

Company No.

738090	M
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**HONG LEONG MSIG TAKAFUL BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

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## **HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT**

The Directors have pleasure in presenting their Report together with the audited financial statements of the Company for the financial year ended 30 June 2016.

### **PRINCIPAL ACTIVITIES**

The Company is principally engaged in managing Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of the principal activity during the financial year.

### **FINANCIAL RESULTS**

	<b>RM'000</b>
Net loss for the financial year	<u>7,393</u>

### **DIVIDENDS**

No dividend has been paid or declared by the Company since end of the previous financial year.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2016.

### **RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

### **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

On 30 June 2016, the penultimate holding company and immediate holding company, i.e. Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") announced that Bank Negara Malaysia has no objection for HLFG and HLAH to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong MSIG Takaful Berhad, a 65% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

Pursuant to the Financial Services Act 2013, both HLFG and HLAH and the relevant parties would be required to obtain prior written approval from the Minister of Finance of Malaysia, on the recommendation of BNM, before entering into any agreement to effect the proposed transactions.

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
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## **DIRECTORS' REPORT (CONT'D)**

### **DIRECTORS**

The Directors who have held office since the date of last report and at the date of this report are as follows:

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin <i>(Re-designated as Chairman with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)
Mr Tan Kong Khoon <i>(Appointed with effect from 5 April 2016)</i>	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz	(Non-Independent Non-Executive Director)
Mr Masakatsu Komaita	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli <i>(Resigned with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How <i>(Resigned with effect from 21 September 2015)</i>	(Non-Independent Non-Executive Director)

**HONG LEONG MSIG TAKAFUL BERHAD**  
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**DIRECTORS' REPORT (CONT'D)**

**DIRECTORS' INTERESTS**

No Director holding office at the end of the financial year had any interests in the shares/options of the Company and/or its related corporations during the financial year ended 30 June 2016 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for Ms Loh Guat Lan and YM Raja Teh Maimunah binti Raja Abdul Aziz, whose interests are as follows:

<b>Shareholdings in which Directors have direct interests</b>					
<b>Number of ordinary shares / *shares issued or to be issued or</b>					
<b>acquired arising from the exercise of options</b>					
	<b>Nominal value per share RM</b>	<b>As at <u>1/7/2015</u></b>	<b><u>Acquired</u></b>	<b><u>Sold</u></b>	<b>As At <u>30/6/2016</u></b>
<b>Interest of</b>					
<b>Ms Loh Guat Lan in:</b>					
Hong Leong Financial	1.00	243,000	21,900 <sup>(1)</sup>	-	264,900
Group Berhad		5,000,000 *	81,823 <sup>(2)</sup>	-	5,081,823 *
<b>Interest of</b>					
<b>YM Raja Teh Maimunah</b>					
<b>binti Raja Abdul Aziz in:</b>					
Hong Leong Bank Berhad	1.00	2,000,000 *	67,911 <sup>(2)</sup>	-	2,067,911 *

Note:

- (1) Shares acquired from rights issue
- (2) Additional options - adjustment to the number of options arising from rights issue pursuant to Executive Share Scheme Bye-Laws.

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## **DIRECTORS' REPORT (CONT'D)**

### **DIRECTORS' BENEFITS**

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Director as shown in Note 21 to the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or its related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at anytime during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the share options granted pursuant to the Executive Share Scheme.

### **CORPORATE GOVERNANCE**

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders.

#### **A. Roles and Responsibilities of the Board of Directors ("Board")**

The Board assumes responsibility for effective stewardship and control of the Company and has established terms of reference ("TOR") to assist in the discharge of this responsibility.

The roles and responsibilities of the Board are set out in the Board Charter, and broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM from time to time.

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

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **A. Roles and Responsibilities of the Board of Directors ("Board") (cont'd)**

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. INEDs do not participate in the day to day management of the Company and there are no relationships or circumstances that could interfere with or are likely to affect the exercise of their independent judgment or the ability to act in the best interest of the Company and its shareholders.

The Company continues to operate in a sustainable manner and seeks to contribute positively to the well-being of stakeholders.

The Board observes the Company Directors' Code of Ethics established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at [www.ssm.com.my](http://www.ssm.com.my). In addition, the Company also has a Code of Ethics that sets out sound principles and standards of good practice which are observed by the employees.

#### **B. Board Composition**

The Board comprises six (6) Directors, all of whom are non-executive whilst two (2) are independent.

The Company adheres to Financial Services Act, 2013 and BNM's Policy Document on Corporate Governance in determining its Board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

## HONG LEONG MSIG TAKAFUL BERHAD

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### DIRECTORS' REPORT (CONT'D)

#### CORPORATE GOVERNANCE (CONT'D)

##### C. Board Committee

Board Committees have been established by the Board to assist in the discharge of its duties.

##### (a) Board Audit and Risk Management Committee ("BARMC")

The members of the BARMC are as follows:

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli (Resigned with effect from 28 April 2016)	(Independent Non-Executive Director)

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:

##### Audit

- To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the officers of the Company to the external auditors.
- To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors.
- To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.
- To ensure the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.
- To engage on a continuous basis with senior management, such as the Chairman, the Chief Executive Officer, the Finance Director, the Head of Internal Audit and the external auditors in order to be kept informed of matters affecting the Company.
- To review the quarterly reports and annual financial statements of the Company prior to the approval by the Board.



## DIRECTORS' REPORT (CONT'D)

### CORPORATE GOVERNANCE (CONT'D)

#### C. Board Committee (cont'd)

##### (a) Board Audit and Risk Management Committee ("BARMC") (cont'd)

###### Audit (cont'd)

- To review the corporate governance disclosures in the Directors' Report and all representation letters by management in relation to the financial audit of the Company.
- To review the performance and adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit function as stipulated in the Service Level Agreement.
- To review the report and findings of the internal audit department including any findings of internal investigations and the management's response thereto.
- To consider the provision of non-audit services by the external auditors.
- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Head of Internal Audit and senior officers of the internal audit function.
- To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisation structure for the internal auditors to achieve their audit objectives.
- To review related party transactions and conflict of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity.
- Other audit functions as may be agreed to by the BARMC and the Board.

###### Risk management and compliance

- To oversee senior management's activities in managing credit, market, liquidity, operational, shariah compliance and IT risks and to ensure that the risk management process is in place and functioning.
- To review and report to the Board measures taken to:
  - (a) Identify and examine principal risks faced by the Company.
  - (b) Implement appropriate systems and internal controls to manage these risks.
- To review, recommend and/or endorse the Company's major risk management strategies, policies and risk tolerance for Board's approval.
- To endorse the Company's risk appetite, internal capital target, Internal Capital Adequacy Assessment Process ("ICAAP") and Capital Management framework for Board's approval.

## DIRECTORS' REPORT (CONT'D)

### CORPORATE GOVERNANCE (CONT'D)

#### C. Board Committee (cont'd)

##### (a) Board Audit and Risk Management Committee ("BARMC") (cont'd)

###### Risk management and compliance (cont'd)

- To provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework.
- To oversee and monitor implementation of the Risk and Capital Management Plan and activities adopted by the Company.
- To ensure that senior management discharges its responsibilities for the development and effective implementation of the internal capital adequacy assessment process.
- To review the report from senior management on adherence to the Company's risk appetite and the implementation of risk management policies, processes and controls within the Company in managing the key risks to the Company as well as emerging risks.
- To review periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of internal controls and risk management process.
- To review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- To ensure infrastructure, resources and systems are in place for risk management i.e ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities.
- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Head of Risk Management & Compliance.
- To conduct performance reviews of staff primarily responsible for control functions.
- To perform diligent oversight over the effective function of Shariah risk and Shariah compliance of the Company.
- Oversight of the Company's compliance activities and ensuring the Company is in compliance with all established policies, guidelines and external regulations.
- To review all non-compliance incidences and recommend corrective actions where necessary.
- To review and consider the impact of new laws, regulations, guidelines affecting the Company's operations and ensuring adequate resources are committed and realistic action plans are carried out within the stipulated deadline set.
- Other risk management and compliance functions as may be agreed to by the BARMC and the Board.

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **C. Board Committee (cont'd)**

##### **(a) Board Audit and Risk Management Committee ("BARMC") (cont'd)**

###### Authority

The BARMC is authorised by the Board to review any activity of the Company within its terms of reference. It is authorised to seek any information it requires from any Director or member of Management.

The BARMC is authorised by the Board to obtain independent legal or other professional advice if it considers necessary.

###### Meetings

The BARMC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such quarterly reports and annual financial statements being presented to the Board for approval.

The Group Managing Director and Group Financial Controller of Hong Leong Assurance Berhad, Chief Executive Officer, General Manager - Finance & Services and Head - Risk Management and Compliance of the Company, and external auditors are invited to attend BARMC meetings, where applicable.

At least once a year, the BARMC will have a separate sessions with the external auditors without the presence of Executive Directors.

Two (2) members of the BARMC, who shall be independent and non-executive, shall constitute a quorum.

After each BARMC meeting, the BARMC shall report and update the Board on significant issues and concerns discussed during the BARMC meetings and where appropriate, make the necessary recommendations to the Board.

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Board Committee (cont'd)

(a) Board Audit and Risk Management Committee ("BARMC") (cont'd)

Meetings (cont'd)

During the financial year ended 30 June 2016, six (6) BARMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	6/6
YBhg Tan Sri A. Razak bin Ramli ( <i>Resigned with effect from 28 April 2016</i> )	5/5

Group Internal Audit Division ("GIAD")

The Company's internal audit function is carried out by the GIAD. GIAD employs a risk-based assessment approach in auditing the Company's business and operational activities. An annual audit plan is developed and approved by the BARMC. All internal audit reports which incorporates the management's responses were tabled for discussion at the BARMC meetings.

During the financial year ended 30 June 2016, GIAD carried out its duties covering audit on operations, compliance, actuarial, investment, financial, agency administration and information system. These audits are performed in line with BNM Guidelines on Internal Audit Function and BNM Guidelines on Management of IT Environment.

The cost incurred for the internal audit function in respect of the current financial year was RM344,000 (2015: RM277,000).

Corporate Independence

The Company has complied with BNM/RH/GL/018-6 on Related Party Transactions. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 26 to the financial statements.

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **C. Board Committee (cont'd)**

##### **(a) Board Audit and Risk Management Committee ("BARMC") (cont'd)**

###### Financial Reporting

The Board is responsible for ensuring that the accounting records of the Company are properly maintained. Financial and management reports of the Company are reviewed at Board meetings.

###### Internal Controls and Operational Risk Management

The Board has overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Company has established authority limits and internal controls to manage operational risks. Authority limits and the system of internal controls are reviewed regularly to ensure continuous improvement in the control environment.

###### Management Accountability

The Company operates in an organisational structure and control environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment.

###### Relationship with Auditors

External auditors are appointed based on the recommendation by the BARMC. The BARMC also determines the remuneration of external auditors. The external auditors meet with the BARMC to:

- (i) Present the scope of the audit before the commencement of audit; and
- (ii) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Board Committee (cont'd)

(b) Nominating Committee ("NC")

The members of the NC are as follows:

Encik Mustapha bin Hamat <i>(Re-designated as NC Chairman with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)
Mr Tan Kong Khoon <i>(Appointed with effect from 5 April 2016)</i>	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz	(Non-Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli <i>(Resigned with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How <i>(Resigned with effect from 21 September 2015)</i>	(Non-Independent Non-Executive Director)

The NC's functions and responsibilities are set out in the terms of reference as follows:

- (i) Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer;
- (ii) Review and recommend to the Board, all Board, Board committees and Shariah Committee appointments and re-appointments and removals including of the Chief Executive Officer;
- (iii) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required;
- (iv) Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board;
- (v) Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities; and
- (vi) Ensure that the Board receives an appropriate continuous training programme.

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Board Committee (cont'd)

(b) Nominating Committee ("NC") (cont'd)

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

The Company has in place the process and procedure for assessment of new appointment, re-appointment, re-election and retention of Directors and the appointment of Chief Executive Officer, and the criteria used in such assessment.

A formal evaluation process has been put in place to assess the effectiveness of the Board as a whole, the Board committees and the contribution and performance of each individual Director.

Having reviewed the annual assessments in respect of the financial year ended 30 June 2016, the NC is satisfied that the Board as a whole, Board committees and individual Directors have effectively discharged their duties and responsibilities, and are suitably qualified to hold their positions.

In connection with the appointment and re-appointment of Directors and Chief Executive Officer of the Company, the NC is guided by a Fit and Proper Policy.

The NC meets at least once in each financial year and additional meetings may be called at any time as and when necessary.

During the financial year ended 30 June 2016, one (1) NC meeting was held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat (Chairman)	1/1
Ms Loh Guat Lan	1/1
YM Raja Teh Maimunah binti Raja Abdul Aziz	1/1
YBhg Tan Sri A. Razak bin Ramli ( <i>Resigned with effect from 28 April 2016</i> )	1/1
Mr Choong Yee How ( <i>Resigned with effect from 21 September 2015</i> )	-/1

Mr Tan Kong Khoon was appointed as NC member on 5 April 2016 and there was no NC meeting held after 5 April 2016.

DIRECTORS' REPORT (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Board Committee (cont'd)

(c) Remuneration Committee ("RC")

The members of the RC are as follows:

Encik Mustapha bin Hamat <i>(Re-designated as RC Chairman with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Mr Tan Kong Khoon <i>(Appointed with effect from 5 April 2016)</i>	(Non-Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli <i>(Resigned with effect from 28 April 2016)</i>	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How <i>(Resigned with effect from 21 September 2015)</i>	(Non-Independent Non-Executive Director)

The RC's functions and responsibilities are set out in the terms of reference as follows:

- (i) Recommend to the Board the framework governing the remuneration of the:
  - Directors;
  - Chief Executive Officer; and
  - Key senior management officers.
- (ii) Review and recommend to the Board the specific remuneration packages of Executive Directors and the Chief Executive Officer.
- (iii) Review the remuneration packages of key senior management officers.
- (iv) Review and recommend to the Board the remuneration of Shariah Committee members.



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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **C. Board Committee (cont'd)**

##### **(c) Remuneration Committee ("RC") (cont'd)**

During the financial year ended 30 June 2016, one (1) RC meeting was held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat (Chairman)	1/1
YBhg Tan Sri A. Razak bin Ramli ( <i>Resigned with effect from 28 April 2016</i> )	1/1

Mr Tan Kong Khoon was appointed as RC member on 5 April 2016 and there was no RC meeting held after 5 April 2016. Mr Choong Yee How resigned as RC member on 21 September 2015 and there was no RC meeting held prior to 21 September 2015.

The level of remuneration of Non-Executive Directors reflects the level of responsibilities undertaken by them.

The fees of Directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting ("AGM").

The Directors' fees for the financial year ended 30 June 2016 are set out in Note 21 to the financial statements.

#### **D. Independence**

The Company has in place a policy in relation to the tenure for independent Directors of the Company ("Tenure Policy") under the Fit and Proper Policy of the Company. Pursuant to the Tenure Policy, an independent Director who has served on the Board of any company under the Hong Leong Financial Group for a period of 9 years continuously or more shall submit a Letter of Intent to the NC informing of his intention to continue in office or to retire from the Board as an independent Director, upon:-

- a) the expiry of his term of office approved by BNM; or
- b) the due date for his retirement either by rotation pursuant to the Articles of Association of the Company or pursuant to Section 129(2) of the Companies Act, 1965 as the case may be.

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **D. Independence (cont'd)**

If the intention is to continue in office, the NC shall consider based on the assessment criteria and guidelines set out in the Fit and Proper Policy and make the appropriate recommendation to the Board. If the intention is to retire from office, an application shall be made to BNM to seek clearance in accordance to BNM Guidelines.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from Directors who have, over time, gained valuable insight into the Company, its market and the industry.

The independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent Directors, including Encik Mustapha bin Hamat, who has served on the Board for more than 9 years, remain objective and have continued to bring independent and objective judgment to Board deliberations and decision making.

Both the independent Directors and non-independent Directors are required to submit themselves for re-election at the AGM every 3 years under the Articles of Association of the Company. In addition, the re-appointment of Directors who have attained 70 years of age and above is subject to shareholders' approval at the AGM under Section 129 of the Companies Act, 1965.

#### **E. Commitment**

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM Policy Document on Corporate Governance.

All Board members are supplied with information in a timely manner. Board reports are circulated prior to Board 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.

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## **DIRECTORS' REPORT (CONT'D)**

### **CORPORATE GOVERNANCE (CONT'D)**

#### **E. Commitment (cont'd)**

All Directors have access to the advice and services of a qualified and competent Company Secretary and internal auditors. All Directors also have access to independent professional advice at the Company's expense, in consultation with the Chairman or the Chief Executive Officer of the Company.

