Prudential BSN Takaful Berhad

(Company No. 200601020898 (740651-H))
(Incorporated in Malaysia)

Financial statements for the financial year ended 31 December 2019

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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 2019.

Principal activities

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

Holding company

The 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 year	49,499

Dividend

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

Reserves and provisions

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

Directors

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

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

Statement of Directors' Responsibility

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

It is the responsibility of the Directors to ensure that the financial reporting of the Company presents a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and cash flows of the Company for the financial year ended 31 December 2019.

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

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

The Statement by Directors pursuant to Section 251(2) of the Companies Act 2016 is set out on page 110.

Directors' interests

None of the Directors holding office at the end of the financial year end had any beneficial interest in the ordinary shares of the Company during the financial year ended 31 December 2019, as recorded in the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016.

Directors' benefits

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

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any other arrangements to which the Company is a party, with the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporates.

Issue of shares and debentures

There were no changes in the 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 Takaful costs

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

Corporate governance

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

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

1. **Board of Directors (the Board)**

   (a) Roles and Responsibilities of the Board

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

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

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

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

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

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

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

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

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

The Company has an organisational structure showing all reporting lines as well as documented job descriptions for all employees. The day-to-day business of the Company is managed by the CEO who is assisted by other members of Senior Management. Senior Management comprises of CEO and Senior Officers of the Company. Senior Officers refers to members of the Executive Committee (EXCO) other than the CEO; Appointed Actuary, Head of Compliance, Head of Risk Management, Head of Shariah and Head of Legal. The CEO and other members of Senior Management are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit function to the Board Audit Committee (BAC), internal controls and risk management to the Board Risk Management Committee (BRMC). The Nominating Committee (NC) is delegated the authority to, inter alia, establish a formal and transparent procedure for the appointment of Directors, Shariah Committee (SC), CEO, Senior Officers and the Company Secretary, and to assess the effectiveness of the Board, SC, CEO, Senior Officers and the Company Secretary. The Remuneration Committee (RC) is delegated the authority to, inter alia, provide a formal and transparent procedure for developing a remuneration policy for Directors, SC, CEO, Senior Officers and Other Material Risk Taker (OMRT) and ensuring that their compensation is competitive and consistent with the takaful operator's culture, objectives and strategies. There are two (2) OMRT in the Company, namely the Head of New Business and Head of Underwriting Unit.

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

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

Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

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

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

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

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

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

(b) Board Composition

The Board comprises five (5) Directors, four (4) of whom are Non-Executive and one (1) Executive Director. Of the Non-Executive Directors, three (3) are independent.

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

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(c) Board Meetings

During the financial year ended 31 December 2019, the Board met twelve (12) times to decide on the objectives, strategies and any other specific matters which are reserved for its decision. All Directors have attended more than 75% of the total Board meetings held during the financial year and complied with the requirements on attendance at Board meetings as stipulated in the BNM CG. Details of the attendance of each Director are as follows:

Director	Attendance
Md Tajuddin bin Md Isa	12/12
Datuk Yunos bin Abd Ghani	12/12
Mazidah binti Abdul Malik	12/12
Ezamshah bin Ismail	12/12
Lilian Ng Lup-Yin	11/12

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

(d) Supply of Information

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

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

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile

(i) MD TAJUDDIN BIN MD ISA

Chairman, Independent Non-Executive Director
Age 63, Male, Malaysian

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

Md Tajuddin was appointed as Independent, Non-Executive Director of the Company and assumed the Board Chairmanship on 11 December 2017. He is currently a member of the BAC, BRMC, NC and RC of the Company.

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

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

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

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile (continued)

(ii) MAZIDAH BINTI ABDUL MALIK
Independent Non-Executive Director
Age 61, Female, Malaysian

Aged 61, Mazidah has served Bank Negara Malaysia for more than 30 years. She has extensive experience in trading and portfolio investments in international fixed income markets, having spent 16 years at the Investment and Treasury department of the central bank. She contributed portfolio management strategies and market intelligence to head office during her stint as the Representative of Bank Negara Malaysia in New York between 1994 and 1997. She had the opportunity to trade profitably for the central bank's London office, amidst the 1992 Exchange Rate Management crisis and has honed her market skills from training in New York, London and European financial centres.

She has also served other departments in the bank with exposure in economic policy, risk management, communications, international relations and technical assistance. Her career with Bank Negara Malaysia included stints at the Labuan Offshore Financial Services Authority and the International Centre for Education in Islamic Finance. She has participated in various international meetings including IMF/World Bank Annual meetings, Islamic Development Bank, ASEAN and APEC. She retired from the central bank in August 2014.

In 2016, she was appointed as Independent, Non-Executive Director of Alliance Investment Bank Berhad, a subsidiary of Alliance Bank Malaysia Berhad. Subsequently in 2017, she was appointed Independent Director to two subsidiary boards of Bursa Malaysia.

Mazidah was appointed as Independent, Non-Executive Director of the Company on 1 April 2017. She is currently the Chairman of the BRMC on RC and also a member of BAC and NC of the Company.

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile (continued)

(iii) EZAMSHAH BIN ISMAIL
Independent Non-Executive Director
Age 62, Male, Malaysian

Ezamshah is a professional with wide experiences in the Insurance and Takaful Industry. His competency in management and strategic development has been consistently applied in his more than 35 professional years of engagement at the most senior level.

Ezamshah was an actuarial consultant with William M Mercer between the years of 1981 to 1992 including a two-year stint in New York. As Country Head, he engineered a merger with another firm and now the Mercer organisation is the largest in Malaysia providing Actuarial (insurance and benefit related) and HR consultancy.

He assisted the NSTP Group to acquire a Life Insurance business in 1996 and subsequently became the company's CEO. Under his stewardship, the company, AMAL Assurance Bhd grow tremendously in premiums as well as in asset size.

He joined the Hong Leong Group to set up Hong Leong Tokio Marine Takaful Berhad (HLMT). He was the CEO of HLMT from July 2006 to May 2008 where after almost two years the company achieved profitability.

In his pursuit of educational excellence, he has several qualifications. He holds the following:

- Masters in Actuarial Science (North Eastern University, Boston);
- Associate of the Society of Actuaries (USA);
- Fellow, Registered Financial Planner (FRFP, MFPC Malaysia);
- Certificate in Shariah Law from International Islamic University (Malaysia) [IIUM];
- Graduate of the International Centre for Leadership in Finance (ICLIF); and
- Masters in Business Law (LLM) from the International Islamic University (Malaysia) [IIUM].

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile (continued)

(iii) EZAMSHAH BIN ISMAIL (continued)

He has made several significant contributions to the industry. Whilst being President of the Life Insurance Association of Malaysia (LIAM), he was instrumental in the setting up of the first Life Reinsurance Company (MLRe) in Malaysia and was its first Chairman. He was also the first President of the Malaysian Financial Planning Council (MFPC) and still serves as a council member. He was a Director of the Malaysian Insurance Institute (MII) and the Insurance Mediation Bureau (IMB). He had also held the position of Vice-President of Malaysian Takaful Association (MTA).

Currently he is the Senior Teaching Fellow at the International Centre for Education in Islamic Finance (INCEIF), a university under the auspices of Bank Negara Malaysia. He lectures in the areas of Takaful and Risk Management. He is also an adjunct lecturer at IBFIM, MFPC and ICLIF.

Ezamshah was appointed as Independent, Non-Executive Director of the Company on 1 August 2017. He is currently the Chairman of the BAC and NC; and also a member of BRMC and RC of the Company.

He also sits on the Board of Malaysian Insurance Institute (MII) and Harlow's and MGI Sdn. Bhd. and he is a Shariah Supervisory Board Member of RGA Global (Labuan) Retakaful Berhad and Ayady Takaful of Maldives.

Ezamshah is a strong advocate of digital strategy, as computer programming was a basic necessity in his actuarial studies. In the companies that he had started and acquired, technology use has been a major part of the company's business initiative. AMAL Assurance was the first insurance company to go wireless, introduced e-learning for its staff and uses biometrics recognition for its security. Back then in the late 1990s, he believed a company without an IT presence would not survive the future.

He has also been very much involved in introducing e-learning for online students in INCEIF. He teaches students relying heavily on interactive technology and the online platform, ensuring its teaching excellence and financial sustainability.

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile (continued)

(iv) DATUK YUNOS BIN ABD GHANI
Non-Independent Non-Executive Director
Age 62, Male, Malaysian

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

He was appointed as Non-Independent, Non-Executive Director of the Company on 26 May 2015 and is currently a member of BRMC, NC and RC of the Company.

Datuk Yunos began his career in 1981 as Credit Officer of Bank Bumiputra Malaysia Berhad. In 1996, he assumed the position of General Manager for the Tokyo branch of Bank Bumiputra Malaysia Berhad in Japan. From November 2000 to June 2003, he was the General Manager of Bank Muamalat Malaysia Berhad Labuan Offshore branch and from July 2003 to February 2005, he was the Vice President and Head of Consumer Banking of Bank Muamalat Malaysia Berhad in Kuala Lumpur. He joined Bank Simpanan Nasional (BSN) in March 2005 and assumed the position of Director, Banking Operation. In September 2006, he joined Perbadanan Tabung Pendidikan Tinggi Nasional (PTPTN) and was the Chief Executive Officer of PTPTN until March 2010. Pursuant to the stint in PTPTN, Datuk Yunos assumed the position of Deputy Chief Executive of BSN until November 2017.

Datuk Yunos is the Chief Executive of BSN, a position he has held since December 2017. His main responsibility includes overseeing the bank's overall operations and management. In his vast banking and management locally, internationally including offshore-banking experience, Datuk Yunos - a keen Digital Advocate, has been directly involved in the oversight of numerous multi million Ringgit Information Technology related projects. Amongst the recent highlights in BSN include successfully overseeing the Core Banking Migration and Enterprise Storage Technology Refresh projects to ensure that BSN has the right technological foundations to move forward in the new era of digital while ensuring long term sustainability.

Besides BSN, Datuk Yunos is also a Director of BSNC Corporation Berhad and Permodalan BSN Berhad.

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(e) Directors' Profile (continued)

(v) LILIAN NG LUP-YIN
Non-Independent Executive Director
Age 54, Female, Australian

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

Lilian Ng was appointed as Executive Director of the Company on 8 September 2017 and is a member of the NC of the Company.

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

(f) Directors' Training

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

The Company is a member of FIDE Forum which entitles its Directors to benefits of membership as set out in FIDE Forum website 'www.fideforum.org' and an additional training budget is also allocated for Directors' training programme by the Company.

