 December Dr/(Cr) 2017 RM'000	2016 RM'000
Holding company					
Investment income		(1,705)	(1,047)	-	-
Commission expense		6,777	5,481	-	-
Sales related expense		4,031	3,746	-	-
Affiliated companies					
Outsourcing fees		73,602	76,769	(15,145)	(34,073)
Software development		3,553	6,689	-	-
Relocation of premise		486	-	-	-
Fund management fees		7,266	6,527	-	-
Rental of office premises		456	423	-	-
Recharge expense		1,537	2,622	(1,242)	(1,316)
Sales related expense		26,391	18,297	-	-
	17			(16,387)	(35,389)

30. Investment-linked business

Statement of financial position as at 31 December 2017

	2017 RM'000	2016 RM'000
Assets		
Investments	1,249,450	901,321
Income due and accrued	5,223	3,028
Amount due from family takaful fund	30,725	53,354
Cash and bank balances	2,403	614
Total Investment-linked business assets	1,287,801	958,317
Liabilities		
Other payables	32,726	13,952
Taxation	791	379
Amount due to takaful operator	9,728	9,115
Deferred tax liabilities	11,491	4,142
Total Investment-linked business liabilities	54,736	27,588
Net asset value of funds	1,233,065	930,729
Represented by:		
Unit holders' account	1,233,065	930,729

30. Investment-linked business (continued)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	2017 RM'000	2016 RM'000
Investment income	28,913	23,349
Realised gains	6,122	2,145
Fair value gains and losses	91,862	(40,650)
Investment management fees	(13,887)	(10,857)
Other operating income	1,570	1,054
Investment and other income before taxation	114,580	(24,959)
Tax expense	(8,213)	2,709
Investment and other income after taxation	106,367	(22,250)

31. Takaful risk management

Takaful risk to the Company includes mortality, morbidity, expenses, lapses, surrenders, investments, and catastrophe events.

The Company has in place policies, guidelines and limits in managing the 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 net losses potential.

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:

Family takaful investment-linked contracts

The family takaful investment-linked contracts 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 and PruBSN Warisan**. The main riders are Health Enrich+, Contributor, Accidental Death & Disablement, and Crisis Shield.

Family takaful non-investment-linked contracts

The family takaful non-investment-linked contracts 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.**

31. 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 provides coverage mainly for residential homes.

(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 impact to the fund solvency significantly. 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 contract completely. This risk would affect expected future profits but it would also reduce takaful liabilities 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.

31. 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
2017			
Endowment	1,786,838	-	1,786,838
Term	294,606	-	294,606
Mortgage	232,513	(1,785)	230,728
Total family takaful fund	2,313,957	(1,785)	2,312,172
2016			
Endowment	1,420,642	-	1,420,642
Term	271,207	-	271,207
Mortgage	185,603	(4)	185,599
Total family takaful fund	1,877,452	(4)	1,877,448

Key assumptions

Material judgement and analyses are required in the choice of assumptions to determine 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.

31. 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 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 liabilities, net 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.

31. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Sensitivities (continued)

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on surplus RM'000	Impact on takaful operator's profit or loss RM'000
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)
2016					
Mortality/Morbidity	+10	39,831	39,303	(33,307)	(27,512)
Investment return	+/-1	13	12	(12)	(0)
Lapse and surrender rates	-10	436	436	(436)	(175)
Discount rate	-1	7,319	7,319	(7,319)	(1,251)

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, an interest-free 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 an interest-free 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 an interest-free loan (Qard receivable) from the takaful operator will be issued to put right the deficit in the Tabarru' fund.

31. Takaful risk management (continued)

(b) General takaful contracts

Concentration of takaful risk

Concentration of risk may arise when the occurrence of a particular event or a series of events can impact the fund solvency significantly. This can be particularly onerous if the risks are concentrated on a particular geographical region. For the general takaful fund portfolio, this is not a key concern as the contract type is mainly fire coverage for residential homes. Proportional and non-proportional retakaful treaties are also in place to ensure that the 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
2016			
Fire	8,413	(1,181)	7,232
Motor others	-	(70)	(70)
Personal accident	205	(196)	9
Contribution written in the year	8,618	(1,447)	7,171

Key assumptions

The principal assumptions underlying the estimation of liabilities is 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.