At 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 an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

The Board met seven (7) times during the financial year ended 30 June 2016 with timely notices of issues to be discussed. Details of attendance of each Director are as follows:-

<u>Directors</u>	<u>Attendance</u>
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Chairman)	7/7
Ms Loh Guat Lan	7/7
YM Raja Teh Maimunah binti Raja Abdul Aziz	7/7
Mr Masakatsu Komaita	7/7
Encik Mustapha bin Hamat	7/7
Mr Tan Kong Khoon ( <i>Appointed with effect from 5 April 2016</i> )	2/2
YBhg Tan Sri A. Razak bin Ramli ( <i>Resigned with effect from 28 April 2016</i> )	6/6
Mr Choong Yee How ( <i>Resigned with effect from 21 September 2015</i> )	-/1

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

The Company is guided by a Directors' Training Policy, which covers an Induction Programme for newly appointed Directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as Director of the Company and continuing professional development which encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences.

The Company regularly organises in-house programmes, briefings and updates by its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

**DIRECTORS' REPORT (CONT'D)**

**CORPORATE GOVERNANCE (CONT'D)**

**E. Commitment (cont'd)**

The Company has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-a-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the financial year ended 30 June 2016, the Directors received regular briefings and updates on the Company's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

**F. Shariah Committee ("SC")**

The members of the SC are as follows:

Prof. Dr. Ab. Mumin Ab. Ghani	(Chairman)
Asst. Prof. Dr. Uzaimah Ibrahim	(Member)
Dr Muhammad Aunurrochim Mas'ad Salleh	(Member)
Dr Nurul Aini binti Muhamed	(Member)
Dr Asmak Binti Ab Rahman	(Member)

During the financial year ended 30 June 2016, nine (9) SC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Prof. Dr. Ab. Mumin Ab. Ghani	9/9
Asst. Prof. Dr. Uzaimah Ibrahim	8/9
Dr Muhammad Aunurrochim Mas'ad Salleh	9/9
Dr Nurul Aini binti Muhamed	8/9
Dr Asmak Binti Ab Rahman	9/9

## HONG LEONG MSIG TAKAFUL BERHAD

(Company No. 738090-M)

(Incorporated in Malaysia)

### DIRECTORS' REPORT (CONT'D)

#### HOLDING COMPANIES

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

#### OTHER STATUTORY INFORMATION REGARDING THE COMPANY

(I) As at the end of the financial year

(a) Before the financial statements of the Company were made out, the Directors took reasonable steps:

- (i) to ascertain that there was adequate provision for incurred claims, including incurred but not reported claims ("IBNR");
- (ii) to ascertain proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (iii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.

(b) In the opinion of the Directors, the results of the operations of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, other than those disclosed in the financial statements.

(II) As at the end of the financial year to the date of this report

(a) The Directors are not aware of any circumstances:

- (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;
- (ii) which would render the values attributed to current assets in the financial statements misleading; and
- (iii) which had arisen which would render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.

(b) In the opinion of the Directors:

- (i) the results of the operations of the Company for the financial year ended 30 June 2016 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONT'D)**

**OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONT'D)**

(II) As at the end of the financial year to the date of this report (cont'd)

(b) In the opinion of the Directors: (cont'd)

- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations as and when they fall due (for the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contract of Takaful underwritten in the ordinary course of business of the Company).

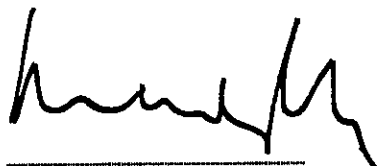
(III) As at the date of this report

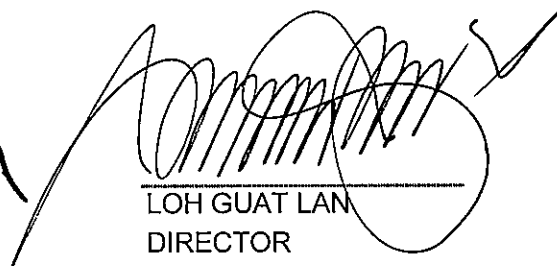
- (a) There are no charges on the assets of the Company which had arisen since the end of the financial year to secure the liabilities of any other person;
- (b) There are no contingent liabilities which had arisen since the end of the financial year; and
- (c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

**AUDITORS**

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their circular of resolution.

  
\_\_\_\_\_  
MUSTAPHA BIN HAMAT  
DIRECTOR

  
\_\_\_\_\_  
LOH GUAT LAN  
DIRECTOR

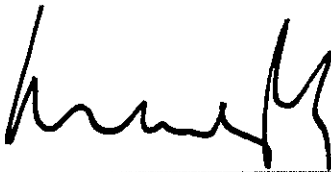
Petaling Jaya  
15 September 2016

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Mustapha bin Hamat and Loh Guat Lan, being two of the Directors of **HONG LEONG MSIG TAKAFUL BERHAD**, state that to the best of knowledge and belief of the Directors, the financial statements set out on pages 27 to 148 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2016 and of the results and the cash flows of the Company for the financial year ended on that date.

On behalf of the Board



MUSTAPHA BIN HAMAT  
DIRECTOR



LOH GUAT LAN  
DIRECTOR

Petaling Jaya  
15 September 2016

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

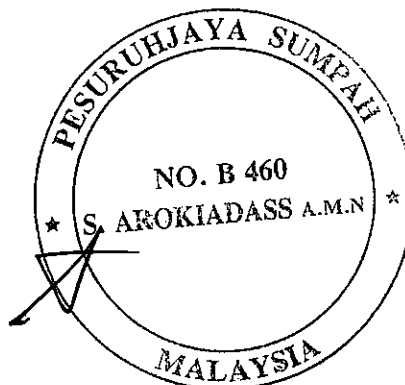
I, Ong Kheng Heng, being the officer primarily responsible for the financial management of **HONG LEONG MSIG TAKAFUL BERHAD**, do solemnly and sincerely declare that the financial statements set out on pages 27 to 148 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the above named Ong Kheng Heng )  
at Petaling Jaya this 15 September 2016 )



Before me

Commissioner for Oaths



No. 34A(Tkt 1), Jalan SS2/67  
47300 Petaling Jaya  
Selangor Darul Ehsan



## **HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

### **REPORT OF THE SHARIAH COMMITTEE**

In the name of Allah, The Beneficent, The Merciful.

To the Shareholders of Hong Leong MSIG Takaful Berhad,

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2016. We have also conducted our review to form an opinion as to whether the Company has complied with Shariah rules and principles and with the specific fatwas, rulings and guidelines issued by us.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion and report, based on our review of the principles and contracts in relation to transactions and applications of the Company.

We performed our review on the basis of information and explanations provided to us which are deemed essential together with sufficient evidence to give reasonable assurance that the Company has not violated Shariah rules and principles. Nonetheless, there were few cases of Shariah Non-Compliant which had been reported and rectified accordingly.

In our opinion and to the best of our knowledge:

- (a) the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2016 as presented and deliberated to us are in compliance with the Shariah rules and principles;
- (b) the allocation of profit and charging of losses relating to investment accounts, the main sources and investments of the Company disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) no earnings have been realised from sources or by means prohibited by the Shariah principles;
- (d) the calculation of zakat is in compliance with Shariah principles; and
- (e) the Shariah non-compliant events occurred were rectified as advised and preventive actions have been taken to avoid the recurrence of the events. During the financial year, six (6) Shariah non-compliant events were identified. We have advised preventive actions such as tightening the process flow and enhancing the procedures to avoid similar breaches from recurring in the future.

**HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

**REPORT OF THE SHARIAH COMMITTEE (CONT'D)**

We, are the members of Shariah Committee of Hong Leong MSIG Takaful, do hereby confirm that the operations of Hong Leong MSIG Takaful for the year ended 30 June 2016 have been conducted in conformity with the Shariah principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

On behalf of the Shariah Committee:



ASSOC. PROF. DR. AB. MUMIN AB. GHANI  
Chairman  
Shariah Committee



ASST. PROF. DR. UZAIMAH IBRAHIM  
Member  
Shariah Committee

Kuala Lumpur  
15 September 2016



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF HONG LEONG MSIG TAKAFUL BERHAD  
(Incorporated in Malaysia)  
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong MSIG Takaful Berhad on the pages 27 to 148, which comprise the statement of financial position as at 30 June 2016, and the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, summary of significant accounting policies and other explanatory notes to the financial statements, as set out on Notes 1 to 31.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF HONG LEONG MSIG TAKAFUL BERHAD  
(Incorporated in Malaysia)  
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 30 June 2016 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

MANJIT SINGH  
(No. 2954/03/17 (J))  
Chartered Accountant

Kuala Lumpur  
15 September 2016

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Assets</b>					
Property, plant and equipment	3	1,622	-	-	1,622
Intangible assets	4	6,009	-	-	6,009
Financial assets		70,984	44,591	180,112	290,568
- Available-for-sale	5	70,984	44,591	157,515	267,971
- Fair value through profit or loss	5	-	-	22,597	22,597
Loans and receivables	6	-	407	6,312	6,719
Deferred tax assets	15	649	618	(552)	715
Retakaful assets	7	-	69,603	36,010	105,613
Takaful receivables	8	-	4,627	7,824	12,451
Other receivables	9	19,541	3,951	1,485	7,368
Due from related companies		111	-	-	111
Cash and cash equivalents	10	4,616	38,874	53,298	96,788
<b>Total assets</b>		<b>103,532</b>	<b>162,671</b>	<b>284,489</b>	<b>527,964</b>
<b>Shareholders' equity</b>					
Share capital	16	100,000	-	-	100,000
Accumulated losses		(21,673)	-	-	(21,673)
Fair value reserves		2,166	-	-	2,166
<b>Total equity</b>		<b>80,493</b>	<b>-</b>	<b>-</b>	<b>80,493</b>
<b>Liabilities</b>					
Takaful contract liabilities	11	-	118,743	266,189	379,813
Tax payables		(44)	1,154	1,684	2,794
Takaful payables	12	-	27,668	7,473	35,141
Expense liabilities	13	10,710	-	-	10,710
Other payables	14	12,373	15,106	9,143	19,013
<b>Total liabilities</b>		<b>23,039</b>	<b>162,671</b>	<b>284,489</b>	<b>447,471</b>
<b>Total equity and liabilities</b>		<b>103,532</b>	<b>162,671</b>	<b>284,489</b>	<b>527,964</b>

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Assets</b>					
Property, plant and equipment	3	1,654	-	-	1,654
Intangible assets	4	7,271	-	-	7,271
Financial assets		74,064	49,879	151,590	270,514
- Available-for-sale	5	74,064	49,879	133,836	252,760
- Fair value through profit or loss	5	-	-	17,754	17,754
Loans and receivables	6	-	395	6,632	7,027
Deferred tax assets	15	551	578	(316)	813
Retakaful assets	7	-	70,077	32,505	102,582
Takaful receivables	8	-	11,755	4,823	16,578
Other receivables	9	11,902	2,312	1,125	5,780
Cash and cash equivalents	10	3,243	2,521	27,381	33,145
<b>Total assets</b>		<b>98,685</b>	<b>137,517</b>	<b>223,740</b>	<b>445,364</b>
<b>Shareholders' equity</b>					
Share capital	16	100,000	-	-	100,000
Accumulated losses		(14,280)	-	-	(14,280)
Fair value reserves		2,155	-	-	2,155
<b>Total equity</b>		<b>87,875</b>	<b>-</b>	<b>-</b>	<b>87,875</b>
<b>Liabilities</b>					
Takaful contract liabilities	11	-	114,594	213,112	322,687
Tax payables		(3,092)	3,169	1,502	1,579
Takaful payables	12	-	11,277	3,695	14,972
Expense liabilities	13	7,113	-	-	7,113
Other payables	14	6,598	8,477	5,431	10,947
Due to related companies		191	-	-	191
<b>Total liabilities</b>		<b>10,810</b>	<b>137,517</b>	<b>223,740</b>	<b>357,489</b>
<b>Total equity and liabilities</b>		<b>98,685</b>	<b>137,517</b>	<b>223,740</b>	<b>445,364</b>

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

**STATEMENT OF INCOME  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Gross contributions		-	43,065	88,155	131,220
Contribution ceded to retakaful		-	(19,970)	(19,157)	(39,127)
<b>Net contributions</b>		-	23,095	68,998	92,093
Change in unearned contribution reserve		-	(237)	-	(237)
<b>Net earned contributions</b>		-	22,858	68,998	91,856
Wakalah income		35,705	-	-	-
Surplus sharing from General and Family Takaful		12,785	-	-	-
Share of investment profit from Family Takaful		688	-	-	-
Fees and commission income		-	5,285	-	5,285
Investment income	17	3,000	2,255	7,934	13,877
Realised gains	18	454	461	947	1,862
Fair value losses	19	(252)	(380)	(1,787)	(2,419)
Other operating income	20	608	148	2,147	2,327
<b>Other revenue</b>		52,988	7,769	9,241	20,932
Gross benefits and claims paid		-	(3,979)	(18,967)	(22,946)
Claims ceded to retakaful		-	2,569	13,300	15,869
Gross change to Takaful contract liabilities		-	(7,927)	(51,647)	(59,574)
Change in Takaful contract liabilities ceded to retakaful		-	3,296	3,505	6,801
<b>Net benefits and claims</b>		-	(6,041)	(53,809)	(59,850)
Wakalah expenses		-	(13,299)	(22,406)	-
Surplus sharing with Takaful Operator		-	(12,002)	(783)	-
Fees and commission expense		(16,143)	-	-	(16,143)
Management expenses	21	(31,535)	-	-	(31,535)
Other operating expenses	22	(7,441)	(12)	(978)	(7,855)
<b>Other expenses</b>		(55,119)	(25,313)	(24,167)	(55,533)

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF INCOME**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (CONT'D)**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(Loss)/profit before zakat and taxation		(2,131)	(727)	263	(2,595)
Tax expense attributable to participants		-	727	(263)	464
<b>Loss before taxation attributable to Takaful Operator</b>		(2,131)	-	-	(2,131)
Taxation	23	(5,174)	727	(263)	(4,710)
Tax expense attributable to participants		-	(727)	263	(464)
Tax expense attributable to Takaful Operator		(5,174)	-	-	(5,174)
Zakat		(88)	-	-	(88)
<b>Loss after zakat and taxation</b>		<b>(7,393)</b>	<b>-</b>	<b>-</b>	<b>(7,393)</b>
<b>Earnings per share (sen)</b>		<b>(7.39)</b>	<b>-</b>	<b>-</b>	<b>(7.39)</b>

*The accompanying notes form an integral part of the financial statements.*



**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF OTHER COMPREHENSIVE INCOME  
 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Loss after zakat and taxation		(7,393)	-	-	(7,393)
<b>Other comprehensive income:</b>					
<u>Items that may be subsequently reclassified to profit or loss</u>					
Fair value changes on available-for-sale financial assets, net of deferred tax:					
Gross fair value gains arising during the financial year					
		431	120	2,571	3,022
Gross fair value gains transferred to income statement					
		(454)	(461)	(1,172)	(2,087)
		(23)	(341)	1,399	935
Tax effects thereon	15	34	96	(252)	(122)
Net fair value gains/(losses)		11	(245)	1,147	813
Change in Takaful contract liabilities arising from unrealised net fair value losses/(gains)					
	11	-	245	(1,147)	(802)
Other comprehensive income for the financial year, net of tax					
		11	-	-	11
<b>Total comprehensive losses for the financial year</b>					
		(7,382)	-	-	(7,382)

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

**STATEMENT OF INCOME  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Gross contributions		-	44,940	60,720	105,660
Contribution ceded to retakaful		-	(23,745)	(10,557)	(34,302)
<b>Net contributions</b>		-	21,195	50,163	71,358
Change in unearned contribution reserve		-	1,636	-	1,636
<b>Net earned contributions</b>		-	22,831	50,163	72,994
Wakalah income		28,337	-	-	-
Surplus sharing from General and Family Takaful		8,035	-	-	-
Share of investment profit from Family Takaful		494	-	-	-
Fees and commission income		-	6,036	-	6,036
Investment income	17	3,353	1,981	6,252	12,080
Realised gains	18	434	245	118	797
Fair value losses	19	(533)	(483)	(956)	(1,972)
Other operating income	20	1,729	61	1,036	2,006
<b>Other revenue</b>		41,849	7,840	6,450	18,947
Gross benefits and claims paid		-	(34,071)	(19,337)	(53,408)
Claims ceded to retakaful		-	28,205	14,159	42,364
Gross change to Takaful contract liabilities		-	2,701	(36,691)	(33,990)
Change in Takaful contract liabilities ceded to retakaful		-	(881)	1,994	1,113
<b>Net benefits and claims</b>		-	(4,046)	(39,875)	(43,921)
Wakalah expenses		-	(13,570)	(14,767)	-
Surplus sharing with Takaful Operator		-	(7,270)	(765)	-
Fees and commission expense		(14,229)	-	-	(14,229)
Management expenses	21	(26,408)	-	-	(26,408)
Other operating expenses	22	-	(3,255)	(875)	(3,310)
<b>Other expenses</b>		(40,637)	(24,095)	(16,407)	(43,947)