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

During the financial year ended 31 December 2019, the Company regularly organises in-house briefings conducted by internal and external professionals where the Directors were briefed and discussions held pertaining to the following matters:

<u>Trainings by Internal Professionals</u>

- Determining PruBSN's Operational Risk Capital using Scenario Analysis
- PruBSN Disciplinary Process for Agents
- PruBSN New Wakalah-Ta'awuniah model, Co-branding Shariah parameters and Key SC resolution for 2019
- PRUBSN Cyber Training

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(f) Directors' Training (continued)

__Trainings by External Professionals:__

- Ernst & Young - MFRS 17- Understanding its impact and Consequences
- PWC - Knowledge Sharing on Transfer Pricing
- PCA - IFRS 17 refresher and key challenges to implementation

__External Trainings__

BNM
- Dinner Talk on Digital Assets
- Financial Industry Conference 2019
- Regional Conference on Climate Change

BSN
- AMLATFPUAA Workshop for Board of Directors, Shariah Committee & C-Suites
- Csuite Training on Crisis Management & Media Training
- Cyber Security Essentials Course
- In House Training for BOD & Shariah Committees

FIDE
- 2nd Distinguished Board Leadership Series- Rethinking Strategy
- Artificial Intelligence and Its Role in FIs
- ISRA Programme: Value Based Intermediation - Directors Role
- Masterclass on Cybersecurity - Unseen Treats

ICLIF
- CG Watch: How Does Malaysia Rank
- Raising Defences - Section 17A, MACC Act

Others
- PIDM-FIDE Forum Annual Dialogue with the CEO of PIDM
- Digi.com Berhad - Breakfast Talk on Digital Ethics and Sustainability in a New Economy of Privacy
- FST Media - Exclusive Conference - Financial Services Summit
- IERP - Qualified Risk Directors Programme
    - Series 1: Risk Oversight Practices
    - Series 2: Corporate Culture and ERM
- Red Money - IFI Governance Seminar
- IFN - Asia Forum 2019 - Introducing Redconnect
- Alliance Bank - In-house Board Briefing on Battling Money Laundering & Terrorism Financing in Malaysia
- Seoul National University - Invited presentation - Takaful Development and Challenges in Malaysia
- ISRA - Islamic Finance for Board of Directors Programme (IF4BoD)
- PNB - Corporate Summit - Rebooting Corporate Malaysia

Corporate Governance (continued)

1. Board of Directors (the Board) (continued)

(f) Directors' Training (continued)

<u>**External Trainings (continued)**</u>

- MOF - Program Eksekutif Pengurusan Tertinggi Badan Berkanun Bersama YAB PM & KSN
- Trident Integrity Solutions - Training on Business Ethics, Corporate Liability and Adequate Procedures
- DFC - World Takaful Conference
- Permodalan BSN Berhad - AMLA & Cyber Security Training
- Zain & Co - Avoiding Competition Law Violations – Formulating an Effective Compliance Policy
- PCA - RHO Anti Bribery and Corruption 2019
- PCA - RHO Anti Money Laundering 2019
- PCA - RHO Anti Bribery and Corruption Insurance RHO 2019
- Prudential Fraud Awareness RHO 2019
- Prudential COI RHO 2019
- 29th Pacific Insurance Conference (Hong Kong)
- The Insurance Authority (Hong Kong) - Asian Insurance Forum 2019

2. Management accountability

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

3. Corporate independence

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

4. Internal control framework

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

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

Corporate Governance (continued)

4. Internal control framework (continued)

(a) First line of defence (Risk Taking and Management)

(i) Takes and manages risk exposures in accordance with the risk appetite, mandate and limits set by the Board;

(ii) Identifies and reports the risks being generated, and those that are emerging;

(iii) Escalates breaches to the limits or violations of policies, mandates or instructions; and

(iv) Manages the business in accordance with the control framework laid out in the strategies, policies and risk parameters set by the Board, Board Risk Management Committee (BRMC), or sub committees thereof.

(b) Second line of defence (Risk Control and Oversight)

(i) Assists the Board, BRMC, or sub committees thereof to formulate and implement the approved risk appetite and limit framework, risk management plans, risk policies, risk reporting and risk identification processes; and

(ii) Reviews the risk taking activities of the first line of defence and where appropriate challenges the actions being taken to manage and control risks.

(c) Third line of defence (Independent Assurance)

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

5. Board Audit Committee (BAC)

The BAC is chaired by an independent director and comprises:

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

Secretary

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

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

Corporate Governance (continued)

5. Board Audit Committee (BAC) (continued)

(a) Authority

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

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

(b) Meetings

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

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

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

The external auditors will be invited to attend the BAC meetings on a regular basis.

The BAC shall meet with the affiliated company's GwIA, Chief Compliance Officer and external auditors in private at least once a year without the presence of the Company's Senior Management.

(c) Roles and Responsibilities of the BAC

The functions of the BAC include:

(i) supporting the Board in ensuring that there is a reliable and transparent financial reporting process within the Company;

(ii) overseeing the effectiveness of the internal audit function of the Company;

Corporate Governance (continued)

5. Board Audit Committee (BAC) (continued)

(c) Roles and Responsibilities of the BAC (continued)

(iii) fostering a quality audit of the Company by exercising oversight over the External Auditors, in accordance with the expectations set out in the BNM policy document on External Auditors;

(iv) reviewing and updating the Board on all related party transactions;

(v) reviewing the accuracy and adequacy of the disclosures in the Directors' Report, Corporate Governance Statements and announcements in relation to the preparation of financial statements;

(vi) reviewing third-party opinions on the design and effectiveness of the Company's internal control framework;

(vii) monitoring compliance with the Board's conflicts of interest policy;

(viii) reviewing the Company's policies to ensure compliance with relevant regulations, industry codes and legal requirements in each of the markets where the Company is represented and the monitoring the effectiveness of the policies and procedures;

(ix) approving annual compliance plan for the Company;

(x) reviewing procedures operated for handling allegations from whistleblowers and, reviewing whether proportionate and independent investigation of such matters has occurred; and

(xi) determining the deliverables of the Shariah audit function to ensure that the deliverables are consistent with accepted auditing standards upon consultation with SC.

(d) Activities

The BAC carried out its duties in accordance with its TOR.

The BAC met eight (8) times during the financial year ended 31 December 2019 with timely notices of issues to be discussed. Details of the attendance of each BAC member are as follows:

Director	Attendance
Ezamshah bin Ismail	8/8
Mazidah binti Abdul Malik	8/8
Md Tajuddin bin Md Isa	8/8

Corporate Governance (continued)

5. Board Audit Committee (BAC) (continued)

(d) Activities (continued)

The BAC reviewed the reports and financial statements of the Company. The BAC met with the external auditors and discussed the nature and scope of the audit, considered significant changes in the accounting and auditing issues. The BAC reviewed the management letter and management's response, examined pertinent issues which had significant impact on the results of the Company and discussed applicable accounting and auditing standards. The BAC also reviewed the external auditors audit fees and assessed the objectivity and independence of the external auditors prior to their re-appointment as external auditors.

Additionally, the BAC reviewed the internal auditors' audit findings and recommendations as well as BNM's examination report on the Company. The BAC also reviewed its TOR, the compliance progress report, compliance risk management report, fraud investigation report, annual compliance plan, attestations to be provided to external parties, Audited Takaful Operators Statistical Return and Risk Based Capital Target, outsourcing arrangements with related parties and various related party transactions carried out by the Company.

The BAC had separate sessions with the external auditors and the internal auditor respectively without the presence of Senior Management where matters discussed include key reservations noted by the external auditors and internal auditor respectively during the course of their audit. The BAC together with the BRMC also had separate sessions with the CRO and Head of Compliance respectively without the presence of Senior Management where matters discussed include key reservations noted by them during the reporting period. The BAC together with the BRMC also set the objectives setting for the CRO of the Company who also double hatting as Chief Compliance Officer of the Company.

6. Board Risk Management Committee (BRMC)

The BRMC is chaired by an independent director and comprises:

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

Secretary

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

Corporate Governance (continued)

6. Board Risk Management Committee (BRMC) (continued)

(a) Authority

The BRMC is authorised by the Board 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.

(b) Meetings

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

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

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

The BRMC is supported by the Risk Management Committee (RMC) which acts as an advisory committee on key risk matters. BRMC is also supported by the Investment Committee (IC) which is a Board appointed committee and oversees 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. The Company's approach on Risk Governance is premised on the principle of 'three lines of defence' i.e. Risk Taking and Management, Risk Control and Oversight and Independent Assurance. The Risk Management Cycle is the ongoing process of identifying, assessing, controlling and reporting the risks to which the Company is exposed and includes assessing the solvency position of the Company. Risks have been classified into two main categories, which are made up of financial risk (including market risk, credit risk, liquidity risk and takaful risk) and non-financial risk (strategic risk, operational risk and business environment risk). Additionally, BRMC provides oversight over Shariah non-compliance risk arising from the failure to comply with Shariah rules and principles. The SC is the reference point in matters related to Shariah.

(c) Roles and Responsibilities of the BRMC

The functions of the BRMC include:

(i) reviewing and recommending risk management strategies, policies and risk tolerance for approval by the Board;

(ii) reviewing and assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

Corporate Governance (continued)

6. Board Risk Management Committee (BRMC) (continued)

(c) Roles and Responsibilities of the BRMC (continued)

(iii) reviewing material risk exposures, including market, credit, takaful operational, liquidity, economic, technology, and regulatory risks against the Company risk measurement methodologies and management actions to monitor and control such exposure;

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

(v) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities;

(vi) reviewing and affirming the Company's risk appetite regularly to ensure that it continues to be relevant and reflects any changes in the Company's capacity to take on risk, its inherent risk profile, as well as market and macroeconomic conditions;

(vii) reviewing and recommending appropriate steps to ensure that business and operational decisions are aligned with the risk appetite;

(viii) reviewing and monitoring the effectiveness of the CRO and the Risk Management team; and

(ix) supporting the Board's oversight function over technology related matters.

(d) Activities

The BRMC carried out its duties in accordance with its TOR.

The BRMC met eight (8) times during the financial year ended 31 December 2019 with timely notices of issues to be discussed. Details of the attendance of each BRMC member are as follows:

Director	Attendance
Mazidah binti Abdul Malik	8/8
Ezamshah bin Ismail	8/8
Datuk Yunos bin Abd Ghani	5/8
Md Tajuddin bin Md Isa	8/8

Corporate Governance (continued)

6. Board Risk Management Committee (BRMC) (continued)

(d) Activities (continued)

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

Other reviews by the BRMC include the review of its TOR, the Anti-Money Laundering and Country Financing of Terrorism (AML/CFT) policy, the Management of Group Family Takaful Product Policy, the Surplus Management Policy, Anti-Bribery and Corruption Policy and outsourcing plan of the Company. The BRMC together with BAC also had separate sessions with the CRO without the presence of Senior Management where matters discussed include reservations noted by CRO and areas for improvement in matters relating to Risk and Compliance.

7. Nominating and Remuneration Committees

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

Nominating Committee (NC)

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

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

(a) Authority

The NC is authorised by the Board to establish a documented, formal, transparent procedure for the appointment of Directors, SC, CEO, Senior Officers and the Company Secretary, and to assess the effectiveness of Directors, and the Board as a whole and the various committees of the Board, SC, CEO, Senior Officers and the Company Secretary.

(b) Meetings

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

Corporate Governance (continued)

7. Nominating and Remuneration Committees (continued)

Nominating Committee (NC) (continued)

(b) Meetings (continued)

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

(c) Roles and Responsibilities of the NC

The function of the NC include:

(i) to support the Board in carrying out its functions in the following matters concerning the Board, SC, Senior Management and Company Secretary's:

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

(ii) establish and regularly review succession plans for the Board, SC, Senior Management and Company Secretary as and when appropriate.

(d) Activities

The NC carried out its duties in accordance with its TOR.

The NC met six (6) times during the financial year ended 31 December 2019 with timely notices of issues to be discussed. Details of the attendance of each NC member are as follows:

Director	Attendance
Ezamshah bin Ismail	6/6
Mazidah binti Abdul Malik	6/6
Datuk Yunos bin Abd Ghani	6/6
Lilian Ng Lup-Yin	5/6
Md Tajuddin bin Md Isa	6/6

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

Corporate Governance (continued)

7. Nominating and Remuneration Committees (continued)

Nominating Committee (NC) (continued)

(d) Activities (continued)

In addition, the NC reviewed the membership of the SC and performance assessment of SC and was satisfied that the SC composition in term of size, mix of skills and qualifications is adequate and in line with the expectation set out in the SGF.

The NC also reviewed its TOR, the fit of proper declaration of the CEO, Senior Officers, and the Company Secretary, the list of Key Responsible Person (KRP), Senior Officers and OMRT. KRP refers to Directors, members of SC, CEO and Senior Officers.

Additionally, the NC also reviewed the appointment and re-appointments of CEO, re-appointments of SC members, member of the Board and Appointed Actuary.

Remuneration Committee (RC)

The RC is chaired by an independent director and comprises:

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

Secretary

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

(a) Authority

The RC is authorised by the Board to provide a formal and transparent procedure for developing a remuneration policy for Directors, SC, CEO, Senior Officers and OMRT and ensuring that their compensation is competitive and consistent with the takaful operator's culture, objectives and strategies.

(b) Meetings

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

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

Corporate Governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (RC) (continued)

(c) Roles and Responsibilities of the RC

The functions of the RC include:

(i) supporting the Board in actively overseeing the design and operation of the Company's remuneration system including recommend to the Board a framework and policies governing the remuneration and specific remuneration packages for Directors, SC, CEO, Senior Officers and OMRT.

