COMPANY NUMBER (738090-M)

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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

CONTENTS

CONTENTS	PAGE(S)
DIRECTORS' REPORT	1 - 37
STATEMENT BY DIRECTORS	38
STATUTORY DECLARATION	39
REPORT OF THE SHARIAH COMMITTEE	40 - 41
INDEPENDENT AUDITORS' REPORT	42 - 45
STATEMENT OF FINANCIAL POSITION	46 - 47
STATEMENT OF INCOME	48 - 49
STATEMENT OF OTHER COMPREHENSIVE INCOME	50 - 51
STATEMENT OF CHANGES IN EQUITY	52
STATEMENT OF CASH FLOWS	53 - 54
NOTES TO THE FINANCIAL STATEMENTS	55 - 176

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

The Directors have pleasure in submitting their Report together with the audited financial statements of the Company for the financial year ended 30 June 2019.

PRINCIPAL ACTIVITIES

The Company is principally engaged in managing Family Takaful including investment-linked business. Effective 1 July 2018, the Company is no longer engaged in General Takaful business due to the discontinuation of its General Takaful operations to comply with Section 286 of the Islamic Financial Services Act 2013 ("IFSA") upon the conversion to a single Takaful license as disclosed in Note 11 to financial statements. There has been no other significant change in the nature of the principal activity during the financial year other than as disclosed in Note 11 to financial statements.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	4,018

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 2019.

SHARE CAPITAL

During the financial year ended 30 June 2019, the Company increased its issued and paid-up capital from 100,000,000 to 200,000,000 via issuance of 100,000,000 new ordinary shares of RM1.00 per share in 2 tranches with Tranche 1 of 50,000,000 new ordinary shares issued on 11 July 2018 and Tranche 2 of 50,000,000 new ordinary shares issued on 26 September 2018.

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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

DIRECTORS

The Directors who have held office during the financial year and during the period from the end of the financial year to the date of this report are:

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Chairman, Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)
Mr Masakatsu Komaita	(Non-Independent Non-Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
Encik Zulkiflee Bin Hashim *(Appointed with effect from 28 May 2019)*	(Independent Non-Executive Director)
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	(Independent Non-Executive Director)

DIRECTORS' INTERESTS

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, the Director holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or options over ordinary shares of the Company and/or its related corporations during the financial year is as follows:

	Director's direct interests			
	Number of ordinary shares /shares issued or to be issued or acquired arising from the exercise of options*			
	As at 01/07/2018	**Acquired**	**(Sold / exercised)**	**As at 30/06/2019**
Interest of Ms Loh Guat Lan in:				
Hong Leong Financial Group Berhad	460,000	800,000	(668,000)	592,000
	6,200,000*	-	(800,000)	5,400,000*

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 the benefits shown under Directors' Remuneration in Note 28 to the financial statements) 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

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.

During the financial year, Directors & Officers of the Company are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors & Officers of the Company subject to the terms of the policy. The total amount of Directors' & Officers' Liability insurance effected for the Directors and Officers of the Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the Group was RM67,688 (2018:RM67,688) and the apportioned amount of the said premium paid by the Company was RM323 (2018:RM Nil).

SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR

a) On 28 May 2018, the Board of Directors approved a Letter of Undertaking to be submitted to Bank Negara Malaysia ("BNM") to increase the paid-up capital by an additional of RM100 million by end September 2018. The existing shareholders have injected share capital of RM50 million on 11 July 2018 and another RM50 million on 26 September 2018 according to its proposed share capital structure after receiving the approval by the Ministry of Finance and BNM for a single Family Takaful License to the Company.

b) The Islamic Financial Services Act, 2013 ("IFSA") required all composite Takaful Operators to segregate their composite licences into separate Family Takaful and General Takaful licences by 1 July 2018. In compliance with this Act, the Company had surrendered the General Takaful license and proceeded with an application for a single licence to continue its Family Takaful business and relinquished its composite Takaful license by 1 July 2018.

   IFSA requires the Company to continue to discharge its obligations under the General Takaful business which remain undischarged as at 1 July 2018 and cease underwriting new General Takaful business, including renewals business, before transferring the General Takaful business to an existing Takaful Operator. As a result, the Company has successfully transferred out the General Takaful business to another Takaful Operator on 1 June 2019.

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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

The Board also reviewed the manner in which the BNM policy document on Corporate Governance ("BNM CG Policy") is applied in the Group, where applicable, as set out below.

A. Board of Directors (“Board”)

I Roles and Responsibilities of the 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.

In discharging its responsibilities, the Board has established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which was reviewed preiodically by the Board. The Board Charter is published on the Company's website. The key roles and responsibilities of the Board 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 as specified in the guidelines and circulars issued by BNM from time to time.

The day-to-day business of the Company is managed by the Chief Executive Officer (“CEO”) who is assisted by the management team. The CEO and his management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions and internal controls to the Group Board Audit Committee ("GBAC") under HLA Holdings Sdn Bhd ("HLAH"); and risk management to the Group Board Risk Management Committee ("GBRMC") under HLAH. The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

I Roles and Responsibilities of the Board (continued)

There is a clear division of responsibilities between the Chairman of the Board and the CEO. This division of responsibilities between the Chairman and the CEO ensures an appropriate balance of roles, responsibilities and accountability.

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

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

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

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at 'www.ssm.com.my'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

II Board Composition

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

The Company is guided by BNM CG Policy 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 to 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.

Based on the review of the Board composition in July 2019, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Group's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

III Board Meetings

The Board met five (5) times during the financial year ended 30 June 2019 with timely notices of issues to be discussed. Details of attendance of each director are as follow:

Directors	Attendance
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Chairman)	5/5
Ms Loh Guat Lan	5/5
Mr Masakatsu Komaita	5/5
Mr Martin Giles Manen	5/5
Encik Zulkiflee bin Hashim *(Appointed with effect from 28 May 2019)*	*
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	4/4

Note:
* The Board meetings were held before Encik Zulkiflee bin Hashim's appointment.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Profile

1 YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN
Chairman/Non-Executive/Independent
Age 61, Male, Malaysian

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin received his BA (Hons) Business Studies from the Polytechnic of Central London, Masters in Business Administration from the University of Warwick, the Diploma in Marketing from the Chartered Institute of Marketing. He is a Fellow of the Institute of Corporate Directors Malaysia, Member of the Australian Institute of Company Directors, Malaysian Institute of Management, and Malaysian Institute of Corporate Governance.

YM Tunku Dato' Mahmood Fawzy is the Chairman of Hong Leong MSIG Takaful Berhad ("HLMT") and was appointed to the Board of HLMT on 3 January 2012. He is a member of the Remuneration Committee ("RC") and the NC of HLMT and also a member of the GBAC and the GBRMC of HLAH.

YM Tunku Dato' Mahmood Fawzy is the Chairman of Deutsche Bank (Malaysia) Berhad and an Independent Director of Hong Leong Assurance Berhad ("HLA") and Hong Leong Asset Management Bhd.

He was previously the Chairman of VADS Berhad, a wholly-owned subsidiary of Telekom Malaysia Berhad ("TM"), the Senior Independent Director of TM, an Independent Non-Executive Director of Hong Leong Islamic Bank Berhad and SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad and a Non-Independent Non-Executive Director of Malaysia Airports Holdings Berhad and Pos Malaysia Berhad. He was also a Director of Ethos Capital One Sdn Berhad, Federation of Investment Managers Malaysia, Webe Digital Sdn Bhd, a subsidiary of TM Group of companies, Energy Africa Limited, and Engen Limited in South Africa.