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF INCOME**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015 (CONT'D)**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Profit before zakat and taxation		1,212	2,530	331	4,073
Tax expense attributable to participants		-	(2,530)	(331)	(2,861)
<b>Profit before taxation attributable to Takaful Operator</b>		1,212	-	-	1,212
Taxation	23	(660)	(2,530)	(331)	(3,521)
Tax expense attributable to participants		-	2,530	331	2,861
Tax expense attributable to Takaful Operator		(660)	-	-	(660)
Zakat		(90)	-	-	(90)
<b>Profit after zakat and taxation</b>		462	-	-	462
<b>Earnings per share (sen)</b>		0.46	-	-	0.46

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF OTHER COMPREHENSIVE INCOME  
 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015**

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Profit after zakat and taxation</b>		462	-	-	462
<b>Other comprehensive income:</b>					
<u>Items that may be subsequently reclassified to profit or loss</u>					
Fair value changes on available-for-sale financial assets, net of deferred tax:					
Gross fair value gains arising during the financial year		974	240	3,037	4,142
Gross fair value gains transferred to income statement		(434)	(245)	(143)	(822)
		540	(5)	2,894	3,320
Tax effects thereon	15	(135)	1	(231)	(365)
Net fair value gains/(losses)		405	(4)	2,663	2,955
Change in Takaful contract liabilities arising from unrealised net fair value losses/(gains)	11	-	4	(2,663)	(2,550)
Other comprehensive income for the financial year, net of tax		405	-	-	405
<b>Total comprehensive income for the financial year</b>		<b>867</b>	<b>-</b>	<b>-</b>	<b>867</b>

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY  
 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

	Issued and fully paid ordinary shares of RM1 each		Non- distributable Fair value reserve RM'000	Distributable Accumulated losses RM'000	Total RM'000
	No. of shares '000	Share capital RM'000			
At 1 July 2014	100,000	100,000	1,750	(14,742)	87,008
Profit for the financial year	-	-	-	462	462
Other comprehensive income for the financial year	-	-	405	-	405
At 30 June 2015	100,000	100,000	2,155	(14,280)	87,875
At 1 July 2015	100,000	100,000	2,155	(14,280)	87,875
Loss for the financial year	-	-	-	(7,393)	(7,393)
Other comprehensive income for the financial year	-	-	11	-	11
At 30 June 2016	100,000	100,000	2,166	(21,673)	80,493

*The accompanying notes form an integral part of the financial statements.*

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016**

	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Net loss)/net profit for the financial year	(7,393)	462
Adjustments for:		
(Write back of impairment)/impairment of takaful receivables	(2,055)	2,317
Write off of takaful receivables	-	34
Depreciation of property and equipment	550	541
Amortisation of intangible assets	1,883	1,382
Gain on disposal of investments	(1,862)	(796)
Unrealised fair value gain on financial assets	(264)	(183)
(Accretion of discounts)/amortisation of premiums-net	(40)	7
Profits and dividend income	(13,837)	(12,087)
Allowance for diminution in value of investments	2,683	2,155
Taxation	4,710	3,521
Loss from operations before change in operating assets and liabilities	(15,625)	(2,647)
Proceeds from disposal of investments	44,303	13,524
Maturity of investments	1,139	5,000
Purchase of investments	(65,014)	(53,576)
Increase/(decrease) in expense liabilities	3,597	(875)
Increase in Family Takaful contract liabilities	51,930	36,691
Increase/(decrease) in General Takaful contract liabilities	4,394	(5,720)
Decrease in loans and receivables	308	376
(Increase)/decrease in retakaful assets	(3,031)	269
Decrease in Takaful receivables	6,182	10,804
Increase in other receivables	(1,612)	(1,677)
Increase/(decrease) in Takaful payables	20,169	(4,892)
Increase/(decrease) in other payables	8,066	(299)
Decrease in amount due to related companies	(302)	(171)
	54,504	(3,193)
Tax paid	(3,518)	(5,394)
Profit received	12,726	10,956
Dividend received	1,070	863
Net cash inflow from operating activities	64,782	3,232

**HONG LEONG MSIG TAKAFUL BERHAD**  
 (Company No. 738090-M)  
 (Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016 (CONT'D)**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(518)	(2,333)
Purchase of intangible assets	(621)	(2,059)
Net cash outflow from investing activities	<u>(1,139)</u>	<u>(4,392)</u>
Net increase/(decrease) in cash and cash equivalents	63,643	(1,160)
Cash and cash equivalents at beginning of the financial year	33,145	34,305
<b>Cash and cash equivalents at end of the financial year</b>	<b><u>96,788</u></b>	<b><u>33,145</u></b>
<b>Cash and cash equivalents comprise:</b>		
Cash and bank balances	6,677	3,712
Short term deposits	90,111	29,433
	<u>96,788</u>	<u>33,145</u>

*The accompanying notes form an integral part of the financial statements.*

## HONG LEONG MSIG TAKAFUL BERHAD

(Company No. 738090-M)

(Incorporated in Malaysia)

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. CORPORATE INFORMATION

The Company is engaged principally in the managing of Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 8, Wisma Hong Leong, 18, Jalan Perak, 50450 Kuala Lumpur. The principal place of business of the Company is located at Level 5, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya, Selangor.

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 15 September 2016.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements and to all the financial years presented.

##### Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965.

The financial statements of the Company reflect the financial information and results of Takaful Operator and Takaful funds presented as a single economic entity for the respective financial years disclosed. Interfund balances and transactions are eliminated in arriving at the Company's financial statements.



## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.1 Basis of preparation (cont'd)**

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

The preparation of financial statements in conformity with the MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

#### **(a) Standards, amendments to published standards and interpretations that are effective**

There are no new accounting standards, amendments to published standards and interpretations that are effective for the first time for the financial year beginning on 1 July 2015.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.1 Basis of preparation (cont'd)

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

##### Financial year beginning on/after 1 July 2016

- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' (effective from 1 January 2016) clarify that the use of revenue-based methods to calculate the depreciation of an item of property, plant and equipment is not appropriate. This is because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendments to MFRS 138 also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption can be overcome only in the limited circumstances where the intangible asset is expressed as a measure of revenue or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

##### Financial year beginning on/after 1 July 2017

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative' (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value.

In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.1 Basis of preparation (cont'd)

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

#### Financial year beginning on/after 1 July 2018

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

The Company is reviewing the adoption of the above accounting standards, amendments to published standards and interpretation to existing standards and the potential impact to the prevailing accounting policies, and will complete the process prior to the reporting requirement deadline.

All other new amendments to published standards and interpretations to existing standards issued by MASB effective for financial periods subsequent to 1 July 2016 are not relevant to the Company.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies**

##### **(a) Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Repairs and maintenance costs are charged to profit or loss during the financial year in which they are incurred.

Property and equipment are depreciated on the straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives, summarised as follows:

Computer equipment	5 years
Furniture & fittings, office equipment and renovation	5 years
Motor vehicles	4 years

Work-in-progress is carried at cost and is depreciated when the asset is available for use.

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each date of statement of financial position.

At each date of statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(f) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in profit or loss.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(b) Intangible assets - computer software**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 5 years.

##### **(c) Financial instruments**

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

**HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**2.2 Summary of significant accounting policies (cont'd)**

(c) Financial instruments (cont'd)

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements 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 at its fair value 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 at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets available-for-sale ("AFS"), financial assets held-to-maturity ("HTM") and loans and receivables ("LAR"). Classification of the financial assets is determined at initial recognition and relates to the purpose for which the investments were acquired.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (c) Financial instruments (cont'd)

##### (ii) Financial instrument categories and subsequent measurement (cont'd)

##### (1) Financial assets at FVTPL

Financial assets at FVTPL comprise held-for-trading financial assets and financial assets other than held-for-trading that are designated at fair value through profit or loss.

- (a) Held-for-trading financial assets are financial assets that are acquired and held principally for the purpose of selling in the short term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes derivatives that are not designated for hedges.

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.

- (b) Financial assets other than held-for-trading that are designated at fair value are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. All financial assets held in the investment-linked funds are designated at fair value through profit or loss at inception.

Financial assets classified as FVTPL are subsequently measured at their fair values with fair value adjustments and realised gains or losses recognised in profit or loss of the respective funds. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (c) Financial instruments (cont'd)

##### (ii) Financial instrument categories and subsequent measurement (cont'd)

##### (2) AFS financial assets

AFS financial assets are non-derivative financial assets that are not classified in any of the other categories and are measured at fair value.

AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Fair value gains or losses of those financial assets are recognised directly in other comprehensive income, except for impairment losses. When these assets are derecognised, the accumulated fair value adjustments previously recognised in equity are included in profit or loss as net realised gains or losses of the respective funds.

##### (3) HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Financial assets categorised as HTM are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Gains and losses are recognised in profit or loss of respective funds when HTM financial assets are derecognised or impaired.



## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (c) Financial instruments (cont'd)

##### (ii) Financial instrument categories and subsequent measurement (cont'd)

##### (4) LAR financial assets

LAR financial assets are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, LAR are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss of respective funds when the financial assets are derecognised or impaired, as well as through the amortisation process.

##### Financial liabilities

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

Fair value through profit or loss category comprises financial liabilities that are held for trading, or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in profit or loss of the respective funds.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (c) Financial instruments (cont'd)

##### (iii) 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 risks and rewards of the 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 of the respective funds.

A financial liability or a part of it is derecognised when, and only when, the obligation 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 of the respective funds.

##### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (d) Fair value of financial instruments

The fair values of Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit or placement and accrued profit. The fair value of fixed profit or yield-bearing deposits is measured at the face value or market value, whichever is lower.

##### (e) Qardh

Qardh represents benevolent loan from Takaful Operator to meet deficits in participants' special accounts and shall be repaid from future surpluses from the participants' special accounts in Takaful funds.

In preparing the separate financial statements of the Takaful Operator, qardh receivable is stated at cost and at each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2.2(f) on impairment of assets.

In preparing the separate financial statements of the respective Takaful funds, qardh payable is stated at cost.

Qardh balances are eliminated in preparing the Company's statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

(f) Impairment

(i) Financial assets, excluding Takaful receivables

The Company assesses at each date of the statement of financial position whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

(1) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables and HTM financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss of the respective funds.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss of the respective funds.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(f) Impairment (cont'd)**

##### **(i) Financial assets, excluding Takaful receivables (cont'd)**

##### **(2) Financial assets carried at cost**

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instrument of which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses are recognised in profit or loss of the respective funds and shall not be reversed.

##### **(3) Financial assets carried at fair value**

In the case of investments classified as AFS, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Impairment losses previously recognised in profit or loss for equity instruments are not reversed through the profit or loss.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

(f) Impairment (cont'd)

(ii) Non-financial assets

At each date of statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Impairment is measured by comparing carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows.

An impairment loss is charged to profit or loss of the respective funds immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. A reversal of such impairment loss is recognised in profit or loss of respective funds immediately.

(g) Takaful receivables

Takaful receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, Takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the Takaful receivable is impaired, the Company reduces the carrying amount of the Takaful receivable accordingly and recognises that impairment loss in profit or loss of respective funds. The Company gathers the objective evidence that Takaful receivables are impaired using the same process adopted for financial assets at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2(f).

Takaful receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(c)(iii) have been met.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(h) Cash and cash equivalents**

Cash and cash equivalents consist of cash balances and deposits held at call with Islamic financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose. The Company classifies the cash flow for the purchase and disposal of investment in financial asset in its operating cash flows as the purchases are funded from the cash flow associated with the origination of Takaful contracts, net of the cash flow for payment of Takaful benefits and claims benefits.

##### **(i) Taxation**

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the statement of financial position method, providing for temporary differences arising between the carrying amounts of assets and liabilities for tax purpose. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of financial position date are used to determine deferred tax.

##### **(j) Zakat**

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Advisory Committee. Zakat provision is calculated based on 2.5% of net asset method, calculated on the percentage of the muslim equity of the ultimate holding company. Zakat is only provided when there is a commitment or an obligation exists as at financial year end.

**HONG LEONG MSIG TAKAFUL BERHAD**

(Company No. 738090-M)

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**2.2 Summary of significant accounting policies (cont'd)**

(k) Management expenses, commission expenses and wakalah fee

Acquisition costs, commissions and management expenses are borne by the Family Takaful and General Takaful funds respectively in profit or loss at an agreed percentage of the gross contribution, in accordance with the principles of "Wakalah" as approved by the Company's Shariah Committee and agreed between the participants and the Company. These expenses are allocated to the Takaful Operator via upfront wakalah fee and special wakalah fee.

Upfront wakalah fee is allocated to the Takaful Operator and recognised as income upon issuance of certificates.

Special wakalah fee is the monthly tabarru' from the participants' account to the participants' special account and is deferred as a liability under "special fund reserve" in participants' special account. Special wakalah fee may be distributed to the Takaful Operator and participants in the ratio specified in the certificate contract, based on the recommendation by the Appointed Actuary when the participants' special account is in a surplus position after an annual actuarial valuation of the participants' special account at the end of the financial year. Undistributed special wakalah fee for a particular year cannot be carried forward for distribution in a future financial year, and hence, will form a part of Takaful contract liabilities in participants' special account.

In the event that the participants' special account is in a deficit position, the deficit in the participants' special account will be made good by the "special fund reserve" arising from monthly allocation of tabarru'/donation before the Takaful Operator via a benevolent loan or Qardh.

(l) Expense liabilities

At each reporting date, the Company estimates its net future expenses cashflow required on the maintenance of the Takaful funds in accordance with the Guidelines on Valuation Basis for Liabilities of Family and General Takaful Business issued by BNM. If the estimate shows that there is a deficiency in the net future expense cashflow, the deficiency is recognised as expense liabilities.



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**NOTES TO THE FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**2.2 Summary of significant accounting policies (cont'd)**

(m) Employee benefits

Short-term employee benefits

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

Post employment benefits

The Company's contributions to the national defined contribution plan, the Employees' Provident Fund, are charged to profit or loss of the respective funds in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(n) Product classification

The Company, on behalf of Takaful funds, issues 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 interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is the risk other than financial risk.

Takaful contracts are those contracts that transfer significant Takaful risk. A Takaful contract is a contract under which the Takaful Operator, on behalf of Takaful funds, has accepted significant Takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the Takaful event) adversely affects the participants. As a general guideline, the Company defines significant Takaful risk to be the possibility of having to pay benefits on the occurrence of a Takaful event that are at least 5% more than the benefits payable if the Takaful event did not occur.

Investment contracts are those contracts that do not transfer significant Takaful risk.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(n) Product classification (cont'd)**

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

Based on the Company's assessment, all such contracts underwritten by the Company meet the definition of Takaful contracts and accordingly are classified as Takaful contracts.

Takaful contracts are further classified as being either with or without discretionary participation features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

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

Surpluses in the DPF fund are distributable to participants and the Company in accordance with the relevant terms under the Takaful contracts. The Company however has the discretion over the amount and timing of the distribution of these surpluses to participants, subject to the advice of the Company's Appointed Actuary. The Company does not recognise the guaranteed component separately from the DPF and the whole contract liabilities, including both guaranteed and discretionary and unallocated surplus at the end of the reporting period are held within the Takaful contract liabilities.

For financial options and guarantees which are not closely related to the host Takaful contract, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself a Takaful contract, or embedded options to surrender Takaful contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

(n) Product classification (cont'd)

Takaful contracts that contain both a financial risk component and a significant Takaful risk component are not unbundled and classified as Takaful contracts as the current accounting policy recognises all Takaful contributions, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the profit or loss.

(o) Retakaful contracts

Takaful funds cede Takaful risk in the normal course of business for 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 fund may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the fund will receive from the retakaful operator. The impairment loss is recorded in profit or loss.

The fund also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable.

Contributions and claims on assumed facultative 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. Contributions, claims and other transactions costs on assumed treaty retakaful are accounted for upon notification by the ceding companies or upon receipts of statements of accounts.

Retakaful liabilities represent balances due to retakaful operators. Amounts payable are estimated in a manner consistent with the related retakaful contract.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (o) Retakaful contracts (cont'd)

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 contributions or fees to be retained by the retakaful operator.

##### (p) Family Takaful contracts

###### Family Takaful fund

The Family Takaful fund is maintained in accordance with the requirements of the IFSA and includes the amount attributable to participants, if any. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund, and is distributed in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. Based on the terms of Takaful contracts issued by the Company, no underwriting surplus is attributable to participants.

Any actuarial deficit in the Family Takaful fund will be made good by the Takaful Operator via a benevolent loan or Qardh and are being reflected as Qardh receivable in the separate financial statement of Takaful Operator and Qardh payable in the separate financial statement of Family Takaful fund.

###### Contribution income

Contributions include contributions recognised in the Family Takaful fund and investment-linked funds.

Contributions are recognised as soon as the amount of contributions can be reliably measured. Initial contribution is recognised from inception date and subsequent contributions are recognised on due dates.

Contributions of investment-linked funds are in respect of the net creation of units which represent contributions paid by participants as payment for new certificates or subsequent payments to increase the amount of their certificate. Net creation of units is recognised on a receipt basis.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(p) Family Takaful contracts (cont'd)**

###### **Benefits, claims and expense**

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the Takaful Operator is notified.