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

(d) Design and Structure of the Remuneration System

The objective of the Company's remuneration system is to facilitate the achievement of business targets and objectives. Central to this is the need to ensure that the business can attract, retain and motivate the necessary caliber of talent required to fully deliver the business objectives based on good governance, guided by Bank Negara Malaysia's Guideline on Corporate Governance, in compliance to all relevant Shariah rules and without exceeding the tolerated risk level.

The remuneration policy therefore is flexible enough to respond to employment market changes, enhances a team-based culture, supports the Company's values and delivers competitive reward which commensurate with the level of business, team and individual performances.

The foundation of this policy is "Pay for Performance" philosophy which encourages delivery of superior performance against clearly stated goals. It focuses not just on "What" to deliver but also "How" it is delivered, with reference to the Company's organisational values, TRUST.

This policy is delivered via a Total Compensation approach to remuneration and rewards. There are several components in this including base salary and allowances, discretionary short-term and long-term incentives awards and various benefits and perquisites.

Base salary and allowances commensurate with individual's role, responsibilities and experience, taking into consideration the market rates for similar roles in the industry where appropriate.

Corporate Governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (RC) (continued)

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

The short-term incentive is discretionary and determined annually, taking into account individual and company performance. The extent to which area of performance affects the overall incentive payout depends on the role and responsibilities of each employee, reflects the criticality of the individual's contribution, and combining both financial and non-financial metrics.

For longer-term performance, the Company's long-term incentive plan incentivises individual contribution to the business' long-term value and aim to reward past, present and anticipated business performance.

Under this plan, the discretionary awards are determined by way of benchmarking to share price of an affiliated company to create an alignment of interest with our shareholders and to promote a culture of ownership. Award under this plan will vest after a prescribed period based on continued employment in the Company throughout that period. The level of award for this plan is based on the criticality of the individual's position and the performance and contribution of the individual over the period of the award.

Benefits and perquisites are the other components created to support this remuneration system in the Company for the wellbeing of staff and their families. The range of benefits and perquisites offered, including health and wellness benefits, protection and security benefits, retirement benefits etc. are to cater for groups and individual circumstances and are competitive within the market.

(e) Activities

The RC carried out its duties in accordance with its TOR.

The RC met six (6) times during the financial year ended 31 December 2019 with timely notices of issues to be discussed. Details of the attendance of each RC member are as follows:

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

Corporate Governance (continued)

7. Nominating and Remuneration Committees (continued)

Remuneration Committee (RC) (continued)

(e) Activities (continued)

The RC reviewed the remuneration of the Non-Executive Director and Independent Director to ensure that it reflects the level of responsibilities undertaken and linked their contribution to the effective functioning of the Board. The details of their remuneration are set out in Note 25.

The RC also reviewed the remuneration of the Senior Management for their purpose of appointment or re-appointment to ensure that it is align with the Company remuneration system.

Additionally, the RC also reviewed the remuneration of SC members to ensure that it reflects the level of responsibilities undertaken and linked their contribution to the effective functioning of the SC.

Other reviews conducted by the RC include the review of its TOR and Annual Incentive Bonus Framework of the Company.

8. Public accountability

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

9. Financial reporting

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

10. Shariah Committee (SC)

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

Corporate Governance (continued)

10. Shariah Committee (SC) (continued)

The members of the SC are as follows:

No.	Name	Designation
1	Dr. Abdullaah bin Jalil	Chairman
2	Wan Rumaizi bin Wan Husin	Member
3	Dr. Ahmad Zaki bin Salleh	Member
4	Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	Member
5	Dr. Mohd Fuad bin Md Sawari	Member

Secretary

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

(a) Authority

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

(i) The SC is expected to understand in the course of discharging the duties and responsibilities as a SC member, they are responsible and accountable for all Shariah decisions, opinions and views provided by them;

(ii) The SC is expected to advise the Company's Board and provide input to the Company on Shariah matters in order for the Company to comply with Shariah principles at all times;

(iii) The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure that the contents do not contain elements which are not in line with Shariah;

(iv) The SC is expected to ensure that the products of the Company comply with Shariah principles, the SC must approve:

- The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and

- The product manual, marketing advertisements, sale illustrations and brochures used to describe the product;

(v) The SC is responsible to assess the work carried out by GwIA and Shariah review team for Shariah audit and Shariah reviews to ensure compliance with Shariah matters which form part of their assessment of Shariah compliance and assurance information in the annual report;

Corporate Governance (continued)

10. Shariah Committee (SC) (continued)

(a) Authority (continued)

(vi) Legal counsel, auditor or consultant of the Company may seek advice on Shariah matters from the SC and the SC is expected to provide the necessary assistance to the requesting part;

(vii) The SC may advise the Company to consult the Shariah Advisory Council of BNM (SAC BNM) on Shariah matters that could not be resolved. The SC is required to provide written Shariah opinions in circumstances where the Company make reference to SAC BNM for further deliberation, or where the Company submits applications to BNM for new product approval; and

(viii) With regards to the Shariah Review exercise, the SC shall have the authority to identify issues with reference to the Shariah Review Report and where appropriate, to propose corrective measures. Accordingly, the final determination and confirmation as to the compliance status (i.e. whether compliant to Shariah or otherwise) shall be within the power and authority of the SC.

(b) Meetings

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

The SC met eleven (11) times during the financial year ended 31 December 2019 with timely notices of issues to be discussed. Details of the attendance of each SC member are as follows:

Name	Attendance
Dr. Abdullaah bin Jalil (Chairman)	11/11
Wan Rumaizi bin Wan Husin	11/11
Dr. Ahmad Zaki bin Salleh	10/11
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	11/11
Dr. Mohd Fuad bin Md Sawari	10/11

Other statutory information

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

1. all known impaired debts have been written off and adequate provision made for doubtful debts;

2. any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise; and

3. there is adequate provision for incurred claims, including Incurred But Not Reported (IBNR) claims.

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

1. that would render the amount written off for impaired debts or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or

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

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

4. not otherwise dealt with in this report or the financial statements that would render any amount stated in the financial statements of the Company misleading; or

5. that would render the provision for incurred claims, including IBNR, inadequate to any substantial extent.

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

1. any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or

2. any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

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

Other statutory information (continued)

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2019 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred In the interval between the end of that financial year and the date of this report.

Auditors

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

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

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

....
Datuk Yunos Bin Abd Ghani

....
Lilian Ng Lup-Yin

Date: 13 February 2020

Shariah Committee's Report

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

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

In carrying out the roles and the responsibilities of the Prudential BSN Takaful Berhad's Shariah Committee as prescribed in the SGF 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 2019.

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

We had eleven (11) meetings during the financial year where we have reviewed products, transactions, services, processes and documents of the Company. 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 the Company has not violated Shariah principles and with the Shariah rulings, decisions and conditions made by us.

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

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

Shariah Committee's Report (continued)

Among the policies that have been enhanced in year 2019 is the Shariah Non-Compliance Reporting Operational Manual. The success of the reporting requirement greatly depends on the ability of the staff at all relevant levels to identify whether a matter or incident has any potential element of Shariah non-compliance and in view of this various internal discussions and trainings have been carried out mainly with the Risk Coordinators and Compliance Champions from all the departments in the Company. Having clear classifications in the Shariah Non-Compliance Reporting Operational Manual enables a more structured identification process. We have exercised the authority to make the final decision on each of the incidents reported to us and throughout year 2019, there was no actual Shariah non-compliance incident. The Shariah non-compliant classifications as stated in the said policy are as follows:

- Classification 1: The existence of elements that lead to the construction of an invalid contract.

  A contract may be lawful in its substance but unlawful in its attributes. The substance refers to the offer and acceptance, the subject matter and the contracting parties, while the attributes refer to the necessary conditions. An invalid contract may have the essential elements but does not fulfil all the necessary conditions. It violates the Shariah pillars, rules or conditions of a contract; for example, the subject matter is a prohibited item. These elements comprise the intrinsic elements which result in an invalid contract.

- Classification 2: The existence of any prohibited elements or any element that causes the contract to be defective even when the same does not lead to invalidity of the contract.

  For example, a contract may also be invalidated by any extrinsic elements that involve *gharar faḥish* (major uncertainty) or *maysir* (gambling) or other relevant factors. Excessive uncertainty which will lead to probable loss to one of the contracting parties, would come under this category.

- Classification 3: Breach of the takaful operator's fiduciary duty pertaining to its role as a *wakil* (manager) or a *muḍarib* (entrepreneur), as the case may be.

  The duties and responsibilities of the Company as a takaful operator lie in its contractual obligations undertaken with the takaful participants to be the agent that manages the takaful fund as per the agreed terms. The Company shall exercise its liabilities and duties as explicitly stipulated in the contracts and in accord with market practice. Therefore, it is crucial to understand the fiduciary duties pertaining to the roles of the takaful operator particularly towards its takaful participants.

- Classification 4: Failure to comply with the Shariah resolutions.

  It is pertinent to ensure that the Shariah resolutions of the Shariah Committee and the resolutions of the SAC of BNM and SAC of Securities Commission of Malaysia are always complied with. The Company must properly demonstrate compliance with the conditions laid down in the resolutions of the Shariah Committee.

Shariah Committee's Report (continued)

- Classification 5: Failure to comply with regulatory provisions relating to Shariah such as BNM Policy Documents on Shariah contracts.

  As a regulated entity, the takaful operator has to comply with various regulatory provisions, and these regulatory provisions may not deal directly with Shariah concerns. Failure to adhere to general requirements would be addressed under Classification 3 above. Under this classification, the regulatory provisions in question are those that deal directly with Shariah, particularly the BNM Policy Documents on Shariah contracts.

- Classification 6: Failure to comply with internal Shariah requirements or policies.

  In ensuring end-to-end Shariah compliance, comprehensive Shariah policies, both procedural and substantive, must be put in place. Needless to say, all relevant regulatory provisions and Shariah resolutions should be incorporated into internal policies to ensure that the requirements are well embedded in the day-to-day business implementation.

- Classification 7: Other governance or practical instances that may lead to Shariah non-compliance.

  It is pertinent to ensure the provisions and requirements of the Shariah Governance Policy Document of Bank Negara Malaysia are being adhered to.

During the year, numerous Shariah trainings and briefing sessions were held to both the staff and agents of the Company. All staff are required to pass the Fundamental of Shariah and the Fundamental of Takaful and selected staffs are required to pass the Shariah and Takaful Intermediate module. Agents are also provided with comprehensive modules and we have stressed the importance of continuous effort to increase the understanding of Shariah and Takaful to both the staff and agents. There were eleven (11) sessions on "Penghayatan Syariah dalam Takaful" and eleven (11) sessions on various trainings for the agents conducted by Shariah Department throughout the year of 2019 at various branches across Malaysia. In addition to the foregoing, there are various awareness initiatives carried out which also involves the assignment of external experts on Shariah and Takaful to ensure that staff is consistently being refreshed with the knowledge of Shariah and Takaful.

The Senior Management 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 the Company, 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, the Company has complied with all relevant Shariah principles and rulings.

We have also reviewed the financial statements of the Company and confirm that the financial statements are in compliance with the Shariah rules and principles.

Shariah Committee`s Report (continued)

Based on the above, in our opinion:

1. We are of the view that the contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2019, including the management of Takaful 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 the Company for the financial year ended 31 December 2019 have been conducted in conformity with Shariah principles.