YM Tunku Dato' Mahmood Fawzy draws on a wealth of strategy, governance, management, and cross border experience in telecommunications, investment management and private equity activity, oil and gas, marine and aviation logistics, corporate advisory, banking and financial services, across several international locations including the United Kingdom, New Zealand, South Africa and Malaysia.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Profile (continued)

2 MS LOH GUAT LAN
Executive Director/Non-Independent
Age 54, Female, Malaysian

Ms Loh Guat Lan holds a Bachelor of Science in Human Development (major in Food Nutrition) and is the fellow member of Life Management Institute (FLMI), Customer Service Management (CSM) and Life Office Management (LOMA). She is also a Certified Financial Planner (CFP) and Registered Financial Planner (RFP). Ms Loh has extensive experience in the insurance industry, including agency management, branch management, and agency development and training. She was previously the Chief Operating Officer (Life Division) of HLA and was subsequently appointed as the Group Managing Director/Chief Executive Officer of HLA on 1 September 2009. Prior to joining HLA, she was in the employment of American International Assurance Company Limited where her last position was Vice President & Senior Director of Agency (Malaysia).

Ms Loh was appointed to the Board of HLMT on 1 November 2009 and is a member of the Nomination Committee of HLMT.

Ms Loh is the Chairman of HL Assurance Pte Ltd and a Director of MSIG Insurance (Malaysia) Bhd, HLAH and Hong Leong Insurance (Asia) Limited.

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Profile (continued)

3 MR MASAKATSU KOMAITA
Non-Executive Director/Non-Independent
Age 57, Male, Japanese

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 32 years of experience in the insurance industry, all of which were in MSIG, and his experience and expertise encompasses sales promotion, sales planning of insurance as well as governance and administration of international business operations.

Mr Masakatsu Komaita first joined Mitsui Sumitomo Insurance Company, Limited ("MSIJ") in 1986, and was promoted to Assistant General Manager, Insurance Planning Department of Ginsen Company Limited, a subsidiary of MSIJ in 2007. In 2010, he was appointed as the Assistant General Manager, Government Business Development Department to lead the bancassurance for life insurance in Japan Post Group before assuming his present position as Assistant General Manager, Corporate Planning of Asian Life Insurance Business Department in 2012. Mr Masakatsu Komaita was promoted to the position of General Manager on 1 April 2014 where he was responsible for business expansion into Asian local insurance business in Malaysia.

Mr Masakatsu Komaita was appointed to the Board of HLMT on 6 May 2014.

Mr Masakatsu Komaita is also a Director of HLA, a public company.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Profile (continued)

4 MR MARTIN GILES MANEN
Non-Executive Director/Independent
Age 64, Male, Malaysian

Mr Martin Giles Manen is a Chartered Accountant and a member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Mr Martin Manen had served more than 21 years with Sime Darby Group from January 1986 to July 2007, holding various senior roles, including Executive Director, Group Tax Controller, Group Company Secretary and Group Finance Director. During his term as Group Finance Director and Executive Director of Sime Darby Berhad, he had full responsibility for the entire finance function within the Sime Darby Group, encompassing finance & accounting, corporate finance & planning, and information technology, with all of the divisional finance directors reporting to him. He also had served as a member of the Malaysian Accounting Standards Board, the Executive Committee of the International Fiscal Association (Malaysian Branch), the Task Force on the formation of an Audit Oversight Board chaired by the Securities Commission (“SC”) and the Accounting Technical Panel of the SC.

Mr Martin Manen was appointed to the Board of HLMT on 16 April 2018. He is the Chairman of the NC and the RC of HLMT, and also a member of the GBAC of HLAH.

Mr Martin Manen is presently an Independent Non-Executive Director and Chairman of Audit Committee of Heineken Malaysia Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Profile (continued)

5 ENCIK ZULKIFLEE BIN HASHIM
Non-Executive Director/Independent
Age 60, Male, Malaysian

Encik Zulkiflee bin Hashim graduated with a Diploma in Credit Management from the Institut Teknologi MARA (now known as Universiti Teknologi MARA).

Encik Zulkiflee has over 35 years' experience in the banking industry. He started his career with Citibank Malaysia in 1979 and left his position as Vice President in November 1991. From December 1991 to November 1997, Encik Zulkiflee was with Deutsche Bank Malaysia. He was the Deputy Managing Director responsible for Corporate Banking, International Trade Finance, Operations and Transaction Banking Services. From July 1998 to October 2011, Encik Zulkiflee was the Executive Director of Hong Leong Bank Berhad ("HLB"). Prior to his retirement in 2015, he was HLB's Chief Operating Officer, Group Strategic Support from November 2011 to January 2015. During the tenure with HLB, he was given the responsibility to oversee various areas such as Branch and Banking Operations, Integrated Risk Management, Credit Management, Information Technology, Islamic Banking, Wholesale Operations, Retail Operations, Legal and Corporate Communications & Public Relations.

Encik Zulkiflee is presently an Independent Non-Executive Director of Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank) and GuocoLand (Malaysia) Berhad.

Encik Zulkiflee was appointed to the Board of HLMT on 28 May 2019. He is a member of the RC of HLMT and a member of the GBRMC of HLAH.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Training

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 and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme is organised 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. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

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.

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 2019, the Directors received regular briefings and updates on the Company's businesses, operations, risk management and compliance, 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board (continued)

Directors' Training (continued)

During the financial year ended 30 June 2019, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Capital Market Forum - Business Foresight Forum 2018 (BFF 2018)
- Briefing on Cyber Risk Awareness
- AMLATFPUAA 2001 (Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001) - Managing Challenges in Risk Based Approach & Politically Exposed Person
- Khazanah National - Khazanah Megatrends Forum 2018
- Institute of Corporate Directors Malaysia ("ICDM") - Stakeholders Engagement for Directors
- ICDM - Effective Board in a Volatile, Uncertain, Complex and Ambiguous (VUCA) World
- The 3rd Chancellor Tuanku Muhriz Lecture - University Kebangsaan Malaysia (UKM)
- Green Conference Financing for Future - Malaysian Industrial Development Finance Bhd ("MIDF")
- Kuala Lumpur Islamic Finance Forum (KLIFF) - The ICLIF
- Dealing with the Rising Cost of Living - MIDF
- Southeast Asia CFO Vision 2018 - The CFO of the Future
- Market Integrity Symposium: Embracing Innovation, Changing the Game - Electronic Trading
- ICDM - 'Would A Business Judgement Rule Help Directors Sleep Better At Night?'
- Directors' Duties & Powers - Recent Developments in the Law and How It Affects You
- ACI Breakfast Roundtable
- Integrated Reporting - Leaping to Sustainable Value Creation
- Global Life Insurance Executive Seminar 2018
- Women in Economy: Rethinking Entrepreneurship for Today's Woman
- MII Summit 2018: Innovation in a Disruptive Era
- 3rd Asean Insurance Summit, The Fourth Industrial Revolution And Its Impact On The Asean Insurance Industry

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees

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

(a) GBAC of HLAH

The GBAC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Audit Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The Board Audit and Risk Management Committee ("BARMC") of HLMT was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

The financial reporting and internal control system of the Company is overseen by the GBAC, which comprises the following members:

Ms Lim Tiau Kien
(Chairman of GBAC and Independent Non-Executive Director of HLAH)
YBhg Dato Siow Kim Lun @ Siow Kim Lin
(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)
Ms Shalet Marian
(Independent Non-Executive Director of HLA)
Mr Martin Giles Manen
(Independent Non-Executive Director of HLMT)

SECRETARY

The Secretary(ies) to the GBAC are the Company Secretary(ies) of the Company.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(a) GBAC of HLAH (continued)

Terms of Reference

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

External Audit

- To make recommendations to the Board of HLAH and its subsidiaries on the appointment, removal and remuneration of the external auditor.
- To review the terms of engagement and the audit plan prior to engaging the external auditors and/or re-appointment of the external auditor.
- To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- To review the assistance given by the officers of HLAH and its subsidiaries to the external auditor.
- To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the GBAC on significant matters.
- To review the report of the external auditor, including any significant matters, and to ensure that management has taken the necessary corrective actions in a timely manner to address the external audit findings and recommendations.
- To review third-party opinions on the design and effectiveness of the Group's internal control framework.