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

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

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

The benefits payable under investment-linked business are in respect of net creation of units and are recognised as surrenders.

###### **Family Takaful contract liabilities**

These liabilities comprise (i) claims liabilities, (ii) actuarial liabilities, (iii) unallocated surplus/deficit and (iv) AFS fair value adjustment.

##### **(i) Claims liabilities**

The amounts payable under a Family Takaful certificate in respect of benefits and claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

(p) Family Takaful contracts (cont'd)

(ii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and contributions are charged.

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as present value of future benefits from the Takaful funds, less the present value of future gross tabarru' arising from the certificate, discounted at the appropriate risk discount rate. The liabilities are based on best estimate assumptions and with due regard to significant recent experience. Provision of risk margin for adverse deviation ("PRAD") at 75% confidence level was made in the valuation of these liabilities.

In the case of a 1-year Family Takaful certificate or 1-year extension to a Family Takaful certificate shall be valued according to the following:

- (a) For a certificate covering death or survival, the liabilities shall be valued on an unexpired risk basis using a prospective estimate of expected future payments arising from future events covered as at the valuation date.
- (b) For a certificate covering contingencies other than death or survival, the liability for such family takaful certificate comprises the provision for unearned contribution and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported.

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

As the valuation method used to value liabilities are in accordance with the Risk-Based Capital Framework for Takaful Operators ("RBCT Framework"), the Company is deemed to have complied with the requirement of a liability adequacy test under MFRS 4.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

(p) Family Takaful contracts (cont'd)

(iii) Unallocated surplus/deficits

Unallocated surplus represents the remaining underwriting surplus in the participants' special account that may be distributed to the Takaful Operator and participants upon recommendation by the Appointed Actuary, subject to approval by the Shariah Committee and Board of Directors, plus the remaining balance of special fund reserves as set out in Note 2.2(k). Unallocated surplus is reported as a separate component of the Takaful Contract liabilities in Family Takaful fund.

Unallocated deficits represents accumulated deficit in the Family Takaful fund. This is reported as accumulated losses in Family Takaful fund and the Company's equity in the statements of financial position.

(iv) AFS fair value adjustment

Where unrealised gains or losses arise on AFS financial assets of the Family Takaful fund, the adjustment to the Takaful contract liabilities equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities is recognised directly in other comprehensive income.

(q) General Takaful contracts

General Takaful fund

The General Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 which is subsequently replaced by IFSA and consists of participants' account and participants' special account.

Any deficit in the participants' special account will be made good by the Takaful Operator via a benevolent loan or Qardh and are being reflected as Qardh receivable in the Takaful Operator's fund and Qardh payable in the General Takaful fund.

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

##### (q) General Takaful contracts (cont'd)

###### Contribution income

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contributions from direct business are recognised during the financial year upon the issuance of debit notes. Contributions in respect of risks incepted for which debit notes have not been raised as of the balance sheet date are accrued at that date.

###### Claims and expenses

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liabilities for compensation owed to certificate holders or third parties damaged by the certificated holders. They include direct and indirect claims settlements costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

###### General Takaful contracts liabilities

General Takaful contracts liabilities are recognised when contracts are entered into and contributions are charged. These liabilities comprise of (i) contribution liabilities, (ii) claims liabilities, (iii) participants' account, (iv) AFS fair value adjustment and (v) unallocated surplus/deficits. Provision of risk margin for adverse deviation ("PRAD") at 75% confidence level was made in the valuation of these liabilities.

##### (i) Contribution liabilities

The contribution liabilities refer to the higher of:

- (a) the aggregate of the provision for unearned contribution reserves ("UCR") or
- (b) the best estimate value of the provision for unexpired risk ("URR") at the valuation date and the PRAD calculated at the total fund level. The URR for each class of business is estimated as the adjusted net UCR multiplied by a selected Ultimate Loss Ratio ("ULR"). In general, the ULR is the average of the three most recent loss years' ULR.



## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

##### **(q) General Takaful contracts (cont'd)**

###### **(i) Contribution liabilities (cont'd)**

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned contribution. If these estimates show that the carrying amount of the unearned contribution less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

As the valuation method used are in accordance with the Risk-Based Capital Framework for Takaful Operators ("RBCT Framework"), the Company is deemed to have complied with the requirement of a liability adequacy test under MFRS 4.

###### **(ii) Claims liabilities**

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

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 2.2 Summary of significant accounting policies (cont'd)

(q) General Takaful contracts (cont'd)

(iii) Participants' account

Participants' account comprise of participants' investment account and participants' special account.

Participants' investment account represents the proportion of contributions set aside for the purpose of investment. Participants' special account represents the accumulated participants' share in the net surplus of the General Takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. In the event of actuarial deficit, participants' special account represents accumulated actuarial deficits in the participants' special account and will be made good by the Takaful Operator via a benevolent loan or Qardh payable.

(iv) AFS fair value adjustment

Where unrealised gains or losses arise on AFS financial assets of the General Takaful fund, the adjustment to the Takaful contract liabilities equal to the effect that the realisation of those gains or losses at the end of the reporting period would have had on those liabilities is recognised directly in other comprehensive income.

(v) Unallocated surplus/deficits

Unallocated surplus represents remaining underwriting surplus after repayment of Qardh, where a certain percentage of it may be set aside as contingency reserves and the remaining may be donated to the charitable organisations subject to the approval of Shariah Committee. Unallocated surplus is reported as a separate component of the Takaful contract liabilities in General Takaful fund.

Unallocated deficits represents accumulated deficit in the General Takaful fund. This is reported as accumulated losses in General Takaful fund's and the Company's equity in the statements of financial position.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

(r) Other revenue recognition

Investment income is recognised on a time proportion basis taking into account the effective yield of the asset.

Investment profit of Family Takaful and General Takaful funds is shared by the participants and the Takaful Operator at an agreed percentage, in accordance with the principles of Mudharabah basis as approved by the Company's Shariah Committee and agreed between the participants and the Company.

(s) Foreign currencies

(i) Functional and presentation currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting in the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of respective funds.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.2 Summary of significant accounting policies (cont'd)**

(t) **Contingent liabilities and contingent assets**

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(u) **Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate.

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### NOTES TO THE FINANCIAL STATEMENTS

#### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### 2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

(a) Critical judgements made in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Claims liabilities of General Takaful business

For the financial year ended 30 June 2016, the claims estimates have been computed by an independent actuarial firm, Actuarial Partners Consulting Sdn Bhd ("Actuarial Partners"). Actuarial Partners had considered the Link Ratio method with a Bornhuetter-Ferguson ("BF") adjustment on an incurred claims basis for all classes of business.

Bornhuetter-Ferguson method is an extension of the Link Ratio method, where claims patterns experienced in the past is used to project the patterns for future years. As the projected ultimate claims estimated by the Link Ratio method for the more recent development years can be unreliable for some classes of business, Ultimate Loss Ratio ("ULR") is selected where appropriate and incorporated into the projection under Bornhuetter-Ferguson method. The selection is based on the resultant loss ratios from the Link Ratio method, taking into consideration of historical experience, industry loss ratios as well as the claims incurred to-date ratios.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.3 Significant accounting judgements, estimates and assumptions (cont'd)**

##### **(b) Key sources of estimation uncertainty and assumptions (cont'd)**

##### **(ii) Actuarial liabilities for Family Takaful fund**

Actuarial liabilities as determined by the annual actuarial valuation are based on Guidelines on Valuation Basis of Liabilities of Family Takaful Business (BNM/RH/GL 004-20) and Risk Based Capital Framework for Takaful Operators (BNM/RH/GL 004-23).

For Family Takaful plans, the actuarial liabilities are determined by the Company's Appointed Actuary and were set up based on the unearned contribution reserve basis in which the proportion is equivalent to the ratio of the period from the valuation date to the period of next tabarru' dripping period and the period of cover provided by risk charges recognised.

The following methodology is used in determining the unearned contribution reserve:

For long term liabilities, the cash flow reserves are set up for mortality benefits on a best estimate basis, which results in reserves being equal to a proportion of the risk charges, for unexpired risk or unearned contribution. Cash flow reserves for future expenses are not set up as management expenses and commissions are paid from the Takaful Operator.

Details of key assumptions used and the sensitivity analysis are shown in Note 29(b).

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
<b>Cost</b>					
At 1 July 2014	365	2,352	509	3,281	6,507
Additions	-	178	-	2,155	2,333
Disposal	-	(43)	-	-	(43)
Reclassification (Note 4)	-	-	-	(5,436)	(5,436)
At 30 June 2015	365	2,487	509	-	3,361
Additions	5	81	-	432	518
At 30 June 2016	370	2,568	509	432	3,879
<b>Accumulated depreciation</b>					
At 1 July 2014	171	895	143	-	1,209
Charge for the year	70	413	58	-	541
Disposal	-	(43)	-	-	(43)
At 30 June 2015	241	1,265	201	-	1,707
Charge for the year	71	421	58	-	550
At 30 June 2016	312	1,686	259	-	2,257
<b>Net carrying amount</b>					
At 30 June 2015	124	1,222	308	-	1,654
At 30 June 2016	58	882	250	432	1,622

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**NOTES TO THE FINANCIAL STATEMENTS**

**4. INTANGIBLE ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cost</b>		
At 1 July	11,596	4,101
Additions	621	2,059
Reclassification (Note 3)	-	5,436
At 30 June	<u>12,217</u>	<u>11,596</u>
<b>Accumulated amortisation</b>		
At 1 July	4,325	2,943
Amortisation	1,883	1,382
At 30 June	<u>6,208</u>	<u>4,325</u>
<b>Net carrying amount</b>	<u>6,009</u>	<u>7,271</u>



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**NOTES TO THE FINANCIAL STATEMENTS**

**5. FINANCIAL ASSETS**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>				
Government Investment Issues	2,697	-	8,092	10,789
Islamic bonds	59,138	39,009	141,295	239,442
Equity securities	3,436	5,270	25,009	33,715
Investments in				
investment-linked funds	5,119	-	-	-
Structured investments	-	-	4,486	4,486
Accrued profit	594	312	1,230	2,136
	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>
<b>30 June 2015</b>				
Government Investment Issues	2,709	-	8,127	10,836
Islamic bonds	61,079	43,381	119,484	223,944
Equity securities	4,625	6,125	18,678	29,428
Investments in				
investment-linked funds	5,019	-	-	-
Structured investments	-	-	4,234	4,234
Accrued profit	632	373	1,067	2,072
	<u>74,064</u>	<u>49,879</u>	<u>151,590</u>	<u>270,514</u>

NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (CONT'D)

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

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>				
AFS financial assets	70,984	44,591	157,515	267,971
FVTPL financial assets	-	-	22,597	22,597
	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>
Current	594	312	1,230	2,136
Non-current	70,390	44,279	178,882	288,432
	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>
<b>(i) AFS</b>				
<b>30 June 2016</b>				
Government Investment				
Issues	2,697	-	7,013	9,710
Islamic bonds	59,138	39,009	131,897	230,044
Equity securities	3,436	5,270	17,444	26,150
Investments in				
investment-linked funds	5,119	-	-	-
Accrued profit	594	312	1,161	2,067
	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>
<b>(ii) FVTPL</b>				
<b>30 June 2016</b>				
Government Investment				
Issues	-	-	1,079	1,079
Islamic bonds	-	-	9,398	9,398
Equity securities	-	-	7,565	7,565
Structured investments	-	-	4,486	4,486
Accrued profit	-	-	69	69
	<u>-</u>	<u>-</u>	<u>22,597</u>	<u>22,597</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**5. FINANCIAL ASSETS (CONT'D)**

(a) The Company's financial assets are summarised by categories as follows: (cont'd)

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2015</b>				
AFS financial assets	74,064	49,879	133,836	252,760
FVTPL financial assets	-	-	17,754	17,754
	<u>74,064</u>	<u>49,879</u>	<u>151,590</u>	<u>270,514</u>
Current	632	373	2,207	3,212
Non-current	73,432	49,506	149,383	267,302
	<u>74,064</u>	<u>49,879</u>	<u>151,590</u>	<u>270,514</u>
 (i) AFS				
<b>30 June 2015</b>				
Government Investment				
Issues	2,709	-	7,043	9,752
Islamic bonds	61,079	43,381	109,843	214,303
Equity securities	4,625	6,125	15,953	26,703
Investments in investment-linked funds	5,019	-	-	-
Accrued profit	632	373	997	2,002
	<u>74,064</u>	<u>49,879</u>	<u>133,836</u>	<u>252,760</u>
 (ii) FVTPL				
<b>30 June 2015</b>				
Government Investment				
Issues	-	-	1,084	1,084
Islamic bonds	-	-	9,641	9,641
Equity securities	-	-	2,725	2,725
Structured investments	-	-	4,234	4,234
Accrued profit	-	-	70	70
	<u>-</u>	<u>-</u>	<u>17,754</u>	<u>17,754</u>

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**5. FINANCIAL ASSETS (CONT'D)**

**(b) Carrying value of financial instruments**

	AFS			FVTPL	
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
At 1 July 2014	80,886	37,236	103,694	216,906	16,232
Purchases	3,481	18,267	30,469	52,217	1,359
Maturities	(3,000)	-	(2,000)	(5,000)	-
Disposals	(7,272)	(5,230)	(200)	(12,702)	(27)
Fair value gains recorded in income statement (Note 19)	-	-	-	-	183
Fair value gains recorded in other comprehensive income	974	240	3,037	4,142	-
Movement in impairment allowance (Note 19)	(533)	(483)	(1,139)	(2,155)	-
Realised gains	(434)	(245)	(143)	(822)	-
Accretion of discount, net of amortisation of premium (Note 17)	(37)	(2)	32	(7)	-
Movement in accrued interest	(1)	96	86	181	7
At 30 June 2015	74,064	49,879	133,836	252,760	17,754

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**5. FINANCIAL ASSETS (CONT'D)**

**(b) Carrying value of financial instruments (cont'd)**

	AFS			FVTPL	
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
At 1 July 2015	74,064	49,879	133,836	252,760	17,754
Purchases	3,431	7,703	48,105	59,239	5,775
Maturities	-	-	(870)	(870)	(269)
Disposals	(6,209)	(12,203)	(23,102)	(41,514)	(927)
Fair value gains recorded in income statement (Note 19)	-	-	-	-	264
Fair value gains recorded in other comprehensive income	431	120	2,571	3,022	-
Movement in impairment allowance (Note 19)	(252)	(380)	(2,051)	(2,683)	-
Realised gains	(454)	(461)	(1,172)	(2,087)	-
Accretion of discount, net of amortisation of premium (Note 17)	11	(5)	34	40	-
Movement in accrued interest	(38)	(62)	164	64	-
At 30 June 2016	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>	<u>22,597</u>

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**NOTES TO THE FINANCIAL STATEMENTS****5. FINANCIAL ASSETS (CONT'D)**

## (b) Carrying values of financial investments (cont'd)

As at 30 June 2016, impairment losses of impaired available-for-sale financial assets of RM10,358,288 is RM2,682,787 (2015: RM2,154,880). A reconciliation of the allowance for impairment losses for available-for-sale financial assets is as follows:

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
At 1 July 2015	1,106	520	1,176	2,802
Charge for the year (Note 19)	252	380	2,051	2,683
At 30 June 2016	<u>1,358</u>	<u>900</u>	<u>3,227</u>	<u>5,485</u>
At 1 July 2014	573	37	37	647
Charge for the year (Note 19)	533	483	1,139	2,155
At 30 June 2015	<u>1,106</u>	<u>520</u>	<u>1,176</u>	<u>2,802</u>

## (c) Fair value hierarchy

The table below shows the financial assets recorded at fair value by their valuation method.