On behalf of the Shariah Committee;

Chairman of the Shariah Committee: ....
Dr. Abdullaah bin Jalil

Member of Shariah Committee: ....
Dr. Ahmad Zaki bin Salleh

Kuala Lumpur,

Date: 13 February 2020

Statement of financial position as at 31 December 2019

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Assets								
Property and equipment	3	33,475	-	33,475	32,042	-	-	32,042
Right-of-use assets	4	82,498	-	82,498	-	-	-	-
Intangible assets	5	106,262	-	106,262	76,314	-	-	76,314
Investments	6	364,823	3,037,394	3,400,154	296,645	2,503,195	-	2,798,152
Retakaful assets	7	-	31,117	31,117	-	15,284	-	15,284
Trade and other receivables	8	228,171	36,585	85,829	207,608	18,671	10	50,204
Cash and cash equivalents	9	31,248	493,909	525,157	78,804	368,350	7,113	454,267
Total assets		846,477	3,599,005	4,264,492	691,413	2,905,500	7,123	3,426,263
Equity								
Capital	10	100,000	-	100,000	100,000	-	-	100,000
Reserves		327,215	-	327,215	277,716	-	-	277,716
Total equity		427,215	-	427,215	377,716	-	-	377,716
Liabilities								
Participants' fund	11	-	3,250,278	3,248,215	-	2,602,113	-	2,600,425
Takaful contract liabilities	12	-	89,955	89,955	-	79,391	72	79,463
Provision for wakalah fees	13	42,088	-	42,088	40,068	-	-	40,068
Takaful payables	14	-	6,414	6,414	-	12,574	5	12,579
Trade and other payables	15	291,872	238,924	351,869	270,186	206,937	6,888	307,926
Lease liabilities	4	81,424	-	81,424	-	-	-	-
Current tax liabilities		1,859	2,740	4,599	2,656	3,325	158	6,139
Deferred tax liabilities	16	2,019	10,694	12,713	787	1,160	-	1,947
Total liabilities		419,262	3,599,005	3,837,277	313,697	2,905,500	7,123	3,048,547
Total equity and liabilities		846,477	3,599,005	4,264,492	691,413	2,905,500	7,123	3,426,263

The accompanying notes on pages 42 to 109 form an integral part of the financial statements.

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2019

		2019			2018			
	Note	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Operating revenue	17	717,126	1,999,757	2,021,345	724,325	1,798,898	1,161	1,822,524
Wakalah fee income	18	695,538	-	-	701,616	-	-	-
Gross contributions	17	-	1,940,180	1,940,180	-	1,751,541	641	1,751,938
Contributions ceded to retakaful		-	(61,313)	(61,313)	-	(69,075)	(1,667)	(70,742)
Change in unearned contribution reserves		-	-	-	-	-	1,015	1,015
Net earned contributions		-	1,878,867	1,878,867	-	1,682,466	(11)	1,682,211
Surplus sharing from family takaful fund and general fund	11(i)	63,000	-	-	62,378	-	-	-
Investment income	19	21,588	59,577	81,165	22,709	47,357	520	70,586
Realised losses	20	(259)	(15,722)	(15,981)	(448)	(8,534)	-	(8,982)
Fair value gains/(losses)	21	5,133	120,076	125,209	861	(129,648)	-	(128,787)
Other operating income	22(i)	-	5,764	5,764	1,272	3,957	2,921	8,150
Other income		89,462	169,695	196,157	86,772	(86,868)	3,441	(59,033)
Gross benefits and claims paid		-	(672,322)	(672,322)	-	(605,471)	(326)	(605,797)
Claims ceded to retakaful companies		-	52,351	52,351	-	65,809	6	65,815
Gross change in contract liabilities		-	(10,564)	(10,564)	-	(542)	609	67
Change in contract liabilities ceded to retakaful companies		-	5,534	5,534	-	(6,488)	(39)	(6,527)
Net benefits and claims	23	-	(625,001)	(625,001)	-	(546,692)	250	(546,442)

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2019 (continued)

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Surplus sharing to takaful operator	11(i)	-	(63,000)	-	-	(60,150)	(2,228)	-
Wakalah fee expense	18	-	(695,538)	-	-	(701,515)	(101)	-
Management expenses	24	(328,362)	-	(328,362)	(323,618)	-	-	(323,618)
Commission expenses		(370,028)	-	(370,028)	(356,428)	-	-	(356,428)
Increase in provision for wakalah fees	13	(2,020)	-	(2,020)	(11,003)	-	-	(11,003)
Other operating expenses	22(ii)	(9,957)	(2,636)	(12,593)	(10,910)	(2,192)	-	(13,102)
Other expenses		(710,367)	(761,174)	(713,003)	(701,959)	(763,857)	(2,329)	(704,151)
Surplus attributable to participants before taxation		-	662,387	-	-	285,049	1,351	-
Tax expense attributable to participants	26	-	(11,513)	(11,513)	-	7,588	629	8,217
Surplus distributed to participants	11(i)	-	(13,077)	(13,077)	-	(4,776)	(4,507)	(9,283)
Net surplus attributable to participants		-	(637,797)	(637,797)	-	(287,861)	2,527	(285,090)
Profit before zakat and taxation		74,633	-	74,633	86,429	-	-	86,429
Zakat		(3,591)	-	(3,591)	(2,621)	-	-	(2,621)
Tax expense	26	(21,543)	-	(21,543)	(16,483)	-	-	(16,483)
Net profit for the year		49,499	-	49,499	67,325	-	-	67,325

Statement of profit or loss and other comprehensive income for the financial year ended 31 December 2019 (continued)

		2019			2018			
	Note	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Net profit for the year attributable to owners of the Company		49,499	-	49,499	67,325	-	-	67,325
Items that will not be reclassified subsequently to profit or loss								
Revaluation of property and equipment		-	-	-	2,533	-	-	2,533
Tax effects thereon	16	-	-	-	(608)	-	-	(608)
		-	-	-	1,925	-	-	1,925
Total other comprehensive income for the year, net of tax		-	-	-	1,925	-	-	1,925
Total comprehensive income for the year attributable to owners of the Company		49,499	-	49,499	69,250	-	-	69,250

The accompanying notes on pages 42 to 109 form an integral part of the financial statements.

Statement of changes in equity for the financial year ended 31 December 2019

	Non-distributable			*Distributable*			
	Capital			Retained earnings			
	Takaful operator Share capital (Note 10) RM'000	Share premium RM'000	Revaluation reserves RM'000	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Total equity RM'000
At 1 January 2018	58,824	41,176	-	208,466	-	208,466	308,466
Net profit and total comprehensive income for the year	-	-	1,925	67,325	-	67,325	69,250
Transfer in from accordance with Section 618 (2) of the Companies Act 2016	41,176	(41,176)	-	-	-	-	-
At 31 December 2018/1 January 2019	100,000	-	1,925	275,791	-	275,791	377,716
Net profit and total comprehensive income for the year	-	-	-	49,499	-	49,499	49,499
At 31 December 2019	100,000	-	1,925	325,290	-	325,290	427,215

The accompanying notes on pages 42 to 109 form an integral part of the financial statements.

Prudential BSN Takaful Berhad

(Company No. 200601020898 (740651-H))
(Incorporated in Malaysia)

Statement of cash flows for the financial year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Cash flows from operating activities			
Profit before zakat and taxation		74,633	86,429
Adjustments for:			
Depreciation on property and equipment	3	4,229	4,192
Depreciation of right-of-use assets	4.1	4,451	-
Intangible assets and property and equipment written off	3,5	1,288	2,155
Reversal of provisions of intangible assets and property and equipment	3,5	5,159	1,760
Amortisation of intangible assets	5	9,695	7,045
Investment income	19	(81,165)	(70,586)
Realised losses on disposal of investments	20	15,981	8,982
Fair value (gains)/losses on investments	21	(125,209)	128,787
Gains on disposal of property and equipment	22(ii)	-	(76)
Increase in provision for wakalah fee	13	2,020	11,003
(Loss)/Profit from operations before changes in operating assets and liabilities		(88,918)	179,691
Decrease in general takaful fund		-	(13,781)
Increase in family takaful fund		647,790	288,179
(Increase)/Decrease in retakaful asset		(15,833)	6,240
Decrease in takaful receivables		-	59
Increase in trade and other receivables		(33,036)	(5,883)
Increase/(Decrease) in takaful contract liabilities		10,492	(1,344)
Decrease in takaful payables		(6,165)	(7,412)
Increase in trade and other payables		47,976	42,827
Tax paid		(23,830)	(20,826)
Net cash generated from operating activities		538,476	467,750
Cash flows from investing activities			
Investment in intangible assets	5	(39,953)	(48,349)
Investment income received		78,576	69,643
Proceeds from maturity/disposal of investments	6(b)	22,990,824	16,459,394
Proceeds from disposal of property and equipment	3	256	465
Purchase of property and equipment	3	(13,575)	(16,571)
Purchase of investments	6(b)	(23,483,598)	(16,747,104)
Net cash used in investing activities		(467,470)	(282,522)
Cash flows from financing activities			
Payment of lease liabilities		(116)	-
Net cash used in financing activities		(116)	-
Net increase in cash and cash equivalents		70,890	185,228
Cash and cash equivalents at 1 January		454,267	269,039
Cash and cash equivalents at 31 December		525,157	454,267
Cash and cash equivalents comprise:			
Cash and bank balances			
- Takaful operator	9	31,248	78,804
- Family takaful fund	9	493,909	368,350
- General takaful fund	9	-	7,113
		525,157	454,267

The accompanying notes on pages 42 to 109 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 13, Menara Prudential
Persiaran TRX Barat
55188 Tun Razak Exchange
Kuala Lumpur

The financial statements of the Company as at and for the financial year ended 31 December 2019 do not include other entities.

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

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

The financial statements were authorised for issue by the Board of Directors on 13 February 2020.

1. Basis of preparation

(a) Statement of compliance

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

A Takaful Operator is required to present consolidated financial statements for itself and the Takaful funds it manages and controls in accordance with the requirements of MFRS 10, Consolidated Financial Statements. The statements of financial position and the statements of profit or loss and other comprehensive income of the Takaful Operator, Family Takaful Fund and General Takaful Fund are supplementary financial information presented in accordance with the requirements of BNM and Islamic Financial Services Act 2013 in Malaysia to segregate assets, liabilities, income and expenses of Takaful funds from its own. The statements of financial position and profit or loss and other comprehensive income of the Takaful Operator include only assets, liabilities, income and expenses of the Takaful Operator, excluding the Takaful funds managed by it. The statements of financial position and profit or loss and other comprehensive income of the Family and General Takaful Fund include only the assets, liabilities, income and expenses of the Family Takaful Fund and General Takaful Fund that is set up, managed and controlled by the Takaful Operator.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

In preparing the Company-level financial statements, the balances and transactions of the Takaful Operator are amalgamated and combined with those of the takaful funds. Interfund assets and liabilities, income and expenses relating to transactions between the funds are eliminated in full during amalgamation. The accounting policies adopted for the Takaful Operator and takaful funds are uniform for like transactions and events in similar circumstances.

The takaful funds are consolidated and amalgamated from the date of control and continue to be consolidated until the date such control ceases which occur when the Company's licence to manage takaful business is withdrawn or surrendered.

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 2020

(i) Amendments to MFRS 3, *Business Combination – Definition of a Business*

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

(iii) Amendments to *MFRS 9 Financial Instruments,* MFRS 139 *Financial Instruments: Recognition and Measurement* and MFRS 7 *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

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

(i) MFRS 17, *Insurance Contracts*

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

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

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

(i) from the annual period beginning on 1 January 2020 for the accounting standard that is effective for annual periods beginning on or after 1 January 2020 except for amendments to MFRS 3 which is not applicable to the Company and for MFRS 9, the Company has elected to apply the temporary exemption.

(ii) 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.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 9, *Financial Instruments*

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

(i) it has not previously applied any version of MFRS 9 before; and

(ii) its activities are predominantly connected with takaful on its annual reporting date that immediately precedes 1 April 2016.

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

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

For the financial assets measured at FVTPL, the changes in fair value during the year is disclosed in Note 6(b) of the financial statements. As for the financial assets measured at amortised cost, the carrying value approximates its fair value.