Financial Reporting

- To review the accuracy and adequacy of the chairman’s statement (if any) in the directors’ report, corporate governance disclosures, interim financial reports and annual financial statements.

Related Party/Connected Party Transactions

- To review and update the Board of HLAH and its subsidiaries on any related party transactions that may arise within the Group.
- To monitor compliance with the Board of HLAH and its subsidiaries' conflict of interest policy.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(a) **GBAC of HLAH (continued)**

Terms of Reference (continued)

Internal Audit

- To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by internal audit function, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- To review reports and findings issued by regulatory authorities, and to check that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.
- To support the Board of HLAH and its subsidiaries in meeting the expectations on internal audit management as set out in BNM's policy document, "Guidelines on Internal Audit Function of Licensed Institutions".
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Insurance Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors. This includes a regular review to determine whether the internal audit function has appropriate standing within the Group to undertake its activities independently and objectively.
- To engage privately with the Head of Insurance Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Insurance Audit to discuss issues faced by the internal audit function.
- To review the Audit Charter of HLAH and its subsidiaries and recommend for respective Board's approval.
- To satisfy itself that the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.
- To ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established when engaging external experts, where the internal audit function lacks the expertise needed to perform the audit of specialised areas.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(a) **GBAC of HLAH (continued)**

Terms of Reference (continued)

Internal Audit (continued)

- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.

Group Governance

- Noted that:
  a) Hong Leong Financial Group Berhad ("HLFG") as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance stucture within its group of companies ("HLFG Group").
  b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
  c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG Group-wide.
  d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.

- The GBAC shall validate that the objectives, strategies, plans, governance framework and policies set at the HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and to check that the entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.
- HLAH, as the financial holding company of the Insurance and Takaful entities of the HLFG Group ("Insurance Group") shall align the responsibilities as set out above for the Insurance Group.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(a) **GBAC of HLAH (continued)**

Terms of Reference (continued)

Authority

- The GBAC is authorised by the Board of HLAH and its subsidiaries to review any activity of the Group within its Terms of Reference. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the GBAC.
- The GBAC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

Meetings

- The GBAC 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 of HLAH and its subsidiaries for approval.
- The Group Managing Director/Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit, other senior management and external auditors may be invited to attend the GBAC meetings, whenever required.
- At least twice a year, the GBAC will have separate sessions with the external auditors without the presence of Executive Directors and management.
- Issues raised, discussions, deliberations, decisions and conclusions made at the GBAC meetings are recorded in minutes of the GBAC meetings. A GBAC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBAC meeting where the material transaction or material arrangement is being deliberated by the GBAC.
- Majority with at least one representative from each of the BNM regulated entites in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.
- After each GBAC meeting, the GBAC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBAC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(a) **GBAC of HLAH (continued)**

Terms of Reference (continued)

Activities

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

During the financial year ended 30 June 2019, five (5) GBAC meetings were held and the attendance of the members was as follows:

Members	Attendance
Ms Lim Tiau Kien	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
Ms Shalet Marian	5/5
Mr Martin Giles Manen	5/5

Insurance Audit Department

The Company's internal audit function is outsourced to HLA. Internal Audit 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 GBAC. All internal audit reports which incorporate the management's responses were tabled for discussion at the GBAC meetings.

During the financial year ended 30 June 2019, Internal audit carried out its duties covering audit on operations, market conduct, risk management, product pricing, shariah, project management, business performance, surplus distribution, branch and information system and personal data management. 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 RM404,576 (2018: RM277,700).

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(b) **GBRMC of HLAH**

The GBRMC was establised under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Risk Management Committees of HLAH, HLA and HLMT at HLAH. The BARMC of HLMT was disbanded on 13 December 2017 with the establishment of GBAC and GBRMC under HLAH.

The risk management and compliance system of the Company is overseen by the GBRMC which comprises the following members:

Ms Koid Swee Lian
(Chairman of GBRMC and Independent Non-Executive Director of HLAH)
YBhg Dato Siow Kim Lun @ Siow Kim Lin
(Chairman, Independent Non-Executive Director of HLAH and Independent Non-Executive Director of HLA)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin
(Chairman, Independent Non-Executive Director of HLMT and Independent Non-Executive Director of HLA)
YBhg Datin Ngiam Pick Ngoh
(Independent Non-Executive Director of HLA)
Encik Zulkiflee bin Hashim
(Independent Non-Executive Director of HLMT)
(Appointed with effect from 28 May 2019)
Dr Aznan bin Hasan
(Independent Non-Executive Director of HLMT)
(Resigned with effect from 16 April 2019)

SECRETARY

The Secretary to the GBRMC is the Chief Risk Officer of HLA.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(b) GBRMC of HLAH (continued)

Terms of reference of GBRMC

The primary functions and reponsibilities of the GBRMC are set out in the TOR as follows:

Risk Management

- To review management’s activities in managing principal risks such as credit, market, liquidity, operational, compliance, Shariah compliance, insurance and IT risks, and the risk management process.
- To review management’s reporting to the Board of HLAH and its subsidiaries on measures taken to:
  a. Identify and examine principal risks faced by HLAH and its subsidiaries.
  b. Implement appropriate systems and internal controls to manage these risks.
- To review management’s major risk management strategies, policies and risk tolerance for Board of HLAH and its subsidiaries' approval.
- To review management’s overall framework on the Internal Capital Adequacy Assessment Process (“ICAAP”), annual risk appetite, Individual Target Capital Level (“ITCL”) and Capital Management Plan for Board of HLAH and its subsidiaries' approval.
- To review management’s development and effective implementation of the ICAAP.
- To review management’s stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.
- To review management’s periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of management’s internal controls and risk management process.
- To review the adequacy of risk management policies and frameworks in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- To review risk management function's infrastructure, resources and systems and that the staff responsible for implementing risk management systems perform those duties independently of HLAH and its subsidiaries' risk taking activities.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(b) **GBRMC of HLAH (continued)**

Risk Management (continued)

- To receive reports from pertinent management committee.
- To review management's implementation of risk management as set out in BNM's policy document on Risk Governance, Approach to Regulating and Supervising Financial Groups, Corporate Governance and Shariah Governance Framework.
- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer/Head of Risk Management ("CRO").
- To engage privately with the CRO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function.
- To review management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- Other risk management functions as may be agreed to by the GBRMC and the Board of HLAH and its subsidiaries.

Compliance

- To assist the Board of HLAH and its subsidiaries in the oversight of the management of compliance risk by :
  a) reviewing compliance policies and overseeing management's implementation of the same;
  b) reviewing the establishment of the compliance function and the position of the Chief Compliance Officer/Head of Compliance ("CCO") to ensure the compliance function and CCO are provided with appropriate standing, authority and independence;
  c) discussing and deliberating compliance issues regularly and ensuring such issues are resolved effectively and expeditiously;
  d) reviewing annually the effectiveness of HLAH and its subsidiaries' overall management of compliance risk, having regard to the assessments of senior management and internal audit and interactions with the CCO;
  e) Updating the Board of HLAH and its subsidiaries on all significant compliance matters, including providing its views on (a) to (d) above.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(b) **GBRMC of HLAH (continued)**

<u>Compliance (continued)</u>

- In relation to the role of the CCO, support the Board of HLAH and its subsidiaries in meeting the expectations on compliance management as set out in BNM’s policy document on Compliance by:
  a) reviewing and advising on the appointment, remuneration, removal and redeployment of the CCO;
  b) ensuring that CCO has sufficient stature to allow for effective engagement with the CEO and other members of senior management;
  c) engaging privately with the CCO on a regular basis (and in any case at least twice annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function;
  d) ensuring that the CCO is supported with sufficient resources to perform his duties effectively;
  e) where CCO also carries out responsibilities in respect of other control functions, the GBRMC shall be satisfied that a sound overall control environment will not be compromised by the combination of responsibilities performed by the CCO.
- Other compliance functions as may be agreed to by the GBRMC and the Board of HLAH and its subsidiaries.