31. Takaful risk management (continued)

(b) General takaful contracts (continued)

Sensitivities

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net 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)
2016				
Average claims	+10	98	56	(56)

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 is 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 is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

31. 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	14(b)	-	2	1	10	-	707	720

31. 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	14(b)	-	1	1	10	-	669	681

31. Takaful risk management (continued)

(b) General takaful contracts (continued)

Gross general takaful provision for outstanding claims for 2016:

	Note	2011 and prior RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
Accident year								
At end of accident year		12,256	903	3,824	7,176	573	923	
One year later		11,601	765	3,060	4,468	340		
Two years later		10,527	690	3,052	4,432			
Three years later		9,994	686	3,041				
Four years later		9,603	671					
Five years later		9,588						
Current estimate of cumulative claims incurred (UL)		9,588	671	3,041	4,432	340	923	18,995
Accident year								
At end of accident year		(2,581)	(163)	(180)	(472)	(268)	(710)	
One year later		(4,098)	(631)	(3,036)	(4,402)	(330)		
Two years later		(8,419)	(631)	(3,036)	(4,429)			
Three years later		(8,527)	(632)	(3,038)				
Four years later		(8,527)	(670)					
Five years later		(8,527)						
Cumulative payments to-date		(8,527)	(670)	(3,038)	(4,429)	(330)	(710)	(17,704)
Gross general takaful provision for outstanding claims per statement of financial position	14(b)	1,061	1	3	3	10	213	1,291

31. Takaful risk management (continued)

(b) General takaful contracts (continued)

Net general takaful provision for outstanding claims for 2016:

	Note	2011 and prior RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Total RM'000
Accident year								
At end of accident year		7,357	717	2,015	1,824	561	771	
One year later		5,939	588	223	612	340		
Two years later		4,760	568	224	559			
Three years later		4,359	567	214				
Four years later		4,346	552					
Five years later		4,339						
Current estimate of cumulative claims incurred (UL)		4,339	552	214	559	340	771	6,775
Accident year								
At end of accident year		(1,829)	(137)	(141)	(326)	(268)	(576)	
One year later		(3,553)	(512)	(210)	(546)	(330)		
Two years later		(3,734)	(512)	(210)	(556)			
Three years later		(3,813)	(513)	(212)				
Four years later		(3,813)	(551)					
Five years later		(3,813)						
Cumulative payments to-date		(3,813)	(551)	(212)	(556)	(330)	(576)	(6,038)
Net general takaful provision for outstanding claims per statement of financial position	14(b)	526	1	2	3	10	195	737

32. Financial Instruments

Financial risk management objectives and policies

The Board of Directors assumes the overall responsibility for the Company's financial risk management. This involves regular updates through the establishment of Risk Management Committee and Investment Committee.

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 financial instruments issued by the Malaysian government and private companies, amounts due from retakaful and cedants, trade and other receivables, 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.

32. 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.

	2017				2016			
	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
L&R								
Deposits with financial institutions	69,865	152,999	-	222,864	51,328	120,751	-	172,079
Retakaful assets	-	21,477	47	21,524	-	14,518	562	15,080
Takaful receivables	-	-	59	59	-	-	71	71
Trade and other receivables	161,110	16,912	79	43,378	169,974	14,583	55	37,385
Cash and cash equivalents	51,038	190,991	27,010	269,039	27,611	142,532	24,201	194,344
	282,013	382,379	27,195	556,864	248,913	292,384	24,889	418,959
FVTPL								
Malaysian government investment issue	3,310	206,372	-	209,682	3,306	204,995	-	208,301
Islamic debts securities	138,175	955,199	-	1,093,374	127,691	852,820	-	980,511
	141,485	1,161,571	-	1,303,056	130,997	1,057,815	-	1,188,812