	New classification under MFRS 9	Carrying amounts 1.1.2019 RM'000	Carrying amounts 31.12.2018 RM'000	Changes in carrying amounts RM'000
Investments				
Malaysian government investment issue	Fair value through profit and loss (FVTPL)	190,199	190,199	-
Islamic debt securities	FVTPL	1,204,301	1,204,301	-
Equity securities	FVTPL	1,100,123	1,100,123	-
Unit trust funds	FVTPL	104,337	104,337	-
Deposits with financial institutions	Amortised Cost	199,192	199,192	-
Retakaful and takaful receivables	Amortised Cost	15,284	15,284	-
Trade and other receivables	Amortised Cost	50,204	50,204	-
Cash and cash equivalents	Amortised Cost	454,267	454,267	-
Total financial assets		3,317,907	3,317,907	-

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

MFRS 17, *Insurance Contracts*

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

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

(e) Changes in accounting policies

Arising from the adoption of MFRS 16 on 1 January 2019, Leases, there are changes to the accounting policies applied to lease contracts entered into by the Company as compared to those applied in previous financial statements. The impacts arising from the changes are disclosed in Note 32.

2. Significant accounting policies

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

(a) Property and equipment

(i) Recognition and measurement

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

(a) Property and equipment (continued)

(ii) Subsequent costs

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

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment from the date that they are available for use. 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:

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

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

(b) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

2. Significant accounting policies (continued)

(b) Intangible assets (continued)

(iii) Amortisation

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

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

Software development cost and computer software	3 - 10 years

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

(c) Leases

The Company has applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported under MFRS 117, Leases and related interpretations.

Current financial year

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

(a) The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive subtitution right, then the asset is not identified;

(b) The customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(c) The customer has the right to direct the use of the asset. The customer has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the customer has the right to direct the use of the asset if either the customer has the right to operate the asset; or the customer designed the asset in a way that predetermines how and for what purpose it will be used.

2. Significant accounting policies (continued)

(c) Leases (continued)

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the Company is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

(ii) Recognition and initial measurement

As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset except for land is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

For the right of use assets that related to land, the Company has adopted the revaluation model for property as declared in Note 2(a)(i).

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the respective Company entities' incremental profit rate. Generally, the Company entities use their incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments less any incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to exercise; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

2. Significant accounting policies (continued)

(c) Leases (continued)

(ii) Recognition and initial measurement (continued)

As a lessee (continued)

The Company excludes variable lease payments that linked to future performance or usage of the underlying asset from the lease liability. Instead, these payments, if any, are recognised in profit or loss in the period in which the performance or use occurs.

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

(iii) Subsequent measurement

As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a revision of in-substance fixed lease payments, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Previous financial year

As a lessee

(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.

2. Significant accounting policies (continued)

(c) Leases (continued)

As a lessee (continued)

(i) Finance lease (continued)

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.

(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.

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

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

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

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

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

- ***Receivables, excluding takaful receivables***

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

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

- ***Takaful receivables***

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

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

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

Financial liabilities

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

2. Significant accounting policies (continued)

(d) Financial instruments (continued)

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

Financial liabilities (continued)

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.

(iii) Regular way purchase or sale of financial assets

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

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

- the recognition of an asset to be received and the liability to pay for it on the trade date; and

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

(iv) Derecognition

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

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

2. Significant accounting policies (continued)

(e) Retakaful

The Family Takaful funds (the funds) 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.

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 funds 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 funds 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.

2. Significant accounting policies (continued)

(f) Income tax (continued)

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.

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 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 2018 and 2019.

(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.

2. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Financial assets (continued)

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

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

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

(ii) Other assets

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

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

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

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

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

2. Significant accounting policies (continued)

(i) Impairment (continued)

(ii) Other assets (continued)

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

(iii) Qard receivable

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

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

(j) Equity instruments

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

(i) Ordinary shares

Ordinary shares are classified as equity.

(ii) Distributions of assets to owners of the Company

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

2. Significant accounting policies (continued)

(k) Provisions

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

(l) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

The Company's contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Long-term employee benefits

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

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

(iv) Share-based plan

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

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

2. Significant accounting policies (continued)

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

(i) Provision for wakalah fee

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

- **Single contribution products**

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

- **Other products**

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

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

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

The Company provides financing (trade receivables as disclosed in Note 8) to participants to settle outstanding tabarru' charges to the family takaful fund for amounts which are in shortfall in each participant's ISA and PUA fund. These trade receivables are subject to impairment assessment as described in Note 2(i)(i).

(n) Fair value measurements

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

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

(o) Takaful, trade and other payables

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

2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

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

Management expenses are costs incurred in managing and administrating the funds on behalf of the family 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 rate of the asset.

(r) Zakat

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

(s) Family takaful fund

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

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

(i) Contribution income

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

- ***Investment-linked business***

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

2. Significant accounting policies (continued)

(s) Family takaful fund (continued)

(i) Contribution income (continued)

- ***Non-linked business***

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

(ii) Investment-linked business

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

(iii) Provision for outstanding claims

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

Claims and provisions for claims arising from family takaful certificates, including settlement costs less retakaful recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under family takaful certificates are recognised as follows:

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

- death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the participant or occurrence of contingency covered.

- for individual family takaful business, provision for mortality IBNR claims is made at statement of financial position date. The ultimate cost of outstanding claims is estimated by using Chain Ladder method, a standard actuarial claims projection technique and is subsequently signed-off by a qualified actuary of the Company. Similarly, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

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

2. Significant accounting policies (continued)

(s) Family takaful fund (continued)

(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.

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. Zeroisation 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.

2. Significant accounting policies (continued)

(s) Family takaful fund (continued)

(v) Provision for Expense Overrun

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

(t) Product classification

The family 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.

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 takaful funds.

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

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

(i) that are likely to be a significant portion of the total contractual benefits;

(ii) whose amount or timing is contractually at the discretion of the issuer; and

(iii) that are contractually based on the:
- performance of a specified pool of contracts or a specified type of contract;
- realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- the profit or loss of the fund.

2. Significant accounting policies (continued)

(u) Foreign currency

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.

(v) Fair value measurements

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

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

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

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

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

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 2018		1,078	2,965	16,802	2,289	8,009	3,497	3,392	38,032
Additions for the year		-	-	132	400	348	566	15,125	16,571
Disposals		-	-	-	(1,042)	-	(16)	-	(1,058)
Transfer to intangible assets	5	-	-	-	-	(1,569)	-	-	(1,569)
Property and equipment written off		-	-	-	-	-	-	(194)	(194)
Reversal of provisions		-	-	-	-	-	-	(1,233)	(1,233)
Capitalisation		-	-	259	-	-	-	(259)	-
Revaluation of PPE		442	1,215	-	-	-	-	-	1,657
At 31 December 2018/ 1 January 2019		1,520	4,180	17,193	1,647	6,788	4,047	16,831	52,206
Adjustment on initial application of MFRS16	4	(1,520)	-	-	-	-	-	-	(1,520)
Additions for the year		-	-	8,519	-	2,490	138	2,428	13,575
Disposals		-	-	(60)	(271)	(365)	(513)	-	(1,209)
Property and equipment written off		-	-	(11,501)	-	(22)	(1,637)	-	(13,160)
Reversal of provisions		-	-	-	-	-	-	(4,850)	(4,850)
Capitalisation		-	-	11,734	-	-	604	(12,338)	-
At 31 December 2019		-	4,180	25,885	1,376	8,891	2,639	2,071	45,042

3. **Property and equipment (continued)**

Takaful operator and Company (continued)

	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
Accumulated depreciation									
At 1 January 2018		223	574	10,496	963	5,042	1,774	-	19,072
Charge for the year	24	21	58	2,282	403	1,068	360	-	4,192
Transfer to intangible assets	5	-	-	-	-	(1,555)	-	-	(1,555)
Disposals		-	-	-	(659)	-	(10)	-	(669)
Offset of accumulated depreciation on revaluation		(244)	(632)	-	-	-	-	-	(876)
At 31 December 2018/ 1 January 2019		-	-	12,778	707	4,555	2,124	-	20,164
Charge for the year	24	-	107	2,228	321	1,262	311	-	4,229
Property and equipment written off		-	-	(10,840)	-	(23)	(1,010)	-	(11,873)
Disposals		-	-	(29)	(203)	(318)	(403)	-	(953)
At 31 December 2019		-	107	4,137	825	5,476	1,022	-	11,567
Carrying amounts									
At 1 January 2018		855	2,391	6,306	1,326	2,967	1,723	3,392	18,960
At 31 December 2018/ 1 January 2019		1,520	4,180	4,415	940	2,233	1,923	16,831	32,042
At 31 December 2019		-	4,073	21,748	551	3,415	1,617	2,071	33,475

4. Right-of-use assets

Takaful operator and Company

	Note	Leasehold land RM'000	Buildings RM'000	Total RM'000
Cost				
At 1 January 2019	3	1,520	4,415	5,935
Additions for the year		-	81,014	81,014
Depreciation	24	(17)	(4,434)	(4,451)
At 31 December 2019		1,503	80,995	82,498

4.1 Depreciation capitalised in carrying amount of another asset

	Note	2019 Total RM'000
Recognised in profit of loss	24	4,451

4.2 Extension options

The office buildings contain extension options exercisable by the Company up to nine years before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

	Lease Liabilities Recognised (Discounted) RM'000	Potential Future Lease Payment Not Included In Lease Liabilities (Discounted) RM'000	Historical Rate Of Extension Options %
Buildings	81,424	35,555	76%

5. Intangible assets

	Note	Computer software RM'000	Capital Work-in-progress RM'000	Total RM'000
Takaful operator and Company				
Cost				
At 1 January 2018		42,958	14,561	57,519
Additions for the year		9,301	39,048	48,349
Capitalisation		25,898	(25,898)	-
Transfer from computer equipment	3	1,569	-	1,569
Intangible assets written off		-	(1,961)	(1,961)
Reversal of provisions		-	(527)	(527)
At 31 December 2018/1 January 2019		79,726	25,223	104,949
Additions for the year		1,797	38,156	39,953
Capitalisation		15,468	(15,468)	-
Intangible assets written off		(502)	-	(502)
Reversal of provisions		-	(309)	(309)
At 31 December 2019		96,489	47,602	144,091
Accumulated amortisation				
At 1 January 2018		20,035	-	20,035
Amortisation for the year	24	7,045	-	7,045
Transfer from computer equipment	3	1,555	-	1,555
At 31 December 2018/1 January 2019		28,635	-	28,635
Amortisation for the year	24	9,695	-	9,695
Intangible assets written off		(501)	-	(501)
At 31 December 2019		37,829	-	37,829
Carrying amounts				
At 1 January 2018		22,923	14,561	37,484
At 31 December 2018/1 January 2019		51,091	25,223	76,314
At 31 December 2019		58,660	47,602	106,262

6. Investments

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 Company RM'000
Malaysian government investment issue		814	158,651	159,465	3,287	186,912	190,199
Islamic debts securities		146,918	1,163,361	1,310,279	148,478	1,055,823	1,204,301
Equity securities		-	1,442,777	1,442,777	-	1,100,123	1,100,123
Unit trust funds		56,998	79,340	136,338	55,004	49,333	104,337
Deposits with financial institutions		158,030	193,265	351,295	88,188	111,004	199,192
Investment-linked funds	11(i)	2,063	-	-	1,688	-	-
		364,823	3,037,394	3,400,154	296,645	2,503,195	2,798,152

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

	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 Company RM'000
Receivables						
- Deposits with financial institutions	158,030	193,265	351,295	88,188	111,004	199,192
Fair value through profit or loss						
- Held-for-trading						
Malaysian government investment issue	814	158,651	159,465	3,287	186,912	190,199
Islamic debts securities	146,918	1,163,361	1,310,279	148,478	1,055,823	1,204,301
Equity securities	-	1,442,777	1,442,777	-	1,100,123	1,100,123
Unit trust funds	56,998	79,340	136,338	55,004	49,333	104,337
Investment-linked funds	2,063	-	-	1,688	-	-
	206,793	2,844,129	3,048,859	208,457	2,392,191	2,598,960
	364,823	3,037,394	3,400,154	296,645	2,503,195	2,798,152

6. Investments (continued)

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

Company	Note	Receivables RM'000	FVTPL RM'000	Total RM'000
At 1 January 2018		222,864	2,425,347	2,648,211
Purchases		16,001,842	745,262	16,747,104
Maturities/disposals		(16,025,514)	(442,862)	(16,468,376)
Fair value losses recognised in profit or loss	21	-	(128,787)	(128,787)
At 31 December 2018/1 January 2019		199,192	2,598,960	2,798,152
Purchases		21,067,374	2,416,224	23,483,598
Maturities/disposals		(20,915,271)	(2,091,534)	(23,006,805)
Fair value gains recognised in profit or loss	21	-	125,209	125,209
At 31 December 2019		351,295	3,048,859	3,400,154

7. Retakaful assets

	Note	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Family takaful fund RM'000	2018 Company RM'000
Retakaful for actuarial liabilities	11(i)	12,379	12,379	2,080	2,080
Retakaful for takaful contract liabilities	12	18,738	18,738	13,204	13,204
		31,117	31,117	15,284	15,284

8. Trade and other receivables

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Trade receivables								
Due contributions		29,447	-	29,447	27,121	-	-	27,121
Less: Allowance for impairment loss		(12,178)	-	(12,178)	(9,427)	-	-	(9,427)
		17,269	-	17,269	17,694	-	-	17,694
Other receivables		29,787	17,028	46,815	12,065	1,404	10	13,479
Income due and accrued		2,063	19,557	21,620	1,764	17,267	-	19,031
Amount due from affliated company		125	-	125	-	-	-	-
Amount due from family takaful fund	15	178,927	-	-	174,219	-	-	-
Amount due from general takaful fund	15	-	-	-	1,866	-	-	-
		228,171	36,585	85,829	207,608	18,671	10	50,204

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

Offsetting of financial assets and financial liabilities

As at the end of the current financial year, the Company has no financial assets and liabilities that have been set off (2018: Nil).