<u>Group Governance</u>

- Noted that :
  a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within HLFG Group.
  b) HLFG Boards responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
  c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG Group-wide.
  d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.

B. Board Committees (continued)

(b) **GBRMC of HLAH (continued)**

Group Governance (continued)

- The GBRMC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and to check that the entity specific risks are adequately addresses in the implementation of HLFG Group-wide policies.
- HLAH, as the financial holding company of the insurance and Takaful entities of the Insurance Group shall align the responsibilities as set out above for the Insurance Group.

Authority

The GBRMC is authorised by the Board of HLAH and its subsidiaries to review any activity of HLAH and its subsidiaries within its TOR. It is authorised to seek any information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the GBRMC.

The GBRMC is authorised by the Board of HLAH and its subsidiaries to obtain independent legal or other professional advice if it considers necessary.

Meetings

The GBRMC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary.

The Group Managing Director/Chief Executive Officer, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Insurance Audit and other senior management may be invited to attend the GBRMC meetings, whenever required.

Issues raised, discussions, deliberations, decisions and conclusions made at the GBRMC meetings are recorded in minutes of the GBRMC meetings. A GBRMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBRMC meeting where the material transaction or material arrangement is being deliberated by the GBRMC.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(b) **GBRMC of HLAH (continued)**

Meetings (continued)

Majority with at least one representative from each of the BNM regulated entites in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

After each GBRMC meeting, the GBRMC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBRMC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

Activities

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

During the financial year ended 30 June 2019, five (5) GBRMC meetings were held and the attendance of the members was as follows:

Members	Attendance
Ms Koid Swee Lian	5/5
YBhg Dato Siow Kim Lun @ Siow Kim Lin	5/5
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	5/5
YBhg Datin Ngiam Pick Ngoh	5/5
Encik Zulkiflee bin Hashim *(Appointed with effect from 28 May 2019)*	*
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	4/4

Note:
* The GBRMC meetings were held before Encik Zulkiflee bin Hashim's appointment.

B. Board Committees (continued)

(c) **Nomination Committee ("NC")**

The composition of the NC is as follows:

Mr Martin Giles Manen (Chairman) *(Redesignated as NC Chairman with effect from 24 April 2019)*	(Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin *(Appointed with effect from 24 April 2019)*	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)

SECRETARY

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the NC.

Terms of Reference

The primary functions and responsibilities of the NC are set out in the TOR as follows:

The NC's responsibilities are as follows:

(i) Support the Board in carrying out its functions in the following matters concerning the board, senior management and company secretary(ies):
   (a) appointments and removals;
   (b) composition;
   (c) performance evaluation and development; and
   (d) fit and proper assessments.
(ii) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board Committees and for the position of Chief Executive Officer.
(iii) Review and recommend to the Board all Board, Board Committees and Shariah Committee appointments, re-appointments and removals including of the Chief Executive Officer.
(iv) 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.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(c) **NC (continued)**

The NC's responsibilities are as follows: (continued)

(v) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director.
(vi) Oversee the appointment and management of 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
(vii) Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2019, two (2) NC meetings were held and the attendance of the members was as follows:

Members	Attendance
Mr Martin Giles Manen (Chairman) *(Redesignated as NC Chairman with effect from 24 April 2019)*	2/2
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin *(Appointed with effect from 24 April 2019)*	*
Ms Loh Guat Lan	2/2
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	1/1

Note:
* The NC meetings were held before YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin's appointment.

B. Board Committees (continued)

(d) **Remuneration Committee ("RC")**

The composition of the RC is as follows:

Mr Martin Giles Manen (Chairman) *(Redesignated as RC Chairman with effect from 24 April 2019)*	(Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Independent Non-Executive Director)
Encik Zulkiflee bin Hashim *(Appointed with effect from 28 May 2019)*	(Independent Non-Executive Director)
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	(Independent Non-Executive Director)

SECRETARY

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the RC.

Terms of Reference

The primary functions and responsibilities of the RC are set out in the TOR as follows:

The RC's responsibilities are as follows:

(i) Recommend to the Board the framework and policies governing the remuneration of the:
- Directors;
- Chief Executive Officer;
- Senior management officers; and
- Other material risk takers.

(ii) Review and recommend to the Board for approval the specific remuneration packages of executive directors and the Chief Executive Officer.

(iii) Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(d) RC (continued)

During the financial year ended 30 June 2019, one (1) RC meeting was held and the attendance of the members was as follows:

Members	Attendance
Mr Martin Giles Manen (Chairman) *(Redesignated as RC Chairman with effect from 24 April 2019)*	1/1
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	1/1
Encik Zulkiflee bin Hashim *(Appointed with effect from 28 May 2019)*	*
Dr Aznan bin Hasan *(Resigned with effect from 16 April 2019)*	1/1

Note :
* The RC meeting was held before Encik Zulkiflee bin Hashim's appointment.

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment 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.

Disclosure

The detailed remuneration of each Director during the financial year ended 2019 is set out in Note 28 to the financial statements.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(d) RC (continued)

Remuneration Policy

HLMT's rewards strategy is in alignment with the Hong Leong Group's total compensation philosophy which supports and promotes a high performing culture to deliver the company's vision to be a highly digital & innovative company. The rewards strategy focuses on providing a competitive remuneration and benefits package, as well as ample career progression opportunities for employees.

The company's rewards framework focuses on a balanced and right pay mix to achieve the desired long term business performance. The framework includes base pay, cash allowances, performance based variable pay, long term incentives, benefits and other employee programs.

The rewards framework ensures that employees are paid competitively against the industry and talent market the company is operating in; delivered via a combination of cash and non-cash elements such as shares or share-linked instruments.

Key performance indicators ("KPI") and key results areas of employees are measured and tracked diligently to ensure strong alignment of employee output to the overall business strategy and direction of the Company.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committees (continued)

(d) **RC (continued)**

Compensation for Material Risk Takers

The remuneration member of senior management and other material risk taker is approved by the board annually.

The remuneration for Senior Officers and Material Risk Takers for financial year 2018/2019 is shown in the table below:

Total value of remuneration awards for the financial year	**CEO**		**Senior Management and other Material Risk**	
	Unrestricted (RM)	**Deferred (RM)**	**Unrestricted (RM)**	**Deferred (RM)**
Fixed Remuneration				
• Cash-based	591,000	-	2,652,851	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
Variable Remuneration				
• Cash-based	-	-	523,598	-
• Shares and share-linked instruments	-	-	-	-
• Other	394,807	-	654,601	-

C. 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 the company for a period of 9 years cumulatively 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 by rotation pursuant to the Constitution of the Company.

C. Independence (continued)

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 approval in accordance to BNM CG Policy.

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, have continued to bring objective judgment to the Board deliberations and decision making. The tenure of all the independent directors on the Board does not exceed 9 years.

D. 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. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

D. Commitment (continued)

All Directors have access to the advice and services of a qualified and competent Company Secretary to facilitate the discharge of their duties effectively. The Company Secretary is qualified to act under Section 235 of the Companies Act 2016. She supports the effective functioning of the Board, provides advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitates effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, 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. Director who has, directly or indirectly, an interest in a material trasaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.

E. Internal Control Framework

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective operations and risk management, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interest.

The system of internal controls provides resonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. It is noted that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurance of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

F. Corporate Independence

The Company has complied with BNM's Guidelines on Related Party Transactions (BNM/RH/GL-018-6) in respect of all its related party undertakings. All necessary disclosures have been made to the Board regulary and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 27 to the financial statements.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

G. Management Accountability

The Company operates in an organisational structure and environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. Human resource procedures of the Company provide for the setting of goals and training of each employee. The Company conducts formal appraisals for each employee on an annual basis.