Level 1:	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2:	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3:	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS (CONT'D)

(c) Fair value hierarchy (cont'd)

				AFS	FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
<b>30 June 2016</b>					
Level 1	3,436	5,270	17,444	26,150	7,565
Level 2	67,548	39,321	140,071	241,821	15,032
Level 3	-	-	-	-	-
	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>	<u>22,597</u>
<b>30 June 2015</b>					
Level 1	4,625	6,125	15,953	26,703	2,725
Level 2	69,439	43,754	117,883	226,057	15,029
Level 3	-	-	-	-	-
	<u>74,064</u>	<u>49,879</u>	<u>133,836</u>	<u>252,760</u>	<u>17,754</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**6. LOANS AND RECEIVABLES**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>				
Fixed and cash deposits with licensed financial institutions	-	400	6,262	6,662
Accrued profit	-	7	50	57
	<u>-</u>	<u>407</u>	<u>6,312</u>	<u>6,719</u>
<b>30 June 2015</b>				
Fixed and cash deposits with licensed financial institutions	-	388	6,583	6,971
Accrued profit	-	7	49	56
	<u>-</u>	<u>395</u>	<u>6,632</u>	<u>7,027</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

**7. RETAKAFUL ASSETS**

	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>			
Retakaful of Takaful contracts	<u>69,603</u>	<u>36,010</u>	<u>105,613</u>
<b>30 June 2015</b>			
Retakaful of Takaful contracts	<u>70,077</u>	<u>32,505</u>	<u>102,582</u>



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**8. TAKAFUL RECEIVABLES**

	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>			
Outstanding contributions including agents, brokers and co-takaful balances	3,160	7,711	10,871
Less: Allowance for impairment	(187)	(5)	(192)
	<u>2,973</u>	<u>7,706</u>	<u>10,679</u>
Amount due from retakaful operators	4,486	449	4,935
Less: Allowance for impairment	(2,832)	(331)	(3,163)
	<u>1,654</u>	<u>118</u>	<u>1,772</u>
	<u>4,627</u>	<u>7,824</u>	<u>12,451</u>
Gross amounts of recognised financial assets	8,227	10,733	18,960
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(581)	(2,573)	(3,154)
	<u>7,646</u>	<u>8,160</u>	<u>15,806</u>
Allowance for impairment	(3,019)	(336)	(3,355)
Net amounts of financial assets presented in the statement of financial position	<u>4,627</u>	<u>7,824</u>	<u>12,451</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**8. TAKAFUL RECEIVABLES (CONT'D)**

	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2015</b>			
Outstanding contributions including agents, brokers and co-takaful balances	11,401	4,196	15,597
Less: Allowance for impairment	(273)	-	(273)
	<u>11,128</u>	<u>4,196</u>	<u>15,324</u>
Amount due from retakaful operators	3,520	2,485	6,005
Less: Allowance for impairment	(2,893)	(1,858)	(4,751)
	<u>627</u>	<u>627</u>	<u>1,254</u>
	<u>11,755</u>	<u>4,823</u>	<u>16,578</u>
Gross amounts of recognised financial assets	15,763	7,889	23,652
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(842)	(1,208)	(2,050)
	<u>14,921</u>	<u>6,681</u>	<u>21,602</u>
Allowance for impairment	(3,166)	(1,858)	(5,024)
Net amounts of financial assets presented in the statement of financial position	<u>11,755</u>	<u>4,823</u>	<u>16,578</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**9. OTHER RECEIVABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>30 June 2016</b>				
Dividend receivables	13	16	64	93
Amount due from				
General Takaful Fund	14,624	-	-	-
Amount due from				
Family Takaful Fund	2,203	782	-	-
Other receivables	2,701	3,153	1,421	7,275
	<u>19,541</u>	<u>3,951</u>	<u>1,485</u>	<u>7,368</u>
<b>30 June 2015</b>				
Dividend receivables	22	14	81	117
Amount due from				
General Takaful Fund	7,841	-	231	-
Amount due from				
Family Takaful Fund	1,487	-	-	-
Other receivables	2,552	2,298	813	5,663
	<u>11,902</u>	<u>2,312</u>	<u>1,125</u>	<u>5,780</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

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**NOTES TO THE FINANCIAL STATEMENTS**

**10 . CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>				
Cash and bank balances	1,571	46	5,060	6,677
Short term deposits	3,044	38,823	48,221	90,088
Accrued profit	1	5	17	23
	<u>4,616</u>	<u>38,874</u>	<u>53,298</u>	<u>96,788</u>
<b>30 June 2015</b>				
Cash and bank balances	907	851	1,954	3,712
Short term deposits	2,336	1,670	25,413	29,419
Accrued profit	-	-	14	14
	<u>3,243</u>	<u>2,521</u>	<u>27,381</u>	<u>33,145</u>

NOTES TO THE FINANCIAL STATEMENTS

11. TAKAFUL CONTRACT LIABILITIES

Note	30.6.2016			30.6.2015		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
General Takaful	118,743	(69,603)	49,140	114,594	(70,077)	44,517
Family Takaful	266,189	(36,010)	230,179	213,112	(32,505)	180,607
	384,932	(105,613)	279,319	327,706	(102,582)	225,124
Elimination of investment in investment-linked funds	(5,119)	-	(5,119)	(5,019)	-	(5,019)
Total Company	379,813	(105,613)	274,200	322,687	(102,582)	220,105

(a) General Takaful contract liabilities

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

	30.6.2016			30.6.2015		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Provision for claims reported by certificateholders	58,317	(47,596)	10,721	50,813	(39,816)	10,997
Provision for IBNR	27,023	(17,386)	9,637	34,114	(21,871)	12,243
Provision for outstanding claims (i)	85,340	(64,982)	20,358	84,927	(61,687)	23,240
Unearned contribution reserve (ii)	14,193	(4,621)	9,572	17,725	(8,390)	9,335
AFS fair value adjustment (iii)	792	-	792	1,037	-	1,037
Participants' account (iv)	16,392	-	16,392	7,270	-	7,270
Unallocated surplus (v)	2,026	-	2,026	3,635	-	3,635
	118,743	(69,603)	49,140	114,594	(70,077)	44,517

**NOTES TO THE FINANCIAL STATEMENTS**

**11 . TAKAFUL CONTRACT LIABILITIES (CONT'D)**

(a) General Takaful contract liabilities (cont'd)

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

	30.6.2016			30.6.2015		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
(i) Provision for outstanding claims						
At 1 July	84,927	(61,687)	23,240	89,817	(62,568)	27,249
Claims incurred in the current accident year	20,759	(12,245)	8,514	28,280	(18,163)	10,117
Other movements in claims incurred in prior accident year	(16,367)	6,381	(9,986)	901	(9,161)	(8,260)
Claims paid during the financial year	(3,979)	2,569	(1,410)	(34,071)	28,205	(5,866)
At 30 June	85,340	(64,982)	20,358	84,927	(61,687)	23,240
(ii) Unearned contribution reserve						
At 1 July	17,725	(8,390)	9,335	20,743	(9,772)	10,971
Contribution written in the financial year	43,065	(19,970)	23,095	44,940	(23,745)	21,195
Contribution earned during the financial year	(46,597)	23,739	(22,858)	(47,958)	25,127	(22,831)
At 30 June	14,193	(4,621)	9,572	17,725	(8,390)	9,335

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**11 . TAKAFUL CONTRACT LIABILITIES (CONT'D)**

(a) General Takaful contract liabilities (cont'd)

	Gross/Net	
	2016 RM'000	2015 RM'000
(iii) AFS fair value adjustment		
At 1 July	1,037	1,041
Net fair value change during the financial year	(245)	(4)
At 30 June	792	1,037
(iv) Participants' account		
At 1 July	7,270	1,711
Participants' account recognised as unallocated surplus	-	(1,711)
Surplus payable to participants	9,122	7,270
At 30 June	16,392	7,270
(v) Unallocated surplus		
At 1 July	3,635	7,005
Surplus arising during the financial year	19,515	9,459
Surplus recognised from participants' account	-	1,711
Surplus sharing with Takaful Operator/participants	(21,124)	(14,540)
At 30 June	2,026	3,635

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**NOTES TO THE FINANCIAL STATEMENTS**

**11 . TAKAFUL CONTRACT LIABILITIES (CONT'D)**

(b) Family Takaful contract liabilities

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

	30.6.2016		30.6.2015	
	Gross RM'000	Re-takaful RM'000	Gross RM'000	Re-takaful RM'000
Certificateholders' liabilities	220,961	(31,590)	186,213	(28,151)
Net asset value attributable to certificateholders	25,956	-	15,516	-
Actuarial liabilities (i)	246,917	(31,590)	201,729	(28,151)
Claims liabilities	5,449	(4,420)	5,066	(4,354)
Unallocated surplus (ii)	8,755	-	2,396	-
AFS fair value adjustment (iii)	5,068	-	3,921	-
	<u>266,189</u>	<u>(36,010)</u>	<u>213,112</u>	<u>(32,505)</u>
				<u>180,607</u>



NOTES TO THE FINANCIAL STATEMENTS

11. TAKAFUL CONTRACT LIABILITIES (CONT'D)

(b) Family Takaful contract liabilities (cont'd)

(i) Actuarial liabilities

	Gross RM'000	Re-takaful RM'000	Net RM'000
At 1 July 2014	165,916	(25,364)	140,552
Change in certificate liabilities	34,610	(2,787)	31,823
Movement in net asset value attributable to certificateholders	1,203	-	1,203
At 30 June 2015/1 July 2015	201,729	(28,151)	173,578
Change in certificate liabilities	34,748	(3,439)	31,309
Movement in net asset value attributable to certificateholders	10,440	-	10,440
At 30 June 2016	246,917	(31,590)	215,327

Gross/Net	
2016	2015
RM'000	RM'000
2,396	740
7,596	2,700
(1,237)	(1,044)
8,755	2,396

- (ii) Unallocated surplus  
At 1 July  
Surplus/(deficits) during the financial year  
Surplus sharing with Takaful Operator/participants  
At 30 June

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**NOTES TO THE FINANCIAL STATEMENTS**

**11 . TAKAFUL CONTRACT LIABILITIES (CONT'D)**

(b) Family Takaful contract liabilities (cont'd)

	<b>Gross/Net</b>	
	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
(iii) AFS fair value adjustment	3,921	1,258
At 1 July	1,147	2,663
Net fair value change during the financial year		
At 30 June	<u>5,068</u>	<u>3,921</u>

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**12 . TAKAFUL PAYABLES**

	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>30 June 2016</b>			
Due to agents and intermediaries	2,731	-	2,731
Due to retakaful operators and cedants	24,937	7,473	32,410
	<u>27,668</u>	<u>7,473</u>	<u>35,141</u>
Gross amounts of recognised financial liabilities	28,249	10,046	38,295
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(581)	(2,573)	(3,154)
Net amounts of financial liabilities presented in the statement of financial position	<u>27,668</u>	<u>7,473</u>	<u>35,141</u>
<b>30 June 2015</b>			
Due to agents and intermediaries	3,185	-	3,185
Due to retakaful operators and cedants	8,092	3,695	11,787
	<u>11,277</u>	<u>3,695</u>	<u>14,972</u>
Gross amounts of recognised financial liabilities	12,119	4,903	17,022
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(842)	(1,208)	(2,050)
Net amounts of financial liabilities presented in the statement of financial position	<u>11,277</u>	<u>3,695</u>	<u>14,972</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

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**NOTES TO THE FINANCIAL STATEMENTS**

**13 . EXPENSE LIABILITIES**

	<u>Takaful Operator/Company</u>	
	2016	2015
	RM'000	RM'000
At the beginning of the financial year	7,113	7,988
Increase/(decrease) during the financial year	3,597	(875)
At the end of the financial year	<u>10,710</u>	<u>7,113</u>

**14 . OTHER PAYABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>30 June 2016</b>				
Contribution deposits	-	29	2,442	2,471
Amount due to Takaful Operator Fund	-	14,624	2,203	-
Amount due to General Takaful Fund	-	-	782	-
Sundry payables and accruals	12,373	453	3,716	16,542
	<u>12,373</u>	<u>15,106</u>	<u>9,143</u>	<u>19,013</u>
<b>30 June 2015</b>				
Contribution deposits	-	29	1,785	1,814
Amount due to Takaful Operator Fund	-	7,841	1,487	-
Amount due to Family Takaful Fund	-	231	-	-
Sundry payables and accruals	6,598	376	2,159	9,133
	<u>6,598</u>	<u>8,477</u>	<u>5,431</u>	<u>10,947</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**15 . DEFERRED TAX ASSETS/(LIABILITIES)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes related to the same authority.

The following amounts, determined after appropriate offsets, are shown in the statements of financial position.

The movements in deferred tax balances are as follows:

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
At 1 July 2014	851	(329)	(162)	360
Recognised in:				-
Profit or loss (Note 23)	(165)	906	77	818
Other comprehensive income	(135)	1	(231)	(365)
At 30 June 2015/1 July 2015	<u>551</u>	<u>578</u>	<u>(316)</u>	<u>813</u>
Recognised in:				-
Profit or loss (Note 23)	64	(56)	16	24
Other comprehensive income	34	96	(252)	(122)
At 30 June 2016	<u><u>649</u></u>	<u><u>618</u></u>	<u><u>(552)</u></u>	<u><u>715</u></u>

Presented after appropriate offsetting as follows:

**30 June 2016**

Deferred tax liabilities	(2,371)	(250)	(685)	(3,306)
Deferred tax assets	3,020	868	133	4,021
	<u>649</u>	<u>618</u>	<u>(552)</u>	<u>715</u>

**30 June 2015**

Deferred tax liabilities	(1,571)	(346)	(413)	(2,330)
Deferred tax assets	2,122	924	97	3,143
	<u>551</u>	<u>578</u>	<u>(316)</u>	<u>813</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**15 . DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>30 June 2016</b>				
Current	340	868	-	1,208
Non-current	309	(250)	(552)	(493)
	<u>649</u>	<u>618</u>	<u>(552)</u>	<u>715</u>
<b>30 June 2015</b>				
Current	210	791	-	1,001
Non-current	341	(213)	(316)	(188)
	<u>551</u>	<u>578</u>	<u>(316)</u>	<u>813</u>

The components and movements of deferred tax assets/(liabilities) during the financial year prior to offsetting are as follows:

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
<b>Takaful Operator</b>					
At 1 July 2014	(723)	(565)	-	2,139	851
Recognised in:					
Profit or loss	(130)	116	-	(151)	(165)
Other comprehensive income	-	(135)	-	-	(135)
At 30 June 2015/ 1 July 2015	(853)	(584)	-	1,988	551
Recognised in:					
Profit or loss	(834)	(24)	-	922	64
Other comprehensive income	-	34	-	-	34
At 30 June 2016	<u>(1,687)</u>	<u>(574)</u>	<u>-</u>	<u>2,910</u>	<u>649</u>

NOTES TO THE FINANCIAL STATEMENTS

15 . DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
<b>General Takaful Fund</b>					
At 1 July 2014	-	(336)	7	-	(329)
Recognised in:					
Profit or loss	-	122	784	-	906
Other comprehensive income	-	1	-	-	1
At 30 June 2015/ 1 July 2015	-	(213)	791	-	578
Recognised in:					
Profit or loss	-	11	(67)	-	(56)
Other comprehensive income	-	96	-	-	96
At 30 June 2016	-	(106)	724	-	618
<b>Family Takaful Fund</b>					
At 1 July 2014	-	(162)	-	-	(162)
Recognised in:					
Profit or loss	-	77	-	-	77
Other comprehensive income	-	(231)	-	-	(231)
At 30 June 2015/ 1 July 2015	-	(316)	-	-	(316)
Recognised in:					
Profit or loss	-	16	-	-	16
Other comprehensive income	-	(252)	-	-	(252)
At 30 June 2016	-	(552)	-	-	(552)

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**15 . DEFERRED TAX ASSETS/(LIABILITIES) (CONT'D)**

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
<b>Company</b>					
At 1 July 2014	(723)	(1,063)	7	2,139	360
Recognised in:					
Profit or loss	(130)	315	784	(151)	818
Other comprehensive income	-	(365)	-	-	(365)
At 30 June 2015/ 1 July 2015	(853)	(1,113)	791	1,988	813
Recognised in:					
Profit or loss	(834)	3	(67)	922	24
Other comprehensive income	-	(122)	-	-	(122)
At 30 June 2016	<u>(1,687)</u>	<u>(1,232)</u>	<u>724</u>	<u>2,910</u>	<u>715</u>

**16 . SHARE CAPITAL**

**Takaful Operator/Company**

	30.6.2016		30.6.2015	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Ordinary shares of RM1.00 each				
Authorised:				
At the beginning/end of the financial year	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At the beginning/end of the financial year	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>