32. Financial Instruments (continued)

Credit risk (continued)

	2017							2016						
	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
Takaful operator														
L&R														
Deposits with financial institutions	30,317	39,548	-	-	-	-	69,865	11,780	39,548	-	-	-	-	51,328
Trade and other receivables	-	-	-	-	-	161,110	161,110	-	-	-	-	-	169,974	169,974
Cash and cash equivalents	48,473	58	-	-	-	2,507	51,038	25,109	391	-	-	-	2,111	27,611
FVTPL														
Malaysian government investment issue*	-	-	-	-	-	3,310	3,310	-	-	-	-	-	3,306	3,306
Islamic debts securities	39,622	80,957	-	-	-	17,596	138,175	35,427	76,752	-	-	-	15,512	127,691
Family takaful fund														
L&R														
Deposits with financial institutions	95,720	48,580	-	-	-	8,699	152,999	66,400	47,890	-	-	-	6,461	120,751
Retakaful assets*	-	19,720	929	-	828	-	21,477	-	12,557	-	925	1,036	-	14,518
Trade and other receivables	-	-	-	-	-	16,912	16,912	-	-	-	-	-	14,583	14,583
Cash and cash equivalents	157,044	1,509	-	-	-	32,438	190,991	105,864	-	-	-	-	36,668	142,532
FVTPL														
Malaysian government investment issue*	-	-	-	-	-	206,372	206,372	-	-	-	-	-	204,995	204,995
Islamic debts securities	186,573	531,916	-	-	-	236,710	955,199	159,488	505,693	-	-	-	187,639	852,820

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

32. Financial Instruments (continued)

Credit risk (continued)

	2017							2016						
	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														
L&R														
Retakaful assets*	-	-	-	-	-	47	47	-	-	-	-	-	562	562
Takaful receivables*	-	-	-	-	-	59	59	-	-	-	-	-	71	71
Trade and other receivables	-	-	-	-	-	79	79	-	-	-	-	-	55	55
Cash and bank equivalents*	2,964	5	-	-	-	24,041	27,010	2,599	75	-	-	-	21,527	24,201
Company														
L&R														
Deposits with financial institutions	126,037	88,128	-	-	-	8,699	222,864	78,180	87,438	-	-	-	6,461	172,079
Retakaful assets*	-	19,720	929	-	828	47	21,524	-	12,557	-	925	1,036	562	15,080
Takaful receivables*	-	-	-	-	-	59	59	-	-	-	-	-	71	71
Trade and other receivables	-	-	-	-	-	43,378	43,378	-	-	-	-	-	37,385	37,385
Cash and bank balances*	208,481	1,572	-	-	-	58,986	269,039	133,572	466	-	-	-	60,306	194,344
FVTPL														
Malaysian government investment issue*	-	-	-	-	-	209,682	209,682	-	-	-	-	-	208,301	208,301
Islamic debts securities	226,195	612,873	-	-	-	254,306	1,093,374	194,915	582,445	-	-	-	203,151	980,511

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

32. 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			
2017			
Not due	147,788	-	147,788
Due 0 - 60 days	20,117	(6,795)	13,322
	167,905	(6,795)	161,110
2016			
Not due	157,799	-	157,799
Due 0 - 60 days	15,600	(3,425)	12,175
	173,399	(3,425)	169,974
Family takaful fund			
2017			
Not due	16,912	-	16,912
	16,912	-	16,912
2016			
Not due	14,583	-	14,583
	14,583	-	14,583

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

32. Financial Instruments (continued)

Credit risk (continued)

	Gross RM'000	Individual impairment RM'000	Net RM'000
General takaful fund			
2017			
Not due	664	(526)	138
	664	(526)	138
2016			
Not due	400	(274)	126
	400	(274)	126
Company			
2017			
Not due	30,641	(526)	30,115
Due 0 - 60 days	20,117	(6,795)	13,322
	50,758	(7,321)	43,437
2016			
Not due	25,555	(274)	25,281
Due 0 - 60 days	15,600	(3,425)	12,175
	41,155	(3,699)	37,456

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

32. 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 2017.