H. Relationship with Auditors

The external auditors are appointed on the recommendation by the GBAC, which determines the remuneration of the external auditors. The external auditors meet with the GBAC to:

a) Present the scope of the audit before the commencement of audit; and
b) Review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

I. Shariah Committee (“SC”)

The members of the SC are as follows:

Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	(Chairman)
Asst. Prof. Dr. Uzaimah Ibrahim	(Member)
Assoc. Prof. Dr. Asmak Ab Rahman	(Member)
Dr. Muhammad Aunurrochim Mas’ad Saleh	(Member)
Dr. Nurul Aini Muhamed	(Member)

During the financial year ended 30 June 2019, eight (8) SC meetings were held and the attendance of the members was as follows:

Members	Attendance
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	9/10
Asst. Prof. Dr. Uzaimah Ibrahim	9/10
Assoc. Prof. Dr. Asmak Ab Rahman	8/10
Dr. Muhammad Aunurrochim Mas’ad Saleh	8/10
Dr. Nurul Aini Muhamed	9/10

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

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 prepared, the Directors took reasonable steps:

(i) to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation method specified in the Risk-based capital (RBC) framework for Takaful Operators issued by BNM.
(ii) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and had 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 be realised at 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 had 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 or liabilities of the Company misleading or inappropriate.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONTINUED)

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

(b) In the opinion of the Directors:

(i) the results of the operations of the Company for the financial year ended 30 June 2019 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

(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 Takaful contract 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' REMUNERATION

The remuneration of the auditors is set out in Note 22 to the financial statements.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

The report was approved by the Board of Directors on 12 September 2019. Signed on behalf of the Board of Directors.

....	....
YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN	LOH GUAT LAN
DIRECTOR	DIRECTOR

Petaling Jaya
12 September 2019

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

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

We, YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin 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 46 to 176 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2019 and of the results and the cash flows of the Company for the financial year ended on that date.

On behalf of the Board,

....	....
YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN	LOH GUAT LAN
DIRECTOR	DIRECTOR

Petaling Jaya
12 September 2019

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

STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

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 46 to 176 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 Selangor Darul Ehsan this)
12 September 2019

Before me

PESURUHJAYA SUMPAH
No: B 479
NORAZILA
BINTI HASSAN
1.7.2018 hingga 31.12.2020
MALAYSIA

COMMISSIONER FOR OATHS

Suite A, No. 5, Jalan 14/30,
Section 14,
46100 Petaling Jaya, Selangor

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 to the best of our knowledge, the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2019. 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 have assessed the work carried out by Shariah review which included examining, on a test basis, type of transaction, the relevant documentation and procedures adopted by 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 was no Shariah non-compliant issue decided throughout the year.

Pursuant to section 16 (1) of Islamic Financial Services Act 2013 with regards to Licensed takaful operator to carry on family takaful or general takaful business; we endorsed the transfer of the general takaful business of the Company;

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 2019 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 and distribution of business Zakat and distribution of charitable fund has been approved by us and in compliance with Shariah principles; and
(e) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes.

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

REPORT OF THE SHARIAH COMMITTEE (CONTINUED)

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 2019 have been conducted in conformity with the Shariah principles.

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

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

ASST. PROF. DR. UZAIMAH IBRAHIM
Member
Shariah Committee

Kuala Lumpur
12 September 2019

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong MSIG Takaful Berhad ("the Company") give a true and fair view of the financial position of the Company as at 30 June 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 30 June 2019, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 46 to 176.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

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

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), Chartered Accountants, Level 10, 1 Sentral, Jalan Rakyat, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

WONG HUI CHERN
03252/05/2020 J
Chartered Accountant

Kuala Lumpur
12 September 2019

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	30.06.2019			30.06.2018			
		Takaful Operator	Family Takaful Fund	Company	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets								
Property and equipments	3	3,335	-	3,335	1,189	-	-	1,189
Intangible assets	4	2,821	-	2,821	3,781	-	-	3,781
Financial assets		203,969	469,807	668,040	71,410	-	306,013	371,972
- available-for-sale	5	-	-	-	71,410	-	272,802	338,761
- fair value through profit or loss	5	203,969	469,807	668,040	-	-	33,211	33,211
Amortised cost / Loans and receivables	6	-	6,511	6,511	-	-	6,305	6,305
Deferred tax assets	16	-	-	-	493	-	-	493
Tax recoverable		-	-	-	2,455	-	-	2,455
Retakaful assets	7	-	36,888	36,888	-	-	43,446	43,446
Takaful receivables	8	-	5,880	5,880	-	-	6,597	6,597
Qard receivables		19	-	-	31	-	-	-
Other receivables	9	20,019	1,998	4,417	31,846	-	4,252	7,751
Cash and cash equivalents	10	14,445	74,079	88,524	7,429	-	69,544	76,973
Assets of a disposal group as classified as held-for sale	11	-	-	-	-	164,784	-	164,784
		244,608	595,163	816,416	118,634	164,784	436,157	685,746

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 2019 (CONTINUED)

	Note	30.06.2019			30.06.2018			
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Shareholders' equity								
Share capital	17	200,000	-	200,000	100,000	-	-	100,000
Accumulated losses		(7,461)	-	(7,461)	(13,335)	-	-	(13,335)
Fair value reserves		-	-	-	1,856	-	-	1,856
Total equity		192,539	-	192,539	88,521	-	-	88,521
Liabilities								
Takaful contract liabilities	12	-	542,641	536,905	-	-	396,128	390,677
Tax payables		283	979	1,262	-	-	3,018	3,018
Deferred tax liabilities	16	2,047	2,067	4,114	-	-	57	57
Takaful payables	13	-	12,231	12,231	-	-	12,098	12,098
Expense liabilities	14	13,098	-	13,098	14,563	-	-	14,563
Qard payables		-	19	-	-	-	31	-
Other payables	15	35,898	37,226	55,524	14,911	-	24,825	11,389
Due to related companies		744	-	744	639	-	-	639
Liabilities of a disposal group as classified as held-for sale		-	-	-	-	164,784	-	164,784
Total liabilities		52,069	595,163	623,877	30,113	164,784	436,157	597,225
Total equity and liabilities		244,608	595,163	816,416	118,634	164,784	436,157	685,746

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 2019

	Note	30.06.2019			30.06.2018			
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Gross contributions		-	257,533	257,533	-	-	169,870	169,870
Contributions ceded to retakaful		-	(44,002)	(44,002)	-	-	(35,980)	(35,980)
Net contributions		-	213,531	213,531	-	-	133,890	133,890
Wakalah income		65,699	-	-	42,518	-	-	-
Surplus sharing from Family Takaful Funds		8,472	-	-	4,853	-	-	-
Share of investment profit from Family Takaful		1,624	-	-	967	-	-	-
Investment Income	18	7,239	16,941	25,803	3,010	-	12,918	16,895
Realised gains	19	-	-	-	567	-	979	1,546
Fair value gains/(losses)	20	7,032	25,275	32,022	(384)	-	(4,636)	(5,020)
Other operating income	21	950	579	1,032	2,521	-	423	2,524
Other income		91,016	42,795	58,857	54,052	-	9,684	15,945
Gross benefits and claim paid		-	(58,247)	(58,247)	-	-	(46,332)	(46,332)
Claims ceded to retakaful		-	34,377	34,377	-	-	30,134	30,134
Gross change to Takaful contract liabilities		-	(149,929)	(149,929)	-	-	(70,961)	(70,961)
Change in Takaful contract liabilities ceded to retakaful		-	(2,447)	(2,447)	-	-	(5,737)	(5,737)
Net benefits and claims		-	(176,246)	(176,246)	-	-	(92,896)	(92,896)

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 2019 (CONTINUED)