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**17 . INVESTMENT INCOME**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
<u>AFS financial assets</u>				
Profit income	2,749	1,777	6,150	10,676
Accretion of discounts/ (amortisation of premiums) - net	11	(5)	34	40
Dividend income	154	216	563	933
<u>FVTPL</u>				
Profit income	-	-	470	470
Dividend income	-	-	113	113
<u>Loans and receivables</u>				
Profit income	-	13	216	229
<u>Cash and cash equivalents</u>				
Profit income	86	254	1,076	1,416
	<u>3,000</u>	<u>2,255</u>	<u>8,622</u>	<u>13,877</u>
Less: Share of investment profit of Takaful funds with Takaful Operator	-	-	(688)	-
	<u><u>3,000</u></u>	<u><u>2,255</u></u>	<u><u>7,934</u></u>	<u><u>13,877</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**17 . INVESTMENT INCOME (CONT'D)**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2015</b>				
<u>AFS financial assets</u>				
Profit income	3,010	1,547	4,808	9,365
(Amortisation of premiums)/ accretion of discounts - net	(37)	(2)	32	(7)
Dividend income	180	236	441	857
 <u>FVTPL</u>				
Profit income	-	-	456	456
Dividend income	-	-	86	86
 <u>Loans and receivables</u>				
Profit income	-	19	201	220
 <u>Cash and cash equivalents</u>				
Profit income	200	181	722	1,103
	<u>3,353</u>	<u>1,981</u>	<u>6,746</u>	<u>12,080</u>
Less: Share of investment profit of Takaful funds with Takaful Operator	-	-	(494)	-
	<u><u>3,353</u></u>	<u><u>1,981</u></u>	<u><u>6,252</u></u>	<u><u>12,080</u></u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**18 . REALISED GAINS/(LOSSES)**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
<u>AFS financial assets</u>				
Quoted equities	355	360	953	1,668
Government Investment Issues	15	101	94	210
Islamic bonds	84	-	125	209
<u>FVTPL</u>				
Quoted equities	-	-	(218)	(218)
Islamic bonds	-	-	(7)	(7)
	<u>454</u>	<u>461</u>	<u>947</u>	<u>1,862</u>
<b>2015</b>				
<u>AFS financial assets</u>				
Quoted equities	426	227	143	796
Government Investment Issues	-	18	-	18
Islamic bonds	8	-	-	8
<u>FVTPL</u>				
Quoted equities	-	-	(25)	(25)
	<u>434</u>	<u>245</u>	<u>118</u>	<u>797</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**19 . FAIR VALUE GAINS/(LOSSES)**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Impairment of AFS financial assets (Note 5)	(252)	(380)	(2,051)	(2,683)
Fair value gains on FVTPL financial assets	-	-	264	264
	<u>(252)</u>	<u>(380)</u>	<u>(1,787)</u>	<u>(2,419)</u>
<b>2015</b>				
Impairment of AFS financial assets (Note 5)	(533)	(483)	(1,139)	(2,155)
Fair value gains on FVTPL financial assets	-	-	183	183
	<u>(533)</u>	<u>(483)</u>	<u>(956)</u>	<u>(1,972)</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**20 . OTHER OPERATING INCOME**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Write back of impairment loss on Takaful receivables	-	147	1,908	2,055
Other income	608	1	239	848
Elimination of income from investment-linked funds	-	-	-	(576)
	<u>608</u>	<u>148</u>	<u>2,147</u>	<u>2,327</u>
<b>2015</b>				
Write back of impairment loss on Takaful receivables	-	-	822	822
Provision for expense liabilities	875	-	-	875
Other income	854	61	214	1,129
Elimination of income from investment-linked funds	-	-	-	(820)
	<u>1,729</u>	<u>61</u>	<u>1,036</u>	<u>2,006</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**21 . MANAGEMENT EXPENSES**

	2016 RM'000	2015 RM'000
<b>Takaful Operator/Company</b>		
Staff costs:		
Salary and bonus	11,946	10,862
Social security costs	82	72
Employees' provident fund	1,885	1,710
Other staff related expenses	435	555
Directors' fees	257	272
Shariah committee remuneration and other expenses		
- remuneration	180	180
- other expenses	-	82
Depreciation of property and equipment (Note 3)	550	541
Amortisation of intangible assets (Note 4)	1,883	1,382
Auditors' remuneration:		
Audit related services		
- current year	299	307
- over provision in prior financial year	-	(11)
Non-audit related services	85	161
Other professional fee	1,931	1,754
Rental of properties	1,029	1,224
Shared service fee	2,326	1,704
Other expenses	8,647	5,613
<b>Total</b>	<b>31,535</b>	<b>26,408</b>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM 951,536 (2015: RM 1,141,095).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 27.

NOTES TO THE FINANCIAL STATEMENTS

21 . MANAGEMENT EXPENSES (CONT'D)

The total remuneration of the Shariah Committee members is as follows:

	2016 RM'000	2015 RM'000
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	36	36
Asst. Prof. Dr. Uzaimah Ibrahim	36	36
Dr Muhammad Aunurrochim Mas'ad Salleh	36	36
Dr Nurul Aini binti Muhamed	36	36
Dr Asmak Binti Ab Rahman	36	36
Total	<u>180</u>	<u>180</u>

22 . OTHER OPERATING EXPENSES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Provision for expense liabilities	(3,596)	-	-	(3,596)
Provision for legal expense	(3,841)	-	-	(3,841)
Others	(4)	(12)	(978)	(994)
Elimination of income from investment-linked funds	-	-	-	576
	<u>(7,441)</u>	<u>(12)</u>	<u>(978)</u>	<u>(7,855)</u>
<b>2015</b>				
Write off of Takaful receivables	-	(34)	-	(34)
Impairment of Takaful receivables	-	(3,139)	-	(3,139)
Others	-	(82)	(875)	(957)
Elimination of income from investment-linked funds	-	-	-	820
	<u>-</u>	<u>(3,255)</u>	<u>(875)</u>	<u>(3,310)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**23 . TAXATION**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Current tax:				
- In respect of current financial year	3,544	1,583	602	5,729
- (Over)/under provision in prior financial years	1,694	(2,366)	(323)	(995)
Deferred tax benefits (Note 15)	(64)	56	(16)	(24)
	<u>5,174</u>	<u>(727)</u>	<u>263</u>	<u>4,710</u>
<b>2015</b>				
Current tax:				
- In respect of current financial year	495	3,598	420	4,513
- (Over)/under provision in prior financial years	-	(162)	(12)	(174)
Deferred tax benefits (Note 15)	165	(906)	(77)	(818)
	<u>660</u>	<u>2,530</u>	<u>331</u>	<u>3,521</u>

The income tax for the Takaful Operator and General Takaful funds are calculated based on the tax rate of 24% (2015: 25%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful fund is calculated based on tax rate of 8% (2014: 8%) of the assessable investment income net of allowable deductions for the financial year.

The numerical reconciliation between taxation and the product of accounting profit multiplied by the Malaysian tax rate of the Company is as follows:

	2016 RM'000	2015 RM'000
(Loss)/profit before taxation attributable to Takaful Operator	<u>(2,131)</u>	<u>1,212</u>
Taxation at Malaysian statutory rate of 24% (2015: 25%)	(511)	303
Income not subject to tax	(5,433)	(5,620)
Expenses not deductible for tax purposes	9,424	5,977
Tax expense attributable to participants	(464)	2,861
Under provision in prior financial years	1,694	-
Tax expense for the financial year	<u>4,710</u>	<u>3,521</u>



NOTES TO THE FINANCIAL STATEMENTS

24 . INVESTMENT-LINKED BUSINESS

(a) Assets and liabilities as at

	30.6.2016 RM'000	30.6.2015 RM'000
<u>Assets</u>		
Fair value through profit and loss financial assets	19,039	14,200
Other receivables	89	7
Cash and cash equivalents	7,949	2,100
Investment-linked business assets	<u>27,077</u>	<u>16,307</u>
<u>Liabilities</u>		
Deferred tax liabilities	84	64
Tax payables	15	33
Other payables	195	-
Amount due to non-investment linked Family Takaful Fund*	827	694
Investment-linked business liabilities	<u>1,121</u>	<u>791</u>
Net asset value of funds	<u>25,956</u>	<u>15,516</u>
Represented by:		
<u>Unitholders' account</u>		
At beginning of the financial year	15,516	14,313
Net creation of units	11,268	2,236
Net cancellation of units	(693)	(733)
Deficit for the financial year	(135)	(300)
	<u>25,956</u>	<u>15,516</u>

\* Eliminated in preparing separate financial statements of Family Takaful fund

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**24 . INVESTMENT-LINKED BUSINESS (CONT'D)**

(b) Income and expenses for the financial year ended 30 June

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Investment income	521	439
Realised loss on disposal of investment	(225)	(25)
Fair value gains on investments	258	110
Other expenses	(678)	(798)
Deficit before taxation	<u>(124)</u>	<u>(274)</u>
Taxation:		
- current tax	10	(17)
- deferred tax	(21)	(9)
	<u>(135)</u>	<u>(300)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**25 . SEGMENTAL INFORMATION ON CASH FLOW**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Cash flows from:				
Operating activities	2,512	36,353	25,917	64,782
Investing activities	(1,139)	-	-	(1,139)
	<u>1,373</u>	<u>36,353</u>	<u>25,917</u>	<u>63,643</u>
Net increase in cash and cash equivalent	1,373	36,353	25,917	63,643
Cash and cash equivalents:				
At beginning of financial year	3,243	2,521	27,381	33,145
At end of financial year	<u>4,616</u>	<u>38,874</u>	<u>53,298</u>	<u>96,788</u>
<b>2015</b>				
Cash flows from:				
Operating activities	(2,212)	(8,171)	13,615	3,232
Investing activities	(4,392)	-	-	(4,392)
	<u>(6,604)</u>	<u>(8,171)</u>	<u>13,615</u>	<u>(1,160)</u>
Net (decrease)/increase in cash and cash equivalent	(6,604)	(8,171)	13,615	(1,160)
Cash and cash equivalents:				
At beginning of financial year	9,847	10,692	13,766	34,305
At end of financial year	<u>3,243</u>	<u>2,521</u>	<u>27,381</u>	<u>33,145</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

**26 . RELATED PARTY TRANSACTIONS**

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

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Financial Group	Penultimate holding company
HLA Holdings Sdn Bhd	Immediate holding company
Mitsui Sumitomo Insurance Corporation, Japan	Substantial Shareholder of the Company
Hong Leong Assurance Berhad	Subsidiary of immediate holding company
Hong Leong Bank Berhad	Subsidiary of ultimate holding company
Hong Leong Islamic Bank Berhad	Subsidiary of ultimate holding company

The Directors are of the opinion that related party transactions were entered at agreed terms and conditions in the normal course of business.

Significant related party transactions with related parties during the financial year are as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(8,018)	(7,625)
- Fund management fee	(875)	(786)
- Profit from Islamic deposits and money market placements with licensed banks	315	692
- Bank charges	(95)	(75)
- Office rental expenses	(1,032)	(1,225)
- Shared services fee	(2,326)	(1,962)
- Campaign and incentives	(591)	(580)
	<u>(8,018)</u>	<u>(7,625)</u>

Companies within the Hong Leong Company (Malaysia) Berhad Group include Hong Leong Bank Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Assurance Berhad where there were related party transactions.

**NOTES TO THE FINANCIAL STATEMENTS**

**26 . RELATED PARTY TRANSACTIONS (CONT'D)**

Included in the statement of financial position of the Company are significant related party balances, represented by the following:

	<b>30.6.2016</b>	<b>30.6.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	5,456	2,535
- Islamic deposits and money market placements with licensed banks	10,630	5,402
- Accrued Profit	1	1
- Rental deposit included in other receivables	322	320
- Amount due from/(to) related companies	111	(191)
	<u>111</u>	<u>(191)</u>

Amounts due to related companies are unsecured, interest free and have no fixed term of repayment.

**NOTES TO THE FINANCIAL STATEMENTS**

**27 . KEY MANAGEMENT PERSONNEL REMUNERATION**

Key management personnel are defined as those persons having authority and responsibility for the planning, directing and control of the Company's activities, either directly or otherwise. The key management personnel include all the Directors of the Company, and selected senior management members.

Key management personnel's remuneration is as follows:

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Non-Executive Directors</u>		
Fees:		
YBhg Tan Sri A. Razak bin Ramli	79	96
Encik Mustapha bin Hamat	96	96
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	82	80
	<u>257</u>	<u>272</u>
<u>Key management personnel</u>		
Short term employee benefits:		
Salary and other remuneration	2,314	2,512
Defined contribution retirement plan	391	428
Benefits-in-kind/perquisite	179	229
	<u>2,884</u>	<u>3,169</u>
<b>Total</b>	<u><u>3,141</u></u>	<u><u>3,441</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **28 . RISK MANAGEMENT FRAMEWORK**

(a) Risk management framework

The Company has in place a risk management framework and methodology which is adapted from the local regulatory requirements, as well as Hong Leong Bank Risk Management framework, designed to support the identification, assessment, monitoring and control of significant risks covering market risk, credit risk, operational risk and Takaful risk.

The day-to-day responsibility for risk management and control is embedded into the respective business lines and the management of each business lines is responsible to ensure that risk management process is functioning effectively. Risk Management functions as an independent party that is responsible for assessing and reporting the potential impact and probability of the significant risks identified across the organisation and the adequacy of related mitigation programs.

The Integrated Risk Management keeps the senior management and Board Audit and Risk Management Committee ("BARMC") abreast of material risks that require attention and action plan on a regular basis.

(b) Capital management objectives, policies and approach

Capital management risk is defined as the risk of having an insufficient capital base, which undermines execution of strategic objectives, reduces the ability of a company to cope with losses not anticipated, and reduces confidence of the market, policyholders and creditors.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital where capital resources must be managed in a way which optimises returns to Shareholders, stakeholders and meets the expectation of the regulator.

The capital management strategy of the Company is to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of Shareholders and maintain the level of capital as required by BNM.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the pro-active measures in monitoring and managing the capital position. The report will be presented to the BARMC and Board of Directors will be updated on the stress test results.

**NOTES TO THE FINANCIAL STATEMENTS**

**28 . RISK MANAGEMENT FRAMEWORK (CONT'D)**

- (b) Capital management objectives, policies and approach (cont'd)

Risk governance structure

The Company emphasises good and effective governance structure with three lines of defense and a healthy risk culture to provide reasonable assurance to the BARMC and Board of Directors:

- (a) First line of defense: Under the leadership of the Chief Executive Officer, all operating and business units are responsible and accountable for the effective and timely implementation of action plans. The monthly Executive Committee ("EXCO") meetings build an appropriate risk culture to encourage constant communication.
- (b) Second line of defense: Risk Management and Compliance, a risk oversight department, is tasked to formulate and continuously improve the Risk Management Framework and to promote risk awareness culture with regular meetings with the senior management and/or line managers in the light of risk analysis and risk action plan; and
- (c) Third line of defense: Internal Auditors perform a "check and balance" role by conducting independent and regular reviews on the Company's internal control systems and Risk Management Framework.

Regulatory capital requirements

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the RBCT is provided below:

	<b>30.6.2016</b>	<b>30.6.2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Eligible Tier 1 capital		
- Share capital	100,000	100,000
- Reserves, including retained earnings	(10,891)	(8,246)
Eligible Tier 2 capital		
- Eligible reserves	2,920	3,209
	<u>92,029</u>	<u>94,963</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended.



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**29 . TAKAFUL RISK**

The risk under any one Takaful contract is the possibility that the covered event occurs and the uncertainty of the amount of the resulting claim.

For a portfolio of Takaful contracts, the principal risk that the fund faces is that the actual claims and benefit payments exceed the assets of the fund. This could occur because the frequency or severity of claims is greater than estimated. Takaful events are random and the actual number and amount of claims can vary from the level established using statistical techniques.

(a) General Takaful/Company

The General Takaful fund is exposed to underwriting risk which includes risk of incurring claims costs that are higher than expected due to the random nature of claims, their frequency, severity and risk of exposure to changes in legal and economic condition. This also could arise from the underpricing of the contributions, which results in the Company having to receive too little contributions to cover for the risks that it underwrites.

These risks are managed through various risk mitigation measures such as retakaful arrangement as well as appropriate actuarial techniques such as pricing.

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**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

The table below sets out the concentration of General Takaful contract liabilities, excluding AFS fair value adjustment by types of contract.

	30.6.2016			30.6.2015		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Motor	3,168	(1,452)	1,716	4,180	(2,065)	2,115
Fire	29,249	(17,119)	12,130	23,018	(12,554)	10,464
Engineering	29,393	(25,420)	3,973	50,145	(45,083)	5,062
Liability	4,895	(757)	4,138	10,099	(2,193)	7,906
Miscellaneous	32,828	(24,855)	7,973	15,210	(8,182)	7,028
	99,533	(69,603)	29,930	102,652	(70,077)	32,575

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year. Wherever possible, average link ratio factors over the most recent three years were used for the fire, personal accident and others class of business, with some adjustments in respect of any distortion observed in the claims pattern.

The net contribution liabilities is determined to be the higher of the adjusted net UCR or the net URR including PRAD at the 75% probability of adequacy after allowance for diversification benefit. The risk margin percentages applied to the net URR to derive the PRAD at the 75% probability of adequacy are based on industry experience, allowing for some loadings to take into account of the Company's small size portfolio.

Sensitivity

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net Takaful claims liabilities, profit before tax and equity. 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.