9. Cash and cash equivalents

	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
2019				
Cash and bank balances	31,248	162,343	-	193,591
Fixed and call deposits with licensed financial institutions with maturity less than three months	-	331,566	-	331,566
	31,248	493,909	-	525,157
2018				
Cash and bank balances	13,827	39,252	1,671	54,750
Fixed and call deposits with licensed financial institutions with maturity less than three months	64,977	329,098	5,442	399,517
	78,804	368,350	7,113	454,267

10. Capital

	2019		2018	
	Number of shares	Amount RM'000	Number of shares	Amount RM'000
Takaful operator				
Issued and fully paid shares classified as equity instruments: Ordinary shares				
At 1 January	58,823,530	100,000	58,823,530	58,824
Transfer from share premium account in accordance with Section 618 (2) of the Companies Act 2016		-		41,176
At 31 December		100,000		100,000

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 general meetings of the Company.

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

11. Participants' fund

(i) Family takaful fund

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

	2019			2018		
	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000
Actuarial liabilities	188,878	(12,379)	176,499	131,631	(2,080)	129,551
Seed money	2,063	-	2,063	1,688	-	1,688
Participants' account	3,059,337	-	3,059,337	2,468,794	-	2,468,794
	3,250,278	(12,379)	3,237,899	2,602,113	(2,080)	2,600,033

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

		2019			2018		
	Note	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000
Total participants' fund							
At 1 January		2,602,113	(2,080)	2,600,033	2,313,957	(1,785)	2,312,172
Gross earned contributions	17	1,940,180	(61,313)	1,878,867	1,751,541	(69,075)	1,682,466
Benefits and claims paid during the year	23	(672,322)	52,351	(619,971)	(605,471)	65,809	(539,662)
Experience variation		(3,624)	(1,337)	(4,961)	(10,001)	2,971	(7,030)
Fees deducted		(692,410)	-	(692,410)	(699,750)	-	(699,750)
Credit of profit or change in unit-prices		163,931	-	163,931	(90,825)	-	(90,825)
Surplus sharing to takaful operator		(63,000)	-	(63,000)	(60,150)	-	(60,150)
Profit paid to participants		(13,077)	-	(13,077)	(4,776)	-	(4,776)
Tax expense	26	(11,513)	-	(11,513)	7,588	-	7,588
At 31 December		3,250,278	(12,379)	3,237,899	2,602,113	(2,080)	2,600,033

11. Participants' fund (continued)

(i) Family takaful fund (continued)

Valuation of actuarial liabilities

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

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

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

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

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

11. Participants' fund (continued)

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

(ii) Company

	2019 Gross RM'000	2019 Retakaful (Note 7) RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Retakaful (Note 7) RM'000	2018 Net RM'000
Actuarial liabilities	188,878	(12,379)	176,499	131,631	(2,080)	129,551
Participants account	3,059,337	-	3,059,337	2,468,794	-	2,468,794
	3,248,215	(12,379)	3,235,836	2,600,425	(2,080)	2,598,345

12. Takaful contract liabilities

(a) Family takaful fund

	Note	2019 Gross RM'000	2019 Retakaful (Note 7) RM'000	2019 Net RM'000	2018 Gross RM'000	2018 Retakaful (Note 7) RM'000	2018 Net RM'000
Provision for claims reported by participants		66,820	(18,738)	48,082	53,599	(13,204)	40,395
Provision for IBNR		23,135	-	23,135	25,792	-	25,792
Provision for outstanding claims		89,955	(18,738)	71,217	79,391	(13,204)	66,187
At 1 January		79,391	(13,204)	66,187	78,849	(19,692)	59,157
Claims incurred during the year		685,543	(57,885)	627,658	602,995	(59,321)	543,674
Benefits and claims paid during the year	23	(672,322)	52,351	(619,971)	(605,471)	65,809	(539,662)
(Decrease)/Increase in IBNR		(2,657)	-	(2,657)	3,018	-	3,018
At 31 December		89,955	(18,738)	71,217	79,391	(13,204)	66,187

12. Takaful contract liabilities (continued)

(b) General takaful fund

	Note	2018 Gross RM'000	2018 Retakaful (Note 7) RM'000	2018 Net RM'000
Provision for claims reported by participants		72	-	72
Provision for IBNR		-	-	-
Provision for outstanding claims		72	-	72

(i) Provision for outstanding claims

	Note	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000
At 1 January		720	(39)	681
Claims incurred in the current accident year		220	(5)	215
Adjustment to claims incurred in prior accident years due to changes in assumptions		(503)	38	(465)
Claims paid during the year		(326)	6	(320)
Business transfer - IBNR	35	(39)	-	(39)
At 31 December		72	-	72

(ii) Provision for unearned contributions

	Note	Gross RM'000	Retakaful (Note 7) RM'000	Net RM'000
At 1 January		1,238	(8)	1,230
Contributions written in the year		641	(1,667)	(1,026)
Contributions earned during the year		(1,255)	1,675	420
Business transfer	35	(215)	-	(215)
Model and assumption update		(409)	-	(409)
At 31 December		-	-	-

12. Takaful contract liabilities (continued)

(c) Company

	2019			2018		
	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	66,820	(18,738)	48,082	53,671	(13,204)	40,467
Provision for IBNR	23,135	-	23,135	25,792	-	25,792
Provision for outstanding claims	89,955	(18,738)	71,217	79,463	(13,204)	66,259

13. Provision for wakalah fee

Takaful operator and Company	Note	2019 RM'000	2018 RM'000
At 1 January		40,068	31,141
Increase during the year		2,020	11,003
Business transfer	35	-	(2,076)
At 31 December		42,088	40,068

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.

14. Takaful payables

	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Amount due to retakaful operators and cedants	6,414	6,414	12,574	5	12,579

15. Trade and other payables

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Trade payables								
Commission payable		114,766	-	114,766	87,418	-	-	87,418
Other payables								
Amount due to affiliated companies		62,366	-	62,366	57,684	-	-	57,684
Other payables and accruals		114,740	59,997	174,737	125,084	32,718	5,022	162,824
Amount due to takaful operator	8	-	178,927	-	-	174,219	1,866	-
		177,106	238,924	237,103	182,768	206,937	6,888	220,508
		291,872	238,924	351,869	270,186	206,937	6,888	307,926

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

16. Deferred tax liabilities

	2019			2018		
	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000
Deferred tax liabilities	(2,019)	(10,694)	(12,713)	(787)	(1,160)	(1,947)
	(2,019)	(10,694)	(12,713)	(787)	(1,160)	(1,947)

Movement in recognised temporary differences during the year:

	Note	At 1.1.2018 RM'000	Recognised in profit or loss RM'000	Recognised in other comprehensive Income RM'000	At 31.12.2018/ 1.1.2019 RM'000	Recognised in profit or loss RM'000	At 31.12.2019 RM'000
Takaful operator							
Property and equipments		-	-	(608)	(608)	-	(608)
Provisions		205	(52)	-	153	(27)	126
Fair value gains		(177)	(155)	-	(332)	(1,205)	(1,537)
	26	28	(207)	(608)	(787)	(1,232)	(2,019)
Family takaful fund							
Fair value (gains)/losses		(11,532)	10,372	-	(1,160)	(9,534)	(10,694)
	26	(11,532)	10,372	-	(1,160)	(9,534)	(10,694)
Company							
Property and equipments		-	-	(608)	(608)	-	(608)
Provisions		205	(52)	-	153	(27)	126
Fair value (gains)/losses		(11,709)	10,217	-	(1,492)	(10,739)	(12,231)
		(11,504)	10,165	(608)	(1,947)	(10,766)	(12,713)

17. Operating revenue

	Note	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Wakalah fee	18	695,538	-	-	701,616	-	-	-
Gross earned contributions	11	-	1,940,180	1,940,180	-	1,751,541	641	1,751,938
Investment income	19	21,588	59,577	81,165	22,709	47,357	520	70,586
		717,126	1,999,757	2,021,345	724,325	1,798,898	1,161	1,822,524

18. Wakalah fee income/(expenses)

	2019 Takaful operator RM'000	2019 Family takaful fund RM'000	2019 Company RM'000	2018 Takaful operator RM'000	2018 Family takaful fund RM'000	2018 General takaful fund RM'000	2018 Company RM'000
Upfront wakalah fee	581,757	(581,757)	-	579,877	(579,777)	(100)	-
Service charge	50,111	(50,111)	-	48,331	(48,331)	-	-
Investment management fee	19,936	(19,936)	-	17,073	(17,073)	-	-
Risk management wakalah fee	43,734	(43,734)	-	56,335	(56,334)	(1)	-
	695,538	(695,538)	-	701,616	(701,515)	(101)	-

19. Investment income

	2019			2018			
	Takaful operator RM'000	Family 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	1,999	34,260	36,259	1,939	28,476	-	30,415
Profit income from:							
Malaysian government investment issue	124	7,391	7,515	135	7,995	-	8,130
Islamic debt securities	6,831	50,968	57,799	6,949	47,785	-	54,734
Deposits with financial institutions	5,988	19,643	25,631	5,223	13,127	861	19,211
Transfer from ISA and Tabarru' to takaful operator	11,846	(11,846)	-	12,067	(12,010)	(57)	-
Transfer to participants' fund	-	(40,731)	(40,731)	-	(37,939)	(284)	(38,223)
Investment expenses	(5,200)	(108)	(5,308)	(3,604)	(77)	-	(3,681)
	21,588	59,577	81,165	22,709	47,357	520	70,586

20. Realised losses

	2019			2018		
	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000
Financial assets at FVTPL:						
Realised gains:						
Islamic debts securities	3	579	582	-	4	4
Equity securities	-	22,967	22,967	-	45,229	45,229
Realised losses:						
Islamic debts securities	(262)	(4,976)	(5,238)	(448)	(874)	(1,322)
Equity securities	-	(34,292)	(34,292)	-	(52,893)	(52,893)
	(259)	(15,722)	(15,981)	(448)	(8,534)	(8,982)

21. Fair value gains/(losses)

		2019			2018		
	Note	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000
Financial assets at FVTPL	6(b)	5,133	120,076	125,209	861	(129,648)	(128,787)

22. Other operating income/(expenses)

(i) Other operating income

	2019			2018			
	Takaful operator RM'000	Family 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	-	-	-	76	-	-	76
Retakaful surplus distribution	-	4,022	4,022	-	52	-	52
Others	-	1,742	1,742	1,196	3,905	2,921	8,022
	-	5,764	5,764	1,272	3,957	2,921	8,150