	Note	30.06.2019 Takaful Operator RM'000	30.06.2019 Family Takaful Fund RM'000	30.06.2019 Company RM'000	30.06.2018 Takaful Operator RM'000	30.06.2018 General Takaful Fund RM'000	30.06.2018 Family Takaful Fund RM'000	30.06.2018 Company RM'000
Wakalah expenses		-	(65,699)	-	-	-	(42,518)	-
Surplus sharing with Takaful Operator		-	(8,472)	-	-	-	(4,853)	-
Fees and commision expense		(28,566)	-	(28,566)	(17,912)	-	-	(17,912)
Management expenses	22	(45,725)	-	(45,725)	(23,798)	-	-	(23,798)
Change to expense liability		(4,142)	-	(4,142)	(660)	-	-	(660)
Other operating expenses	23	(20)	(2,809)	(2,333)	(725)	-	(2,928)	(3,233)
Other expenses		(78,453)	(76,980)	(80,766)	(43,095)	-	(50,299)	(45,603)
Profit before zakat and taxation		12,563	3,100	15,663	10,957	-	379	11,336
Tax expense attributable to participants		-	(3,100)	(3,100)	-	-	(379)	(379)
Profit before taxation attributable to Takaful Operator		12,563	-	12,563	10,957	-	-	10,957
Taxation	24	(6,276)	(3,100)	(9,376)	(5,479)	-	(379)	(5,858)
Tax expense attributable to participants		-	3,100	3,100	-	-	379	379
Tax expense attributable to Takaful Operator		(6,276)	-	(6,276)	(5,479)	-	-	(5,479)
Zakat		(130)	-	(130)	(90)	-	-	(90)
Profit after zakat and taxation from continuing operations		6,157	-	6,157	5,388	-	-	5,388
Discontinued operations:								
(Loss)/Profit after zakat and taxation from discontinued operations		(2,139)	-	(2,139)	2,803	-	-	2,803
Net profit for the financial year		4,018	-	4,018	8,191	-	-	8,191
Earning per share		4.02	-	4.02	8.19	-	-	8.19

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Note	30.06.2019			30.06.2018			
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Profit after zakat and taxation		4,018	-	4,018	8,191	-	-	8,191
<u>Items that may be subsequently reclassified to profit or loss:</u>								
Gross fair value (loss)/gains arising during the financial year		-	-	-	(154)	-	(2,384)	(2,550)
Gross fair value loss transferred to profit or loss		-	-	-	(567)	-	(939)	(1,506)
		-	-	-	(721)	-	(3,323)	(4,056)
Tax effects thereon		-	-	-	173	-	266	439
Net fair value (losses)/gains		-	-	-	(548)	-	(3,057)	(3,617)
Change in Takaful contract liabilities arising from unrealised net fair value losses		-	-	-	-	-	3,057	3,069
Other comprehensive (loss)/income for the financial year, net of tax		-	-	-	(548)	-	-	(548)

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

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

	Note	30.06.2019			30.06.2018			
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Comprising:								
- Continuing operations		-	-	-	(548)	-	-	(548)
- Discontinued operations		-	-	-	-	-	-	-
Total comprehensive income for the financial year		4,018	-	4,018	7,643	-	-	7,643
Comprising:								
- Continuing operations		6,157	-	6,157	4,840	-	-	4,840
- Discontinued operations		(2,139)	-	(2,139)	2,803	-	-	2,803
		4,018	-	4,018	7,643	-	-	7,643

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 2019

	Issued and fully paid ordinary shares of RM1 each		Non-distributable	Distributable	
	No. of shares '000	Share capital RM'000	Fair value reserve RM'000	Accumulated losses RM'000	Total RM'000
At 1 July 2017	100,000	100,000	2,405	(21,526)	80,879
Profit for the financial year	-	-	-	8,191	8,191
Other comprehensive income for the financial year	-	-	(548)	-	(548)
At 30 June 2018	100,000	100,000	1,857	(13,335)	88,522
As at 30 June 2018	100,000	100,000	1,857	(13,335)	88,522
- Effect on adoption of MFRS 9	-	-	(1,857)	1,857	-
- as restated 1 July 2018	100,000	100,000	-	(11,478)	88,522
Profit for the financial year	-	-	-	4,018	4,018
Issued during the financial year	100,000	100,000	-	-	100,000
At 30 June 2019	200,000	200,000	-	(7,460)	192,540

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 2019

	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	4,018	8,191
Adjustments for:		
Write back of impairment of takaful receivables	(330)	(360)
Write off of property and equipment	-	134
Depreciation of property and equipment	295	641
Amortisation of intangible assets	1,823	2,371
Gain on disposal of investments	-	(1,906)
Unrealised fair value (gain)/loss on financial assets	(31,931)	1,406
Accretion of discounts-net	(46)	(18)
Profits and dividend income	(27,738)	(20,060)
Allowance for dimunition in value of investments	-	4,277
Taxation	10,521	8,258
(Loss)/Profit from operations before change in operating assets and liabilities	(43,388)	2,934
Proceeds from disposal of investments	299,663	109,484
Maturity of investments	26,700	21,500
Purchase of investments	(543,403)	(168,904)
Increase/(decrease) in expenses liabilities	(1,465)	2,783
Increase in family takaful contract liabilities	146,228	86,825
Decrease in general takaful contract liabilities	(51,528)	(6,613)
Decrease in loans and receivables	-	622
Increase in amortised cost financial assets	(106)	-
Decrease in retakaful assets	8,531	1,322
Decrease in takaful receivables	1,858	9,512
Decrease in other receivables	3,720	1,594
(Decrease)/increase in takaful payables	2,992	(8,417)
Increase in other payables	25,619	5,092
(Increase)/decrease in tax recoverable	2,457	(2,457)
Increase in amount due to related companies	105	487
	(122,017)	55,764
Tax paid	(8,957)	(7,384)
Profit received	21,350	16,664
Dividend received	3,913	2,931
Net cash (used in)/generated from operating activities	(105,711)	67,975

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

	2019 RM'000	2018 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Transfer of General Takaful business, net of cash transferred	(5,365)	-
Purchase of property and equipment	(2,491)	(619)
Purchase of intangible assets	(813)	(268)
Net cash used in investing activities	(8,669)	(887)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in share capital	100,000	-
Net cash generated from financing activities	100,000	-
Net (decrease)/increase in cash and cash equivalents	(14,381)	67,088
Cash and cash equivalents at beginning of the financial year	76,973	35,817
Transfer to assets of disposal group classified as Held-For-Sale	25,932	(25,932)
Cash and cash equivalents at the end of the financial year	88,524	76,973
Cash and cash equivalents comprise:		
Cash and bank balances	8,470	7,158
Short term deposits	80,054	69,815
	88,524	76,973

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

1 CORPORATE INFORMATION

On 1 July 2018, the Hong Leong MSIG Takaful has successfully completed the Conversion of Composite License to Single License (“Licence Split”) and surrendered the composite license. Consequently, the Company will be principally engaged in the management of family takaful and takaful investment-linked business only.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 30, Menara Hong Leong, No. 6, Jalan Damanlela, Bukit Damansara, 50490 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 12 September 2019.

2 SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of preparation</u>

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this significant accounting policies, and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Company reflects 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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 judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ.

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

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective.

The relevant new accounting standards, annual improvements and amendments to published standards and interpretations to existing accounting standards that are effective and applicable for the Company's financial year beginning on or after 1 July 2018 are as follows:

i) Amendments to MFRS 4 'Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts'

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 'Financial Instruments' before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 'Insurance Contracts', the related liabilities from insurance contracts are often measured on amortised cost basis.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective (continued).

i) Amendments to MFRS 4 ‘Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts’ (continued)

The amendments provide 2 different approaches for entities:

- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
- the overlay approach.

Both approaches are optional.