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

	Change in assumptions %	Impact on gross Takaful claims liabilities RM'000	Impact on net Takaful claims liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
<b>30 June 2016</b>					
ULRs for all business classes for all loss years	+10	17,668	5,124	-	-
ULRs for Personal Accident class for all loss years	+20	8,916	1,956	-	-
ULRs for Fire class for all loss years	+20	10,064	3,270	-	-
PRAD for all business classes for all loss years	+20	1,762	443	-	-
<b>30 June 2015</b>					
ULRs for all business classes for all loss years	+10	15,068	5,292	-	-
ULRs for Personal Accident class for all loss years	+20	7,299	2,537	-	-
ULRs for Fire class for all loss years	+20	9,622	3,112	-	-
PRAD for all business classes for all loss years	+20	2,442	539	-	-

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table

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

Gross General Takaful claims liabilities for 30 June 2016

<u>Accident year</u>	2009	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	3,722	5,956	21,080	35,591	46,842	51,089	28,280	20,759	
One year later	2,399	5,249	18,211	33,995	33,607	39,535	26,218	-	
Two years later	1,147	4,286	16,814	30,394	29,060	29,428	-	-	
Three years later	1,058	3,525	15,602	49,411	27,522	-	-	-	
Four years later	1,045	3,405	14,057	47,088	-	-	-	-	
Five years later	1,051	2,941	13,696	-	-	-	-	-	
Six years later	1,045	2,963	-	-	-	-	-	-	
Seven years later	1,045	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1,045	2,963	13,696	47,088	27,522	29,428	26,218	20,759	

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Gross General Takaful claims liabilities for 30 June 2016 (cont'd)

<u>Accident year</u>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	142	357	1,194	2,754	3,316	3,833	3,030	2,354	
One year later	482	2,301	7,562	10,018	11,610	7,664	11,047	-	
Two years later	1,034	2,732	9,097	15,254	14,562	21,215	-	-	
Three years later	1,033	2,773	10,860	39,297	15,952	-	-	-	
Four years later	1,040	2,731	11,066	17,344	-	-	-	-	
Five years later	1,043	2,736	11,683	-	-	-	-	-	
Six years later	1,045	2,739	-	-	-	-	-	-	
Seven years later	1,045	-	-	-	-	-	-	-	
Cumulative payments to-date	1,045	2,739	11,683	17,344	15,952	21,215	11,047	2,354	
Gross General Takaful claims liabilities	-	224	2,013	29,744	11,570	8,213	15,171	18,405	85,340

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**NOTES TO THE FINANCIAL STATEMENTS**

**29. TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Net General Takaful claims liabilities for 30 June 2016

<u>Accident year</u>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	580	2,508	8,479	13,715	18,802	13,280	10,117	8,514	
One year later	437	2,535	9,797	12,590	13,208	9,169	8,227	-	
Two years later	194	2,126	8,176	11,673	11,179	7,762	-	-	
Three years later	151	1,952	7,882	10,468	9,659	-	-	-	
Four years later	143	1,933	7,337	5,570	-	-	-	-	
Five years later	151	1,566	7,059	-	-	-	-	-	
Six years later	150	1,572	-	-	-	-	-	-	
Seven years later	150	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	150	1,572	7,059	5,570	9,659	7,762	8,227	8,514	

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Net General Takaful claims liabilities for 30 June 2016 (cont'd)

<u>Accident year</u>	2009	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	84	259	1,016	2,119	1,845	1,899	2,252	1,647	
One year later	141	1,114	4,295	5,186	4,482	3,692	4,709	-	
Two years later	143	1,505	4,936	7,321	5,631	4,584	-	-	
Three years later	139	1,471	5,535	7,898	6,043	-	-	-	
Four years later	143	1,493	5,627	3,763	-	-	-	-	
Five years later	148	1,496	5,760	-	-	-	-	-	
Six years later	150	1,499	-	-	-	-	-	-	
Seven years later	150	-	-	-	-	-	-	-	
Cumulative payments to-date	150	1,499	5,760	3,763	6,043	4,584	4,709	1,647	
Net General Takaful claims liabilities	-	73	1,299	1,807	3,616	3,178	3,518	6,867	20,358



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**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Gross General Takaful claims liabilities for 30 June 2015

<u>Accident year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At end of accident year	518	3,204	5,956	21,080	35,591	46,842	51,089	28,278	
One year later	491	1,908	5,249	18,211	33,995	33,607	39,535	-	
Two years later	127	1,020	4,286	16,814	30,394	29,060	-	-	
Three years later	79	979	3,525	15,602	49,411	-	-	-	
Four years later	73	972	3,405	14,057	-	-	-	-	
Five years later	73	978	2,941	-	-	-	-	-	
Six years later	75	970	-	-	-	-	-	-	
Seven years later	75	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	75	970	2,941	14,057	49,411	29,060	39,535	28,278	

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**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Gross General Takaful claims liabilities for 30 June 2015 (cont'd)

<u>Accident year</u>	2008	2009	2010	2011	2012	2013	2014	2015	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	26	116	357	1,194	2,754	3,316	3,833	3,030	
One year later	74	408	2,301	7,562	10,018	11,610	7,664	-	
Two years later	68	966	2,732	9,097	15,254	14,562	-	-	
Three years later	73	960	2,773	10,860	39,297	-	-	-	
Four years later	73	967	2,731	11,066	-	-	-	-	
Five years later	73	970	2,736	-	-	-	-	-	
Six years later	75	970	-	-	-	-	-	-	
Seven years later	75	-	-	-	-	-	-	-	
Cumulative payments to-date	75	970	2,736	11,066	39,297	14,562	7,664	3,030	
Gross General Takaful claims liabilities	-	-	205	2,991	10,114	14,498	31,871	25,248	84,927

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**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Net General Takaful claims liabilities for 30 June 2015

<u>Accident year</u>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
At end of accident year	269	311	2,508	8,479	13,715	18,802	13,280	10,117	
One year later	177	260	2,535	9,797	12,590	13,208	9,169	-	
Two years later	75	119	2,126	8,176	11,673	11,179	-	-	
Three years later	55	96	1,952	7,882	10,468	-	-	-	
Four years later	53	90	1,933	7,337	-	-	-	-	
Five years later	53	98	1,566	-	-	-	-	-	
Six years later	55	95	-	-	-	-	-	-	
Seven years later	55	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	55	95	1,566	7,337	10,468	11,179	9,169	10,117	

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(a) General Takaful/Company (cont'd)

Claims development table (cont'd)

Net General Takaful claims liabilities for 30 June 2015 (cont'd)

<u>Accident year</u>	2008	2009	2010	2011	2012	2013	2014	2015	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	26	58	259	1,016	2,119	1,845	1,899	2,252	
One year later	55	86	1,114	4,295	5,186	4,482	3,692	-	
Two years later	50	93	1,505	4,936	7,321	5,631	-	-	
Three years later	53	86	1,471	5,535	7,898	-	-	-	
Four years later	53	90	1,493	5,627	-	-	-	-	
Five years later	53	95	1,496	-	-	-	-	-	
Six years later	55	95	-	-	-	-	-	-	
Seven years later	55	-	-	-	-	-	-	-	
Cumulative payments to-date	55	95	1,496	5,627	7,898	5,631	3,692	2,252	
Net General Takaful claims liabilities	-	-	70	1,710	2,570	5,548	5,477	7,865	23,240

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(b) Family Takaful/Company

Takaful risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company's Family Takaful businesses are exposed to a range of Takaful risks from various products. In providing financial advisory services coupled with Takaful protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), persistency, product design and pricing.

The Company's underwriting strategy is designed to ensure risks are well diversified in terms of type of risk and the level of covered benefits. This is broadly achieved through the use of medical screening to ensure participants' health condition and family medical history, regular review of actual claims experience as well as detailed claims procedures.

The mortality and morbidity risks are managed through the use of retakaful to transfer excessive risk exposures, appropriate actuarial techniques as well as other mitigation measures.

The table below shows the concentration of Family Takaful actuarial liabilities by types of product.

	<b>Gross</b>	<b>Retakaful</b>	<b>Net</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>30 June 2016</b>			
Mortgage Reducing Term and Group business	35,982	(26,847)	9,135
i-BR1M	4,578	(3,663)	915
Others	2,226	(1,080)	1,146
	<u>42,786</u>	<u>(31,590)</u>	<u>11,196</u>
<b>30 June 2015</b>			
Mortgage Reducing Term and Group business	31,294	(22,822)	8,472
i-BR1M	4,683	(3,747)	936
Others	1,806	(1,582)	224
	<u>37,783</u>	<u>(28,151)</u>	<u>9,632</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 29 . TAKAFUL RISK (CONT'D)

(b) Family Takaful/Company (cont'd)

As all of the business is derived from Malaysia, the entire Family Takaful actuarial liabilities are in Malaysia.

Key assumptions

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

The principles on which the valuation was made were determined by the actuary having regard to BNM Guidelines on Valuation Basis for Liabilities of Family Takaful Business (BNM/RH/GL 004-20) and Risk Based Capital Framework for Takaful Operators (BNM/RH/GL 004-23).

Mortality and morbidity assumption were derived based on the understanding of actual and expected experience and industry experience. Lapse rate assumptions are based on the Company's experience.

Management expenses assumptions are developed based on the projection of management expenses and new business sales for the next two years. The development of assumptions based on expected experience in two years rather than current experience is due to the current size of the Company and its relatively new operations.

For the investment-linked plans, the Company took cognisance of JPI33 Part vii Section V, valuation of liabilities of investment-linked business. The cash flow reserves were set up using a discounted cash flow method, to ensure that any future negative cash flow resulting from excess of tabarru' charges to meet expected benefit outgo are eliminated.

**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(b) Family Takaful/Company (cont'd)

Sensitivity

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

	Change in assumptions	%	Impact on gross Takaful actuarial liabilities		Impact on net Takaful actuarial liabilities		Impact on profit before tax		Impact on equity*	
			RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 June 2016</b>										
Mortality	+10		14,550	2,691	-	-	-	-	-	-
Mortality	-10		(13,788)	(2,469)	-	-	-	-	-	-
Lapse and surrender rates	+10		(505)	(130)	-	-	-	-	-	-
Lapse and surrender rates	-10		521	134	-	-	-	-	-	-
Discount rate	+10		(1,284)	(328)	-	-	-	-	-	-
Discount rate	-10		1,396	366	-	-	-	-	-	-
Investment return	+10		(1,575)	(444)	-	-	-	-	-	-
Investment return	-10		1,504	440	-	-	-	-	-	-

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**NOTES TO THE FINANCIAL STATEMENTS**

**29 . TAKAFUL RISK (CONT'D)**

(b) Family Takaful/Company (cont'd)

Sensitivity (cont'd)

	Change in assumptions %	Impact on gross Takaful actuarial liabilities RM'000	Impact on net Takaful actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
<b>30 June 2015</b>					
Mortality	+10	14,237	1,533	-	-
Mortality	-10	(13,014)	(1,209)	-	-
Lapse and surrender rates	+10	(865)	(370)	-	-
Lapse and surrender rates	-10	955	411	-	-
Discount rate	+10	(1,269)	(318)	-	-
Discount rate	-10	1,358	343	-	-
Investment return	+10	(1,910)	(314)	-	-
Investment return	-10	1,794	315	-	-

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

In the sensitivity analysis above, the impact from changes in best estimate assumptions for the Family Takaful fund is retained within the Takaful contract liabilities. The methods used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.



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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK**

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet the payment obligations. The credit risk and investment activities are monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity in accordance to internal and regulatory investment guidelines and limits.

As at the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board and regulators. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

There were no significant changes to the credit risk management of the Company.

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**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)  
Credit exposure by credit rating

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	AAA		AA		A		BBB		Neither past due nor impaired		Not subject to credit risk		Past due but not impaired and impaired		Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>30 June 2016</b>																	
<u>Takaful Operator</u>																	
AFS financial assets																	
Government Investment Issues	-	-	-	-	-	-	-	-	2,697	-	-	-	-	-	-	-	2,697
Islamic bonds	7,698	23,234	-	-	-	-	-	-	28,206	-	-	-	-	-	-	-	59,138
Equity securities	-	-	-	-	-	-	-	-	-	3,436	-	-	-	-	-	-	3,436
Investment-linked funds	-	-	-	-	-	-	-	-	-	5,119	-	-	-	-	-	-	5,119
Accrued profit	128	182	-	-	-	-	-	284	-	-	-	-	-	-	-	-	594
Other receivables	-	-	-	-	-	-	-	19,152	-	-	-	-	-	-	-	-	19,152
Cash and cash equivalents	2,646	1,967	-	-	-	-	-	3	-	-	-	-	-	-	-	-	4,616
	<b>10,472</b>	<b>25,383</b>	-	-	-	-	-	<b>50,342</b>	<b>8,555</b>	-	-	-	-	-	-	-	<b>94,752</b>

**HONG LEONG MSIG TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	Neither past due nor impaired				Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2015								
<u>Takaful Operator</u>								
AFS financial assets								
Government Investment Issues	-	-	-	2,709	-	-	-	2,709
Islamic bonds	7,673	25,379	-	28,027	-	-	-	61,079
Equity securities	-	-	-	-	4,625	-	-	4,625
Investment-linked funds	-	-	-	-	5,019	-	-	5,019
Accrued profit	127	207	-	298	-	-	-	632
Other receivables	-	-	-	11,354	-	-	-	11,354
Cash and cash equivalents	71	3,170	-	2	-	-	-	3,243
	7,871	28,756	-	42,390	9,644	-	-	88,661

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	Neither past due nor impaired					Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 June 2016</b>									
<u>General Takaful Fund</u>									
<u>AFS financial assets</u>									
Government Investment Issues	-	-	-	-	-	-	-	-	-
Islamic bonds	-	21,797	-	-	17,212	-	-	-	39,009
Equity securities	-	-	-	-	-	5,270	-	-	5,270
Accrued profit	-	160	-	-	152	-	-	-	312
Loans and receivables									
Fixed and call deposits	-	400	-	-	-	-	-	-	400
Accrued profit	-	7	-	-	-	-	-	-	7
Retakaful assets	-	5,139	18,998	7,135	33,710	-	-	-	64,982
Takaful receivables	-	-	-	-	1,268	-	3,359	3,019	7,646
Allowance for impairment	-	-	-	-	-	-	-	(3,019)	(3,019)
Other receivables	-	-	-	-	3,951	-	-	-	3,951
Cash and cash equivalents	31,059	7,807	8	-	-	-	-	-	38,874
	<b>31,059</b>	<b>35,310</b>	<b>19,006</b>	<b>7,135</b>	<b>56,293</b>	<b>5,270</b>	<b>3,359</b>	<b>-</b>	<b>157,432</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	AAA		AA		A		Neither past due nor impaired		Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	RM'000	RM'000	BBB	RM'000	RM'000	RM'000				
<b>30 June 2015</b>												
<u>General Takaful Fund</u>												
<u>AFS financial assets</u>												
Government Investment Issues	-	-	-	-	-	-	-	-	-	-	-	-
Islamic bonds	-	21,816	-	-	-	21,565	-	-	-	-	-	43,381
Equity securities	-	-	-	-	-	-	-	6,125	-	-	-	6,125
Accrued profit	-	160	-	-	-	213	-	-	-	-	-	373
Loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-
Fixed and call deposits	-	388	-	-	-	-	-	-	-	-	-	388
Accrued profit	-	7	-	-	-	-	-	-	-	-	-	7
Retakaful assets	-	2,572	14,205	3,028	41,881	-	-	-	-	-	-	61,686
Takaful receivables	-	4,416	(22)	-	2,263	-	-	-	5,098	3,166	(3,166)	14,921
Allowance for impairment	-	-	-	-	-	-	-	-	-	-	-	(3,166)
Other receivables	-	-	-	-	2,312	-	-	-	-	-	-	2,312
Cash and cash equivalents	518	1,978	20	-	5	-	-	-	-	-	-	2,521
	518	31,337	14,203	3,028	68,239	6,125	5,098	-	-	-	-	128,548

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	Neither past due nor impaired					Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>30 June 2016</b>									
Family Takaful Fund									
AFS financial assets									
Government investment issues	-	-	-	-	7,013	-	-	-	7,013
Islamic bonds	6,698	61,410	-	-	63,789	-	-	-	131,897
Equity securities	-	-	-	-	-	17,444	-	-	17,444
Accrued profit	124	313	-	-	724	-	-	-	1,161
FVTPL financial assets									
Government investment issues	-	-	-	-	1,079	-	-	-	1,079
Islamic bonds	1,000	5,839	-	-	2,559	-	-	-	9,398
Equity securities	-	-	-	-	-	7,565	-	-	7,565
Structured investments	4,486	-	-	-	-	-	-	-	4,486
Accrued profit	4	33	-	-	32	-	-	-	69
Loans and receivables									
Fixed and call deposits	-	400	5,862	-	-	-	-	-	6,262
Accrued profit	-	7	43	-	-	-	-	-	50
Retakaful assets	-	8	14,778	-	21,224	-	-	-	36,010
Takaful receivables	-	-	-	-	7,721	-	103	336	8,160
Allowance for impairment	-	-	-	-	-	-	(336)	(336)	(336)
Other receivables	-	-	-	-	1,485	-	-	-	1,485
Cash and cash equivalents	46,853	6,442	(7)	-	10	-	-	-	53,298
	59,165	74,452	20,676	-	105,636	25,009	103	-	285,041