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

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.

32. Financial Instruments (continued)

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:

		Impact on profit or loss / surplus			
	Change in variables %	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
2017					
Rate of return	+1	(7,597)	(66,953)	-	(74,550)
Rate of return	-1	7,597	66,953	-	74,550
2016					
Rate of return	+1	(7,302)	(63,984)	-	(71,286)
Rate of return	-1	7,302	63,984	-	71,286

(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.

32. Financial Instruments (continued)

(b) Equity risk (continued)

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").

		Impact on surplus	
	Change in variables %	**2017 RM'000**	**2016 RM'000**
FBMSHA	+10	102,076	74,389
FBMSHA	-10	(102,076)	(74,389)
DJIMGC	+10	4,848	3,216
DJIMGC	-10	(4,848)	(3,216)

32. 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					
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total fair value RM'000	Carrying amount RM'000
Company						
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
	1,122,291	1,303,056	-	2,425,347	2,425,347	2,425,347
2016						
Malaysian government investment issue	-	208,301	-	208,301	208,301	208,301
Islamic debt securities	-	980,511	-	980,511	980,511	980,511
Equity securities	743,891	-	-	743,891	743,891	743,891
Unit trust fund	65,779	-	-	65,779	65,779	65,779
	809,670	1,188,812	-	1,998,482	1,998,482	1,998,482

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

32. 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 (2016: no transfer in either directions).

Level 3 fair value

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

33. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2017 RM'000	2016 RM'000
Less than one year	2,934	2,478
Between one and three years	2,791	1,673
	5,725	4,151

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 which has yet to commence during the financial period.

34. Capital commitments

	2017 RM'000	2016 RM'000
Capital expenditure commitments		
Intangible assets		
Authorised but not contracted for	15,875	11,923
Contracted but not provided for	33,787	8,267
	49,662	20,190
Tangible assets		
Authorised but not contracted for	46,207	-
Contracted but not provided for	4,831	7,639
	51,038	7,639

35. Regulatory capital requirements

The capital structure of the Company as at 31 December 2017, as prescribed under the Risk Based Capital Framework for takaful operators (RBCT) is provided below:

	2017 RM'000	2016 RM'000
Eligible Tier 1 Capital		
Ordinary share	58,824	58,824
Share premium	41,176	41,176
Reserves, including retained earnings	291,055	226,158
	391,055	326,158
Tier 2 Capital		
Eligible reserves	-	-
Amounts deducted from capital	(55,739)	(44,564)
Total capital available	335,316	281,594

36. General takaful business

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 Single Takaful business.

As such the Company entered into a proposed transfer of the General Takaful business certificates to another licensed takaful company subject to approval by Bank Negara Malaysia.

The proposed transfer is expected to be completed before 1 July 2018. The proposed transfer will involve a transfer of certificates including takaful contract liabilities in relation to the business together with consideration amount payable to the licensed takaful company for contract liabilities undertaken.

As the General Takaful business is not significant to the Company where the net surplus to net profit of the Company was 5% (2016: 5%) and total asset of the Company was 1% (2016: 1%), the assets and liabilities held for sale are not presented and disclosed separately in the statement of financial position.

Prudential BSN Takaful Berhad

(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 21 to 102 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 2017 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 Yunos Bin Abd Ghani
Director

....

Lilian Ng Lup-Yin
Director

Date: 14 February 2018

Prudential BSN Takaful Berhad

(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 21 to 102 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 in Kuala Lumpur in the Federal Territory on 14 February 2018.

....

New Kheng Chee

Before me:

PESURUHJAYA SUMPAH
No. W 530
TAN SEOK KETT
MALAYSIA

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 2017, 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 21 to 102.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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.

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.

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.

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: 02941/09/2018 J
Chartered Accountant

14 February 2018
Petaling Jaya