The Company has not applied deferral option in MFRF4 ‘Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts’ and have fully adopted MFRS 9 effective 1 July 2018.

ii) MFRS 9 ‘Financial Instruments’

This complete version of MFRS 9 replaces the entire MFRS 139. It amends the requirements on classification and measurement of financial assets and includes an expected credit losses model that replaces the incurred loss impairment model used under MFRS 139. It also includes the new hedging guidance that was issued in February 2014.

MFRS 9 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective (continued).

ii) MFRS 9 ‘Financial Instruments’ (continued)

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 for all financial assets 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.

As permitted by the transitional provisions of MFRS 9, the Company elected not to restate comparative figures and continued to be reported under the previous accounting policies governed under MFRS 139. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained profits and other reserves of the current financial year.

The details and the financial effects of the adoption of MFRS 9 are disclosed in Note 35 to the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective (continued).

iii) MFRS 15 ‘Revenue from Contracts with Customers’

MFRS 15 replaces the guidance in MFRS 111 ‘Construction Contracts’, MFRS 118 ‘Revenue’, IC Interpretation 13 ‘Customer Loyalty Programmes’, IC Interpretation 15 ‘Agreements for Construction of Real Estate’, IC Interpretation 18 ‘Transfers of Assets from Customers’ and IC Interpretation 131 ‘Revenue – Barter Transactions Involving Advertising Services’. MFRS 15 provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligation. The standard specifies that the revenue is to be recognised when control over the goods or services is transferred to customer, moving from the transfer of risk and rewards.

The adoption of MFRS 15 ‘Revenue from Contracts with Customers’ does not have any material impact on the current period or any prior period financial statements of the Company as the Company’s main source of revenue stream is arising from Takaful contracts and investment related revenues that are scoped out of MFRS 15 ‘Revenue from Contracts with Customers’.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

i) Annual Improvements to MFRS 2015-2017 Cycle - effective 1 July 2019

Amendments to MFRS 112 'Income Taxes' clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in income statements, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in income statements when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

ii) Amendments to MFRS 9 'Prepayment Features with Negative Compensation' - effective 1 July 2019

The amendments allow companies to measure some prepayable financial assets with negative compensation at amortised cost. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than the unpaid amounts of principal and interest. To qualify for amortised cost measurement, the negative compensation must be reasonable compensation for early termination of the contract, and the asset must be held within a 'held to collect' business model.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

iii) MFRS 16 ‘Leases’ - effective 1 July 2019

MFRS 16 supersedes MFRS 117 ‘Leases’ and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a ‘right-of-use’ of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 ‘Property, Plant and Equipment’ and the lease liability is accreted over time with interest expense recognised in income statements.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

iii) MFRS 16 ‘Leases’ - effective 1 July 2019 (continued)

The Company is in the midst of finalising the initial assessment of the potential impact on its financial statements. The impact of applying MFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the borrowing rate, the composition of the lease portfolio at that date, the latest assessment of whether the Company will exercise any lease renewal options, and the extent to which the Company chooses to use practical expedients and recognition exemptions. The most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases. As at 30 June 2019, the Company’s future minimum lease payments under noncancellable operating leases amounting to RM1,475,000 on an undiscounted basis (see note 33).

iv) IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ - effective 1 July 2019

IC Interpretation 23 provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

IC Interpretation 23 will be applied retrospectively.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

v) MFRS 17 'Insurance Contracts' - effective 1 July 2021

MFRS 17 applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features if an entity also issues insurance contracts. For fixed-fee service contracts whose primary purpose is the provision of services, an entity has an accounting policy choice to account for them in accordance with either MFRS 17 or MFRS 15 'Revenue'. An entity is allowed to account financial guarantee contracts in accordance with MFRS 17 if the entity has asserted explicitly that it regarded them as insurance contracts. Insurance contracts, (other than reinsurance) where the entity is the policyholder are not within the scope of MFRS 17. Embedded derivatives and distinct investment and service components should be 'unbundled' and accounted for separately in accordance with the related MFRSs. Voluntary unbundling of other components is prohibited.

MFRS 17 requires a current measurement model where estimates are remeasured at each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. An entity has a policy choice to recognise the impact of changes in discount rates and other assumptions that are related to financial risks either in income statements or in other comprehensive income.

Alternative measurement models are provided for the different insurance

- Simplified Premium Allocation Approach if the insurance coverage period is a year or less; or
- Variable Fee Approach should be applied for insurance contracts that specify a link between payments to the policyholder and the returns on the underlying items.

The requirements of MFRS 17 align the presentation of revenue with other industries. Revenue is allocated to the periods in proportion to the value of the expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. Investment components are excluded from revenue and claims.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

v) MFRS 17 'Insurance Contracts' - effective 1 July 2021 (continued)

Insurers are required to disclose information about amounts, judgements and risks arising from insurance contracts.

The International Accounting Standards Board has tentatively proposed to amend the effective date of IFRS 17 'Insurance Contracts' to 1 July 2022.

The adoption of the accounting standards, amendments to published standards and interpretations to existing standards are not expected to give rise to any material financial impact to the Company, except for the adoption of MFRS 17 'Insurance Contracts'.

2.2 Summary of significant accounting policies

(a) Property and equipment

Property and equipment are stated at cost, net of the amount of sales and services tax (SST) less accumulated depreciation and accumulated impairment losses. When the amount of SST incurred is not recoverable from the government, the SST is recognised as part of the cost of acquisition of the property and equipment. 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:

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Property and equipment (continued)

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(g) 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Leases

A lease is recognised as a finance lease if it transfers substantially to the Company all the risk and rewards incidental to ownership. All leases that do not transfer substantially all the risk and rewards incidental to ownership are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

(d) Financial instruments

i) Classification and measurement of financial instrument

With effect from 1 July 2018, the Company have applied MFRS 9 and classify its financial assets in the following measurement categories:

- Amortised cost
- Fair value through profit or loss (“FVTPL”)

At initial recognition, the Company measure a financial asset at fair value plus transation costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statements.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest (“SPPI”).

The classification requirements for debt and equity instruments are described as below:

1) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification and measurement of financial assets (continued)

1) Debt instruments (continued)

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Company's business model for managing the financial assets;
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Company classify their debt instruments into one of the following two measurement categories:

a) Financial assets at amortised cost

Financial assets where the contractual cash flows represent solely payments of principal and interest, and that are not designated as FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into statement of other comprehensive income. The interest income from this financial assets is included in investment income using the effective interest rate method. Upon derecognition, any gain or loss will be recognised in statement of income and included in realised gains / (losses).

b) Financial assets at FVTPL

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of income within realised gains / (losses) in the period in which it arises. The interest income is recognised into income statements using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Classification and measurement of financial assets (continued)

2) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Company subsequently measure all equity instruments at FVTPL. Dividend will be recognised in income statements as investment income when the Company's right to receive payments is established.

Changes in fair value of financial assets at FVTPL are included in the fair value gains / (losses) in the statement of income.

(ii) Reclassification policy

Reclassification of financial assets is required when, and only when, the Company change their business model for managing the assets. In such cases, the Company are required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

(iii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on the trade date on which the Company committed to purchase or sell the assets at trade-date. Financial assets are derecognised when the right to receive cash flow from the financial asset have expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Impairment for debt instruments

The Company assesses on a forward looking basis the expected credit loss (‘ECL’) associated with its debt instruments carried at amortised cost and at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company has two types of financial instruments that are subject to the ECL model:
- Takaful receivables
- Other receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(i) General 3-stage approach for other receivables

At each reporting date, the Company measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on other receivables not increased significantly since initial recognition. For all other receivables, a loss allowance at an amount equal to lifetime ECL is required.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Impairment for debt instruments (continued)

(ii) Simplified approach for Takaful receivables

The Company applies the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all Takaful receivables. The expected loss allowance is based on provisional matrix with the usage of forward-looking information in determining of ECL, including the use of macroeconomic information.