(ii) Other operating expenses

	2019			2018		
	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000
No claims bonus	(9,952)	-	(9,952)	(10,491)	-	(10,491)
Others	(5)	(2,636)	(2,641)	(419)	(2,192)	(2,611)
	(9,957)	(2,636)	(12,593)	(10,910)	(2,192)	(13,102)

23. Net benefits and claims

Family takaful fund

	Note	2019 RM'000	2018 RM'000
Gross benefits and claims paid	11,12	672,322	605,471
Claims paid ceded to retakaful companies	12	(52,351)	(65,809)
Gross change in contract liabilities		10,564	542
Change in contract liabilities ceded to retakaful companies		(5,534)	6,488
Net benefits paid and payable		625,001	546,692

24. Management expenses

Takaful operator and Company

	Note	2019 RM'000	2018 RM'000
Management expenses		328,362	323,618
Management expenses for the year is arrived after charging:			
Personnel expenses (including key management personnel)			
Salaries and bonus		69,519	71,849
Contributions to defined contribution plans		8,620	10,910
Other personnel expenses		11,393	5,904
		89,532	88,663
Audit related fees			
- Audit fee		532	520
- Non audit fee		17	102
Depreciation of property & equipments	3	4,229	4,192
Depreciation of right-of-use assets	4	4,451	-
Amortisation of intangible assets	5	9,695	7,045
Directors' fees and other remunerations	24(i)	684	542
Shariah Committees' fees and remunerations	24(ii)	269	251
Rental of office premises		-	3,749
Impairment loss on trade receivables		4,665	2,632
Profit expenses on lease liabilities		2,567	-
Expenses relating to short-term leases *		2,485	-
Expenses relating to leases of low-value assets *		74	-

* The Company leases IT equipment and office premises with contract terms of 1 to 5 years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognise right-of-use assets and lease liabilities for these leases.

24. Management expenses (continued)

	Note	2019 RM'000	2018 RM'000
Directors			
Non-deferred remuneration			
Fixed remuneration			
Fees		583	470
Other remuneration		101	72
	24(i)	684	542
Shariah Committee members			
Non-deferred remuneration			
Fixed remuneration			
Fees		216	184
Other remuneration		53	67
	24(ii)	269	251

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

2019	Fees RM'000	Other remunerations RM'000	Total RM'000
Non-Executive Directors			
Datuk Yunos bin Abd Ghani	125	23	148
Mazidah binti Abdul Malik	154	26	180
Ezamshah bin Ismail	154	26	180
Md Tajuddin bin Md Isa	150	26	176
	583	101	684
2018			
Non-Executive Directors			
Datuk Yunos bin Abd Ghani	100	17	117
Mazidah binti Abdul Malik	122	19	141
Ezamshah bin Ismail	123	19	142
Md Tajuddin bin Md Isa	125	17	142
	470	72	542

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

24. Management expenses (continued)

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

2019	Fees RM'000	Other remunerations RM'000	Total RM'000
Shariah Committee members			
Dr. Mohd Fuad bin Md Sawari	42	10	52
Wan Rumaizi bin Wan Husin	42	11	53
Dr. Ahmad Zaki Salleh	42	10	52
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	42	11	53
Abdullaah bin Jalil	48	11	59
	216	53	269
2018			
Shariah Committee members			
Dr. Mohd Fuad bin Md Sawari	33	11	44
Professor Dr. Saiful Azhar bin Rosly	28	10	38
Wan Rumaizi bin Wan Husin	30	12	42
Dr. Ahmad Zaki Salleh	30	11	41
Prof. Datuk Dr. Syed Othman bin Syed Hussin Alhabshi	30	11	41
Abdullaah bin Jalil	33	12	45
	184	67	251

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

25. Key management personnel compensation

The key management personnel includes all members of EXCO of the Company and Other Material Risk Taker other than CEO are as follows:

Takaful operator and Company

	2019 RM'000	2018 RM'000
Key management personnel		
Non-deferred remuneration		
Fixed remuneration		
Cash-based	5,756	6,453
Contributions to defined contribution plans	874	980
	6,630	7,433
Variable remuneration		
Cash-based	2,448	2,736
Contributions to defined contribution plans	327	424
Others	344	422
	3,119	3,582

25. Key management personnel compensation (continued)

Key management personnel (continued)

	2019 RM'000	2018 RM'000
Deferred remuneration		
Variable remuneration		
Cash-based	1,698	5,048
Contributions to defined contribution plans	5	735
	1,703	5,783
	11,452	16,798

	2019	2018
Number of key management personnel receiving variable remuneration	12	11

	2019 RM'000	2018 RM'000
Total amount outstanding deferred remuneration (unvested)		
Cash-based	5,832	3,381

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 Officer (including benefits-in-kind) during the financial year is as follows:

Chief Executive Officer	2019 RM'000	2018 RM'000
Non-deferred remuneration		
Fixed remuneration		
Cash-based	964	927
Contributions to defined contribution plans	150	145
	1,114	1,072
Variable remuneration		
Cash-based	569	403
Contributions to defined contribution plans	88	62
Others	-	86
	657	551
Deferred remuneration		
Variable remuneration		
Cash-based	278	652
Contributions to defined contribution plans	70	84
	348	736
	2,119	2,359

26. Tax expense

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

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

Since year of assessment 2015, wakalah fees (comprising of fees as disclosed in Note 18) or any other fee receivable by the takaful operator fund in connection with the family fund as disclosed in Note 18 (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.

		2019			2018			
	Note	Takaful operator RM'000	Family 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		20,193	2,740	20,193	20,156	3,327	158	20,156
- Under/(Over) provision in prior years		118	(761)	118	(3,880)	(543)	(787)	(3,880)
		20,311	1,979	20,311	16,276	2,784	(629)	16,276
Deferred tax assets/liabilities								
- Reversal and origination of temporary differences	16	1,232	9,534	1,232	207	(10,372)	-	207
		1,232	9,534	1,232	207	(10,372)	-	207
		21,543	11,513	21,543	16,483	(7,588)	(629)	16,483

26. Tax expense (continued)

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:

	2019			2018			
	Takaful operator RM'000	Family 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	74,633	662,387	74,633	86,429	285,049	1,351	86,429
Taxation at applicable Malaysian statutory tax rate	17,912	52,991	17,912	20,743	22,804	324	20,743
Income not subject to tax	(165,021)	(40,645)	(165,021)	(166,483)	(29,910)	(693)	(166,483)
Non-deductible expenses	169,046	-	169,046	166,090	-	527	166,090
Other - Special tax relief	(512)	-	(512)	-	-	-	-
	21,425	12,346	21,425	20,350	(7,106)	158	20,350
Under/(Over) provision of current tax in prior year	118	(761)	118	(3,880)	(482)	(787)	(3,880)
Others	-	(72)	-	13	-	-	13
	21,543	11,513	21,543	16,483	(7,588)	(629)	16,483

27. Segment information on cash flows

	2019			2018			
	Takaful operator RM'000	Family 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	40,360	498,116	538,476	100,599	387,568	(20,417)	467,750
Investing activities	(94,912)	(372,558)	(467,470)	(72,833)	(210,209)	520	(282,522)
Net increase/(decrease)	(54,552)	125,558	71,006	27,766	177,359	(19,897)	185,228

28. Related parties

Identity of related parties

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

(i) Holding company

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

(ii) Affiliated company

The affiliated company comprises the following:

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

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

(iii) Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

Significant related party transactions

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

	Transaction amount for the year ended 31 December (Income)/Expense	
	2019	**2018**
	RM'000	**RM'000**
Holding company - Malaysia		
Investment income	(4,430)	(1,388)
Commission expenses	10,860	6,375
Sales related expense	7,299	5,247

28. Related parties (continued)

Significant related party transactions (continued)

	Transaction amount for the year ended 31 December (Income)/Expense 2019 RM'000	2018 RM'000
Affiliated companies - Malaysia		
Software development ^	1,035	9,161
Renovation ^	556	1,214
Signage ^	523	1,144
Office rental	683	893
Fund management fees	4,972	5,503
Personnel and other expenses	555	2,005
Information Technology (IT) related expenses	254	532
Marketing expenses *	(124)	-
Zakat	2,621	2,310
Outsourcing fees		
- Other management expenses	30,334	46,861
- Sales related expenses	40,553	22,970
- IT services	32,843	19,311
- Operation and other services	5,172	776
- Project management ^	-	166

^ Capital expenditure
* Reimbursement

Transactions between the Company and its related party including accounting provisions accounted in the profit and loss.

Significant related party balances

	Gross balance outstanding 31 December 2019 RM'000	2018 RM'000
Amount due to related companies		
(i) Prudential Assurance Malaysia Berhad	49,710	32,582
(ii) Prudential Services Asia Sdn Bhd	8,439	17,260
(iii) Prudential Corporation Asia	139	2,034
(iv) Eastspring Investments Berhad	-	134
(v) Eastspring Al-Wara' Investments Berhad	487	2,842
(vi) PruBSN Prihatin	-	2,832
Amount due from related companies		
(i) Prudential Services Limited	125	-

29. Investment-linked business

Statement of financial position as at 31 December 2019

	2019 RM'000	2018 RM'000
Assets		
Investments	1,755,268	1,326,729
Income due and accrued	4,235	4,170
Tax asset	21	123
Amount due from family takaful fund	44,163	64,314
Amount due from takaful operator	5,426	-
Cash and bank balances	2,017	2,153
Total Investment-linked business assets	1,811,130	1,397,489
Liabilities		
Other payables	13,614	5,080
Amount due to takaful operator	-	10,463
Deferred tax liabilities	6,423	543
Total Investment-linked business liabilities	20,037	16,086
Net asset value of funds	1,791,093	1,381,403
Represented by:		
Unit holders' account	1,791,093	1,381,403

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	2019 RM'000	2018 RM'000
Investment income	42,506	36,071
Realised losses	(11,221)	(8,057)
Fair value gains/(losses)	73,499	(136,844)
Investment management fees	(20,136)	(17,932)
Other operating income	435	2,154
Investment and other expense before taxation	85,083	(124,608)
Tax expense	(70)	(177)
Investment and other expense after taxation	85,013	(124,785)

30. Takaful risk management

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

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

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

Family takaful investment-linked certificates

The family takaful investment-linked certificates are mainly made up of regular contribution investment-linked products which can be attached to various riders such as medical, contributor, hospital income and accidental riders. The main products are PruBSN AsasLink and PruBSN WarisanPlus. The main riders are Crisis Shield, Health Protector, Medic Protector, Contributor and Accidental Protector Plus.

Family takaful non-investment-linked certificates

The family takaful non-investment-linked certificates consist of protection plans (for death, TPD and critical illness), savings plan and credit related reducing sum covered protection plan. The main products are PruBSN AnugerahPlus, PruBSN Aspirasi, Premier Vantage, BSN Fitrah, Mortgage Reducing Term Takaful and Reducing Term Takaful.

(a) Family takaful contracts

Concentration of takaful risk

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 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.

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Concentration of takaful risk (continued)

Concentration of risk based on participants' fund balance

	Gross RM'000	Retakaful RM'000	Net RM'000
2019			
Endowment	2,480,333	-	2,480,333
Term	453,249	-	453,249
Mortgage	316,696	(12,379)	304,317
Total family takaful fund	3,250,278	(12,379)	3,237,899
2018			
Endowment	1,991,877	-	1,991,877
Term	336,147	-	336,147
Mortgage	274,089	(2,080)	272,009
Total family takaful fund	2,602,113	(2,080)	2,600,033

Key assumptions

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

Actual results may differ from these estimates. Assumptions are evaluated periodically 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 whereby 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 rate tables.

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Key assumptions (continued)

Mortality and morbidity (continued)

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 practices.