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	Neither past due nor impaired						Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated	RM'000				
<b>30 June 2015</b>										
Family Takaful Fund										
AFS financial assets										
Government Investment Issues	-	-	-	-	7,043	-	-	-	-	7,043
Islamic bonds	6,672	49,380	-	-	53,791	-	-	-	-	109,843
Equity securities	-	-	-	-	-	15,953	-	-	-	15,953
Accrued profit	123	266	-	-	608	-	-	-	-	997
FVTPL financial assets										
Government Investment Issues	-	-	-	-	1,084	-	-	-	-	1,084
Islamic bonds	1,000	6,095	-	-	2,546	-	-	-	-	9,641
Equity securities	-	-	-	-	-	2,725	-	-	-	2,725
Structured investments	4,234	-	-	-	-	-	-	-	-	4,234
Accrued profit	4	34	-	-	32	-	-	-	-	70
Loans and receivables										
Fixed and call deposits	-	914	5,669	-	-	-	-	-	-	6,583
Accrued profit	-	7	42	-	-	-	-	-	-	49
Retakaful assets	-	1,053	7,182	-	24,270	-	-	-	-	32,505
Takaful receivables	-	-	-	-	4,450	-	373	1,858	-	6,681
Allowance for impairment	-	-	-	-	-	-	-	(1,858)	-	(1,858)
Other receivables	-	-	-	-	1,125	-	-	-	-	1,125
Cash and cash equivalents	287	26,883	201	-	10	-	-	-	-	27,381
	12,320	84,632	13,094	-	94,959	18,678	373	-	-	224,056

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

	AAA		AA		A		BBB		Not rated	Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000					
<b>30 June 2016</b>													
<u>Company</u>													
AFS financial assets													
Government Investment Issues	-	-	-	-	-	-	-	9,710	-	-	-	-	9,710
Islamic bonds	14,396	106,441	-	-	-	-	109,207	-	-	-	-	-	230,044
Equity securities	-	-	-	-	-	-	-	-	26,150	-	-	-	26,150
Accrued profit	252	655	-	-	-	-	1,160	-	-	-	-	-	2,067
FVTPL financial assets													
Government Investment Issues	-	-	-	-	-	-	-	1,079	-	-	-	-	1,079
Islamic bonds	1,000	5,839	-	-	-	-	2,559	-	-	-	-	-	9,398
Equity securities	-	-	-	-	-	-	-	-	7,565	-	-	-	7,565
Structured investments	4,486	-	-	-	-	-	-	-	-	-	-	-	4,486
Accrued profit	4	33	-	-	-	-	-	32	-	-	-	-	69
Loans and receivables													
Fixed and call deposits	-	800	5,862	-	-	-	-	-	-	-	-	-	6,662
Accrued profit	-	14	43	-	-	-	-	-	-	-	-	-	57
Retakaful assets	-	5,147	33,776	7,135	54,934	-	-	-	-	-	-	-	100,992
Takaful receivables	-	-	-	-	8,989	-	-	-	3,462	-	3,355	-	15,806
Allowance for impairment	-	-	-	-	-	-	-	-	-	-	(3,355)	-	(3,355)
Other receivables	-	-	-	-	6,979	-	-	-	-	-	-	-	6,979
Cash and cash equivalents	80,558	16,216	1	-	13	-	-	-	-	-	-	-	96,788
	100,696	135,145	39,682	7,135	194,662	33,715	3,462	-	-	-	-	-	514,497



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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Credit exposure by credit rating (cont'd)

30 June 2015 Company	Neither past due nor impaired					Not subject to credit risk RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
<b>AFS financial assets</b>									
Government Investment Issues	-	-	-	-	9,752	-	-	-	9,752
Islamic bonds	14,345	96,575	-	-	103,383	-	-	-	214,303
Equity securities	-	-	-	-	-	26,703	-	-	26,703
Accrued profit	250	633	-	-	1,119	-	-	-	2,002
<b>FVTPL financial assets</b>									
Government Investment Issues	-	-	-	-	1,084	-	-	-	1,084
Islamic bonds	1,000	6,095	-	-	2,546	-	-	-	9,641
Equity securities	-	-	-	-	-	2,725	-	-	2,725
Structured investments	4,234	-	-	-	-	-	-	-	4,234
Accrued profit	4	34	-	-	32	-	-	-	70
<b>Loans and receivables</b>									
Fixed and call deposits	-	1,302	5,669	-	-	-	-	-	6,971
Accrued profit	-	14	42	-	-	-	-	-	56
Retakaful assets	-	3,625	21,387	3,028	66,151	-	-	-	94,191
Takaful receivables	-	4,416	(22)	-	6,713	-	5,471	5,024	21,602
Allowance for impairment	-	-	-	-	-	-	-	(5,024)	(5,024)
Other receivables	-	-	-	-	5,232	-	-	-	5,232
Cash and cash equivalents	876	32,031	221	-	17	-	-	-	33,145
	20,709	144,725	27,297	3,028	196,029	29,428	5,471	-	426,687

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Credit risk (cont'd)

Aging analysis of financial assets past due but not impaired

	Company	
	30.6.2016	30.6.2015
	RM'000	RM'000
Takaful receivables		
61 to 180 days	2,983	3,406
>180 days	479	1,453
	<u>3,462</u>	<u>4,859</u>

Impaired Takaful receivables

At 30 June 2016, there are impaired Takaful receivables of RM3.546 million (2015: RM5.024 million). Impairment assessment of Takaful receivables is explained under Note 2.2(g). No collateral is held as security for these impaired assets.

A reconciliation of the allowance for impairment losses for Takaful receivables is as follows:

	Company	
	30.6.2016	30.6.2015
	RM'000	RM'000
As at 1 July	5,024	2,707
(Write back)/charge for the financial year	(1,669)	2,317
As at 30 June	<u>3,355</u>	<u>5,024</u>

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk

Liquidity risk arises due to inability of the Company to meet its financial obligations as and when they fall due. The Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. The Company endeavours to manage the maturity profiles of these financials instruments to meet financial obligations and working capital requirements.

Maturity profiles

The tables below analyses the carrying amounts of the Company's financial assets, and the contractual undiscounted cash flows payable for financial liabilities based on the remaining contractual maturities.

All liabilities are presented on a contractual cash flow basis except for Takaful contract liabilities, the maturity profiles are determined based on estimated timing of net cash outflows from the recognised Takaful liabilities. Available-for-sale fair value adjustment, UCR, retakaful's share of UCR and expense liabilities have been excluded from the analysis as they are not contractual obligations.

Investment-linked funds' liabilities are repayable or transferable upon notice by certificate holders and are included in the "Up to a year" column. Repayments which are subject to notice are treated as if notice was to be given immediately.

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2016</b>						
<u>Takaful Operator</u>						
AFS financial assets	70,984	7,601	39,083	15,745	8,555	70,984
Other receivables	19,152	19,152	-	-	-	19,152
Amount due from related companies	111	111	-	-	-	111
Cash and cash equivalents	4,616	4,616	-	-	-	4,616
<b>Total financial assets</b>	<b>94,863</b>	<b>31,480</b>	<b>39,083</b>	<b>15,745</b>	<b>8,555</b>	<b>94,863</b>
<b>Other payables</b>	<b>12,373</b>	<b>12,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,373</b>
<b>Total financial liabilities</b>	<b>12,373</b>	<b>12,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,373</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2015</b>						
<u>Takaful Operator</u>						
AFS financial assets	74,064	632	27,879	35,909	9,644	74,064
Other receivables	11,354	11,354	-	-	-	11,354
Cash and cash equivalents	3,243	3,243	-	-	-	3,243
<b>Total financial assets</b>	<b>88,661</b>	<b>15,229</b>	<b>27,879</b>	<b>35,909</b>	<b>9,644</b>	<b>88,661</b>
<b>Other payables</b>	<b>6,598</b>	<b>6,598</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,598</b>
<b>Amount due to related companies</b>	<b>191</b>	<b>191</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>191</b>
<b>Total financial liabilities</b>	<b>6,789</b>	<b>6,789</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,789</b>

NOTES TO THE FINANCIAL STATEMENTS

30 . FINANCIAL RISK (CONT'D)

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2016</b>						
<u>General Takaful Fund</u>						
AFS financial assets	44,591	1,814	30,464	7,043	5,270	44,591
Loans and receivables	407	407	-	-	-	407
Retakaful assets	64,982	34,165	29,030	1,787	-	64,982
Takaful receivables	4,627	4,627	-	-	-	4,627
Other receivables	3,951	3,951	-	-	-	3,951
Cash and cash equivalents	38,874	38,874	-	-	-	38,874
<b>Total financial assets</b>	<b>157,432</b>	<b>83,838</b>	<b>59,494</b>	<b>8,830</b>	<b>5,270</b>	<b>157,432</b>
<b>Takaful contract liabilities</b>						
Takaful payables	85,340	43,218	39,657	2,465	-	85,340
Other payables	27,668	27,668	-	-	-	27,668
<b>Total financial liabilities</b>	<b>112,008</b>	<b>70,886</b>	<b>39,657</b>	<b>2,465</b>	<b>-</b>	<b>112,008</b>

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**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2015</b>						
<u>General Takaful Fund</u>						
AFS financial assets	49,879	373	25,833	17,548	6,125	49,879
Loans and receivables	395	395	-	-	-	395
Retakaful assets	61,686	30,641	27,430	3,615	-	61,686
Takaful receivables	11,755	11,755	-	-	-	11,755
Other receivables	2,312	2,312	-	-	-	2,312
Cash and cash equivalents	2,521	2,521	-	-	-	2,521
<b>Total financial assets</b>	<b>128,548</b>	<b>47,997</b>	<b>53,263</b>	<b>21,163</b>	<b>6,125</b>	<b>128,548</b>
Takaful contract liabilities	84,927	42,186	37,764	4,977	-	84,927
Takaful payables	11,277	11,277	-	-	-	11,277
Other payables	8,477	8,477	-	-	-	8,477
<b>Total financial liabilities</b>	<b>104,681</b>	<b>61,940</b>	<b>37,764</b>	<b>4,977</b>	<b>-</b>	<b>104,681</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd).

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2016</b>						
<u>Family Takaful Fund</u>						
AFS financial assets	157,515	6,668	28,733	104,670	17,444	157,515
FVTPL financial assets	22,597	1,069	12,461	1,502	7,565	22,597
Loans and receivables	6,312	6,312	-	-	-	6,312
Retakaful assets	36,010	13,301	954	21,755	-	36,010
Takaful receivables	7,824	7,824	-	-	-	7,824
Other receivables	1,485	1,485	-	-	-	1,485
Cash and cash equivalents	53,298	53,298	-	-	-	53,298
<b>Total financial assets</b>	<b>285,041</b>	<b>89,957</b>	<b>42,148</b>	<b>127,927</b>	<b>25,009</b>	<b>285,041</b>
<b>Takaful contract liabilities</b>	<b>261,121</b>	<b>45,221</b>	<b>41,844</b>	<b>85,963</b>	<b>186,929</b>	<b>359,957</b>
Takaful payables	7,473	7,473	-	-	-	7,473
Other payables	9,143	9,143	-	-	-	9,143
<b>Total financial liabilities</b>	<b>277,737</b>	<b>61,837</b>	<b>41,844</b>	<b>85,963</b>	<b>186,929</b>	<b>376,573</b>



**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2015</b>						
<u>Family Takaful Fund</u>						
AFS financial assets	133,836	1,874	21,162	94,847	15,953	133,836
FVTPL financial assets	17,754	333	5,900	8,796	2,725	17,754
Loans and receivables	6,632	6,632	-	-	-	6,632
Retakaful assets	32,505	5,234	1,650	25,621	-	32,505
Takaful receivables	4,823	4,823	-	-	-	4,823
Other receivables	1,125	1,125	-	-	-	1,125
Cash and cash equivalents	27,381	27,381	-	-	-	27,381
<b>Total financial assets</b>	<b>224,056</b>	<b>47,402</b>	<b>28,712</b>	<b>129,264</b>	<b>18,678</b>	<b>224,056</b>
<b>Takaful contract liabilities</b>	<b>209,191</b>	<b>20,085</b>	<b>30,447</b>	<b>63,859</b>	<b>150,825</b>	<b>265,216</b>
Takaful payables	3,695	3,695	-	-	-	3,695
Other payables	5,431	5,431	-	-	-	5,431
<b>Total financial liabilities</b>	<b>218,317</b>	<b>29,211</b>	<b>30,447</b>	<b>63,859</b>	<b>150,825</b>	<b>274,342</b>

**HONG LEONG MSIG TAKAFUL BERHAD**  
(Company No. 738090-M)  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2016</b>						
<u>Company</u>						
AFS financial assets	267,971	16,083	98,280	127,458	26,150	267,971
FVTPL financial assets	22,597	1,069	12,461	1,502	7,565	22,597
Loans and receivables	6,719	6,719	-	-	-	6,719
Retakaful assets	100,992	47,466	29,984	23,542	-	100,992
Takaful receivables	12,451	12,451	-	-	-	12,451
Other receivables	6,979	6,979	-	-	-	6,979
Amount due from related companies	111	111	-	-	-	111
Cash and cash equivalents	96,788	96,788	-	-	-	96,788
<b>Total financial assets</b>	<b>514,608</b>	<b>187,666</b>	<b>140,725</b>	<b>152,502</b>	<b>33,715</b>	<b>514,608</b>
Takaful contract liabilities	346,461	88,439	81,501	88,428	186,929	445,297
Takaful payables	35,141	35,141	-	-	-	35,141
Other payables	19,013	19,013	-	-	-	19,013
<b>Total financial liabilities</b>	<b>400,615</b>	<b>142,593</b>	<b>81,501</b>	<b>88,428</b>	<b>186,929</b>	<b>499,451</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Liquidity risk (cont'd)

Maturity profiles (cont'd)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<b>30 June 2015</b>						
<u>Company</u>						
AFS financial assets	252,760	2,879	74,874	148,304	26,703	252,760
FVTPL financial assets	17,754	333	5,900	8,796	2,725	17,754
Loans and receivables	7,027	7,027	-	-	-	7,027
Retakaful assets	94,191	35,875	29,080	29,236	-	94,191
Takaful receivables	16,578	16,578	-	-	-	16,578
Other receivables	5,232	5,232	-	-	-	5,232
Cash and cash equivalents	33,145	33,145	-	-	-	33,145
<b>Total financial assets</b>	<b>426,687</b>	<b>101,069</b>	<b>109,854</b>	<b>186,336</b>	<b>29,428</b>	<b>426,687</b>
Amount due to related companies	191	191	-	-	-	191
Takaful contract liabilities	294,118	62,271	68,211	68,836	150,825	350,143
Takaful payables	14,972	14,972	-	-	-	14,972
Other payables	10,947	10,947	-	-	-	10,947
<b>Total financial liabilities</b>	<b>320,228</b>	<b>88,381</b>	<b>68,211</b>	<b>68,836</b>	<b>150,825</b>	<b>376,253</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, profit rate risk exposure and liquidity targets.

(i) Profit rate risk

Profit rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market profit rate. This risk arises due to differences in pricing or tenure of investments and liabilities. The profit rate risk is managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market.

The following table demonstrates the sensitivity to a reasonably possible change in profit rates, with all other variables held constant, showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on profit rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before taxation RM'000	Impact on equity* RM'000
<b>30 June 2016</b>		
Change in variables		
+100 basis point of profit rate	-	(1,971)
-100 basis point of profit rate	-	2,132
<b>30 June 2015</b>		
Change in variables		
+100 basis point of profit rate	-	(2,296)
-100 basis point of profit rate	-	2,488

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

**NOTES TO THE FINANCIAL STATEMENTS**

**30 . FINANCIAL RISK (CONT'D)**

Market risk (cont'd)

(i) Profit rate risk (cont'd)

The impact on the company's equity arose from AFS financial assets in the Takaful Operator's fund. The impact arising from changes in profit rate risk to AFS and FVTPL fixed income securities of the General Takaful fund, Family Takaful fund and investment-linked funds is retained in the Takaful contract liabilities and as such, does not impact the profit before taxation and equity of the Company.

(ii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. The Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before taxation RM'000	Impact on equity* RM'000
<b>30 June 2016</b>		
Change in variables		
+20% of equity price	-	524
-20% of equity price	-	(524)
<b>30 June 2015</b>		
Change in variables		
+20% of equity price	-	694
-20% of equity price	-	(694)

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

## **NOTES TO THE FINANCIAL STATEMENTS**

### **30 . FINANCIAL RISK (CONT'D)**

#### Market risk (cont'd)

##### (ii) Price risk (cont'd)

The impact to the Company's equity arose from Takaful Operator's investments in equity securities which are classified as AFS financial assets. There is no impact to the Company's profit before taxation as the impact of changes in price risk to the equity securities of the General Takaful fund, Family Takaful fund and investment-linked funds is retained in the Takaful contract liabilities.

##### (iii) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

### **31 . SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

On 30 June 2016, the penultimate holding company and immediate holding company, i.e. Hong Leong Financial Group Berhad ("HLFG") and HLA Holdings Sdn Bhd ("HLAH") announced that Bank Negara Malaysia has no objection for HLFG and HLAH to commence negotiations with certain parties for the possible acquisition by them of HLAH's equity interest in Hong Leong MSIG Takaful Berhad, a 65% subsidiary of HLAH, subject to the negotiations being concluded within 6 months from 23 June 2016.

Pursuant to the Financial Services Act 2013, both HLFG and HLAH and the relevant parties would be required to obtain prior written approval from the Minister of Finance of Malaysia, on the recommendation of BNM, before entering into any agreement to effect the proposed transactions.