Longevity

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

Investment return

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

Expenses

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

Persistency

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

Discount rate

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

Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross contract liabilities, net contract liabilities, surplus and takaful operator's profit or loss. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

30. Takaful risk management (continued)

(a) Family takaful contracts (continued)

Sensitivities (continued)

	Change in assumptions %	Impact on gross contract liabilities RM'000	Impact on net contract liabilities RM'000	Impact on tabarru surplus RM'000	Impact on takaful operator's profit or loss RM'000
2019					
Mortality/Morbidity	+10	95,918	88,117	(75,841)	(70,601)
Investment return	+/-1	769	654	(654)	(349)
Lapse and surrender rates	-10	632	403	(403)	(376)
Discount rate	-1	17,283	16,655	(16,655)	(12,268)
2018					
Mortality/Morbidity	+10	62,475	60,454	(49,983)	(40,175)
Investment return	+/-1	403	371	(371)	(187)
Lapse and surrender rates	-10	733	702	(702)	(310)
Discount rate	-1	11,452	11,377	(11,377)	(3,278)

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

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

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

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

31. Financial Instruments

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

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

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

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

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

Credit risk

Credit risk is the risk of potential financial loss to the Company and it arises from the risks of loss of principal or income on the failure of a obligator or counterparty to meet its contractual obligations. The Company's exposure to credit risk arises mainly from investment in debt instruments issued by the Malaysian Government, Islamic debts securities, amounts due from retakaful and cedants, trade and other receivables, cash and cash equivalents as well as deposits placed with licensed financial institutions in Malaysia. This is managed through regular evaluation of minimum credit ratings of the financial instruments the Company invests in. 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.

31. Financial Instruments (continued)

Credit risk (continued)

(a) Credit rating of financial assets

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

	2019			2018			
	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000	Takaful operator RM'000	Family takaful fund RM'000	General takaful fund RM'000	Company RM'000
Receivables							
Deposits with financial institutions	158,030	193,265	351,295	88,188	111,004	-	199,192
Retakaful assets	-	31,117	31,117	-	15,284	-	15,284
Trade and other receivables	228,171	36,585	85,829	207,608	18,671	10	50,204
Cash and cash equivalents	31,248	493,909	525,157	78,804	368,350	7,113	454,267
	417,449	754,876	993,398	374,600	513,309	7,123	718,947
Financial assets at FVTPL:							
Malaysian government investment issue	814	158,651	159,465	3,287	186,912	-	190,199
Islamic debts securities	146,918	1,163,361	1,310,279	148,478	1,055,823	-	1,204,301
	147,732	1,322,012	1,469,744	151,765	1,242,735	-	1,394,500

31. Financial Instruments (continued)

Credit risk (continued)

	2019					2018				
	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000	AAA RM'000	AA RM'000	A RM'000	Non-rated RM'000	Total RM'000
Takaful operator										
Receivables										
Deposits with financial institutions	2,030	60,000	-	96,000	158,030	88,188	-	-	-	88,188
Trade and other receivables	-	-	-	228,171	228,171	-	-	-	207,608	207,608
Cash and cash equivalents	30,769	403	14	62	31,248	78,350	398	2	54	78,804
Financial assets at FVTPL:										
Malaysian government investment issue*	-	-	-	814	814	-	-	-	3,287	3,287
Islamic debts securities	65,676	55,247	4,841	21,154	146,918	58,931	71,712	-	17,835	148,478
Family takaful fund										
Receivables										
Deposits with financial institutions	181,580	-	-	11,685	193,265	100,120	-	-	10,884	111,004
Retakaful assets*	-	31,117	-	-	31,117	-	15,284	-	-	15,284
Trade and other receivables	-	-	-	36,585	36,585	-	-	-	18,671	18,671
Cash and cash equivalents	331,644	1,593	-	160,672	493,909	329,935	1,380	-	37,035	368,350
Financial assets at FVTPL:										
Malaysian government investment issue*	-	-	-	158,651	158,651	-	-	-	186,912	186,912
Islamic debts securities	417,518	385,579	29,398	330,866	1,163,361	253,550	520,939	-	281,334	1,055,823

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

31. Financial Instruments (continued)

Credit risk (continued)

	2019 AAA RM'000	2019 AA RM'000	2019 A RM'000	2019 Non-rated RM'000	2019 Total RM'000	2018 AAA RM'000	2018 AA RM'000	2018 A RM'000	2018 Non-rated RM'000	2018 Total RM'000
General takaful fund										
Receivables										
Trade and other receivables	-	-	-	-	-	-	-	-	10	10
Cash and cash equivalents*	-	-	-	-	-	5,251	110	-	1,752	7,113
Company										
Receivables										
Deposits with financial institutions	183,610	60,000	-	107,685	351,295	188,308	-	-	10,884	199,192
Retakaful assets*	-	31,117	-	-	31,117	-	15,284	-	-	15,284
Trade and other receivables	-	-	-	85,829	85,829	-	-	-	50,204	50,204
Cash and cash equivalents*	362,413	1,996	14	160,734	525,157	413,536	1,888	2	38,841	454,267
Financial assets at FVTPL:										
Malaysian government investment issue*	-	-	-	159,465	159,465	-	-	-	190,199	190,199
Islamic debts securities	483,194	440,826	34,239	352,020	1,310,279	312,481	592,651	-	299,169	1,204,301

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

31. Financial Instruments (continued)

Credit risk (continued)

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

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

	Gross RM'000	Individual impairment RM'000	Net RM'000
Takaful operator			
2019			
Not due	210,902	-	210,902
Due 0 - 60 days	29,447	(12,178)	17,269
	240,349	(12,178)	228,171
2018			
Not due	189,914	-	189,914
Due 0 - 60 days	27,121	(9,427)	17,694
	217,035	(9,427)	207,608
Family takaful fund			
2019			
Not due	36,585	-	36,585
	36,585	-	36,585
2018			
Not due	18,671	-	18,671
	18,671	-	18,671

31. Financial Instruments (continued)

Credit risk (continued)

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

	Gross RM'000	Individual impairment RM'000	Net RM'000
General takaful fund			
2019			
Not due	-	-	-
	-	-	-
2018			
Not due	10	-	10
	10	-	10
Company			
2019			
Not due	68,560	-	68,560
Due 0 - 60 days	29,447	(12,178)	17,269
	98,007	(12,178)	85,829
2018			
Not due	32,510	-	32,510
Due 0 - 60 days	27,121	(9,427)	17,694
	59,631	(9,427)	50,204

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

Trade and other receivables mainly consist of inter-fund receivables. The Directors have assessed the recoverability and provision of an impairment of RM1,750,000 have been provided in Takaful Operator fund as at 31 December 2019.

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.

31. Financial Instruments (continued)

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. The retakaful's share of unearned contributions have been excluded from the analysis as these are not contractual obligations.

The maturity profile of the Company's lease liabilities as at end of reporting period based on undiscounted contractual payments are summarised in table below:

2019	Carrying Amount RM'000	Discount rate %	Contractual cash flows RM'000	Under 1 year RM'000	1-2 years RM'000	2-5 years RM'000	More than 5 years RM'000
Lease Liabilities	81,424	4.4% to 4.7%	113,090	7,591	7,591	22,306	75,602

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.

31. Financial Instruments (continued)

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 a combination of such factors. The Company is mainly exposed to profit rate risk and equity risks for its investment activities.

(a) Profit rate risk of financial assets

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

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

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

		Impact on profit or loss / surplus		
	Change in variables %	Takaful operator RM'000	Family takaful fund RM'000	Company RM'000
2019				
Rate of return	+1	(8,381)	(83,729)	(92,345)
Rate of return	-1	8,381	83,729	92,345
2018				
Rate of return	+1	(8,712)	(73,351)	(82,063)
Rate of return	-1	8,712	73,351	82,063

(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). These changes may be 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 where its values may fluctuate as a result of changes in market prices.

The Company's exposure to equity is indirect through the investment-linked unit funds whereby the risks are borne by participants.

31. Financial Instruments (continued)

(b) Equity risk (continued)

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

	Change in variables %	Impact on surplus 2019 RM'000	2018 RM'000
FBMSHA	+10	144,278	110,012
FBMSHA	-10	(144,278)	(110,012)
DJIMGC	+10	7,522	4,825
DJIMGC	-10	(7,522)	(4,825)

Fair value information

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

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

	Fair value of financial instruments carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Total RM'000	RM'000	RM'000
Company					
2019					
Malaysian government investment issue	-	159,465	159,465	159,465	159,465
Islamic debt securities	-	1,310,279	1,310,279	1,310,279	1,310,279
Equity securities	1,442,777	-	1,442,777	1,442,777	1,442,777
Unit trust fund	136,338	-	136,338	136,338	136,338
	1,579,115	1,469,744	3,048,859	3,048,859	3,048,859
2018					
Malaysian government investment issue	-	190,199	190,199	190,199	190,199
Islamic debt securities	-	1,204,301	1,204,301	1,204,301	1,204,301
Equity securities	1,100,123	-	1,100,123	1,100,123	1,100,123
Unit trust fund	104,337	-	104,337	104,337	104,337
	1,204,460	1,394,500	2,598,960	2,598,960	2,598,960

There are no financial instruments which are not carried at fair value and not carried at level 3.

31. Financial Instruments (continued)

Fair value information (continued)

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

Level 1 fair value

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

Level 2 fair value

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

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2018: no transfer in either directions).

Level 3 fair value

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

32. Significant changes in accounting policies

During the year, the Company adopted MFRS 16, *Leases*.

Definition of a lease

On transition to MFRS 16, the Company elected to apply the practical expedient to grandfater the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, *Determining whether an Arrangement contains a lease* were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

Where the Company are a lessee, the Company applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of retained earnings at 1 January 2019.

At 1 January 2019, for leases that were classified as operating lease under MFRS 117, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental profit rate as at 1 January 2019. The weighted-average rate applied is 4.4%. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

32. Significant changes in accounting policies (continued)

The Company used the following practical expedients when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Impacts on financial statements

Since the Company applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 January 2019, there are no adjustments made to the prior period presented.

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 at 31 December 2018, and lease liabilities recognised in the statement of financial position at 1 January 2019.

	RM'000
Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	4,274
Discounted using the incremental profit rate at 1 January 2019	4,060
Recognition exemption for short-term leases	(2,131)
Extension and termination options reasonably certain to be exercised	2,486
Lease liabilities recognised at 1 January 2019	4,415

33. Capital commitments

	2019 RM'000	2018 RM'000
Capital expenditure commitments		
Intangible assets		
Authorised but not contracted for	7,475	41,233
Contracted but not provided for	5,544	6,465
	13,019	47,698
Tangible assets		
Authorised but not contracted for	-	15,520
Contracted but not provided for	-	8,572
	-	24,092

34. Regulatory capital requirements

The capital structure of the Company as at 31 December 2019, as prescribed under the Risk Based Capital Framework for takaful operators (RBCT) is provided below:

	2019 RM'000	2018 RM'000
Eligible Tier 1 Capital		
Ordinary share	100,000	100,000
Reserves, including retained earnings	430,217	364,197
	530,217	464,197
Tier 2 Capital		
Revaluation Reserve	1,925	1,925
Amounts deducted from capital	(139,601)	(90,574)
Total capital available	392,541	375,548

35. General takaful business

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

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

As the General Takaful business is not significant to the Company, the comparative statement of profit or loss and other comprehensive income has not been re-presented to show the discontinued operations separately from continuing operations in 2018.

Prudential BSN Takaful Berhad
(Company No. 200601020898 (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 36 to 109 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 2019 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: 13 February 2020

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 36 to 109 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed, New Kheng Chee, NRIC: 750406-10-5535 at Kuala Lumpur in the Federal Territory on 13 February 2020.

....

New Kheng Chee

Before me:

PESURUHJAYA SUMPAH
W530
TAN SEOK KETT
BC/T/301
1/1/2019-31/12/2021
MALAYSIA

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL BSN TAKAFUL BERHAD

(Company No. 200601020898 (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 2019, 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 36 to 109.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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	**Mok Wan Kong**
(LLP0010081-LCA & AF 0758)	Approval Number: 02877/12/2020 J
Chartered Accountants	Chartered Accountant

Petaling Jaya

13 February 2020