(v) Accounting policies prior to 1 July 2018

1) Classification and measurement

The Company classifies its investments into financial assets at fair value through profit or loss, loans and receivables or available-for-sale. The classification of the financial assets is determined at initial recognition.

a) Fair value through profit or loss

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.

i) 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 Islamic securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes Islamic derivatives that are not designated for hedges.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

1) Classification and measurement (continued)

The Company classifies its investments into financial assets at fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale. The classification of the financial assets is determined at initial recognition.(continued)

a) Fair value through profit or loss (continued)

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.(continued)

ii) 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.

iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

1) Classification and measurement (continued)

b) Loans and Receivables (LAR)

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.

c) Available-for-sale (AFS)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

1) Classification and measurement (continued)

d) 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.

2) Impairment of financial assets

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

2) Impairment of financial assets (continued)

a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

2) Impairment of financial assets (continued)

b) 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.

c) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

2) Impairment of financial assets (continued)

d) 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(g).

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

3) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Accounting policies prior to 1 July 2018 (continued)

3) Derecognition (continued)

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.

(vi) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented 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 realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

(e) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Fair value of financial instruments (continued)

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.

(f) Qard

Qard 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, qard 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(g) on impairment of assets.

In preparing the separate financial statements of the respective Takaful funds, qard payable is stated at cost. Qard balances are eliminated in preparing the Company's statement of financial position.

(g) Impairment of 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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

Taxation for the financial year comprises current and deferred tax.

Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered or paid to tax authorities. The tax rates used to compute the amount are those that are enacted or substantially enacted at the date of the statement of financial position.

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 liability method, providing for temporary differences arising between the carrying amounts of assets and liabilities for tax purpose. However, deferred tax is not recognised 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(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 Qard.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

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 transfer financial risk with no significant takaful underwritting risk.

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

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).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Retakaful contracts (continued)

Retakaful assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the retakaful asset that the fund may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the fund will receive from the retakaful operator. The impairment loss is recorded in profit or loss.

The fund also assumes retakaful risk in the normal course of business for 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

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) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

(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) 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 statement of income. Effective 1 July 2018, unrealised gains or losses has transferred to unallocated surplus / deficits as HLMT has fully adopted MFRS 9.

(q) General Takaful contracts

<u>General Takaful fund</u>

The General Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 which is subsequently replaced by IFSA 2013 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 Qard and are being reflected as Qard receivable in the Takaful Operator's fund and Qard payable in the General Takaful fund.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

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
(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

(i) Contribution liabilities (continued)

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

(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 Qard 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 statement of income.

(v) Unallocated surplus/deficits

Unallocated surplus represents remaining underwriting surplus after repayment of Qard, 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
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(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.

(v) Non-current assets (or disposal group) held-for-sale and discontinued operations

Non-current assets (or disposal group) are classified as assets held-for-sale when their carrying amounts are recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower carrying amount and fair value less costs to sell.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(v) Non-current assets (or disposal group) held-for-sale and discontinued operations (continued)

A discontinued operation is a component of the Company that has been disposed of or is classified as held-for-sale and that represents a separate major line of business. The results of discontinued operations are presented separately in the statement of comprehensive income.

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 2018, 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(i) Claims liabilities of General Takaful business (continued)

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.

(ii) Actuarial liabilities for Family Takaful fund

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

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/PD 033-4).

For single contribution long-term Family Takaful plans, the actuarial liabilities are computed by the Company's Appointed Actuary and were set up, where appropriate, based on the present value of future benefit, less the present value of future Tabarru' discounted at the appropriate risk discount rate and based on best estimate assumptions, applied with an appropriate allowance for Provision of Risk Margin for Adverse Deviation ("PRAD") from expected experience. The higher of the present value of future cash flows and the Unearned Tabarru Reserve ("UTR") was taken as the actuarial liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(ii) Actuarial liabilities for Family Takaful fund (continued)

For regular contribution individual products and yearly renewable term products with savings elements, the liabilities were valued by using Sterling Discounted Cash Flow ("SDCF") method. Sterling method is to project the future cash flows to ensure all future outgo can be met without recourse to additional finance or capital support at any future time during the duration of the certificate.

For yearly renewable term products with no savings elements, the liabilities for such Family Takaful certificate comprises the provision for unearned Tabarru' and unexpired risks, as well as for claims outstanding, which includes an estimate of the Incurred But Not Reported ("IBNR") claims.

Expense liabilities in Takaful Operator's fund were set up based on the present value of expected future expenses payable from Takaful Operator's Fund to fulfil the contractual obligations of the Family Takaful contract, covered by present value of expected future income. Expense liabilities are determined such that the reserving method is consistent with the family takaful liabilities.

Details of key assumptions used and the sensitivity analysis are shown in Note 30(b).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

3 PROPERTY AND EQUIPMENTS

Takaful Operator/Company

	Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor Vehicles RM'000	Capital work-in-progress RM'000	Company RM'000
Cost					
At 1 July 2017	370	3,123	509	1,097	5,099
Additions	-	41	-	578	619
Reclassification (Note 4)	-	-	-	(929)	(929)
Write Off	-	-	-	(134)	(134)
At 30 June 2018	370	3,164	509	612	4,655
Additions	4	171	-	2,316	2,491
Reclassification (Note 4)	-	-	-	(50)	(50)
At 30 June 2019	374	3,335	509	2,878	7,096
Accumulated depreciation					
At 1 July 2017	351	2,157	317	-	2,825
Charge for the financial year	15	436	190	-	641
At 30 June 2018	366	2,593	507	-	3,466
Charge for the financial year	6	289	-	-	295
At 30 June 2019	372	2,882	507	-	3,761
Net carrying amount					
At 30 June 2018	4	571	2	612	1,189
At 30 June 2019	2	453	2	2,878	3,335

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

4 INTANGIBLE ASSETS

Takaful Operator/Company

	2019 RM'000	2018 RM'000
Cost		
At 1 July	14,380	13,183
Additions	813	268
Reclassification (Note 3)	50	929
At 30 June	15,243	14,380
Accumulated amortisation		
At 1 July	10,599	8,228
Amortisation	1,823	2,371
At 30 June	12,422	10,599
Net carrying amount	2,821	3,781

5 FINANCIAL ASSETS

HLMT invests in shariah-compliant financial instruments as follows:

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Government Investment Issues	2,740	36,464	39,204	-
Islamic bonds	147,256	330,194	477,450	-
Equity securities quoted in Malaysia	23,007	89,307	112,314	-
Unit and property trust funds	23,425	5,522	28,947	-
Investments in investment-linked funds	5,736	-	-	-
Structured investments	-	4,309	4,309	-
Accrued profit	1,805	4,011	5,816	-
Total	203,969	469,807	668,040	-
30 June 2018				
Government Investment Issues	2,613	36,440	39,052	1,202
Islamic bonds	53,575	207,531	261,107	34,182
Equity securities quoted in Malaysia	8,962	53,418	62,379	6,569
Unit and property trust funds	208	1,262	1,470	27,260
Investments in investment-linked funds	5,451	-	-	-
Structured investments	-	4,793	4,793	-
Accrued profit	601	2,569	3,171	271
Total	71,410	306,013	371,972	69,484

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

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

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
FVTPL	203,969	469,807	668,040	-
	203,969	469,807	668,040	-
Current	1,805	4,011	5,816	-
Non-current	202,164	465,796	662,224	-
	203,969	469,807	668,040	-

(i) FVTPL

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Government Investment Issues	2,740	36,464	39,204	-
Islamic sukuk	147,256	330,194	477,450	-
Equity securities quoted in Malaysia	23,007	89,307	112,314	-
Islamic Unit and property trust funds	23,425	5,522	28,947	-
Investments in investment-linked	5,736	-	-	
Islamic Structured investments	-	4,309	4,309	-
Accrued profit	1,805	4,011	5,816	-
	203,969	469,807	668,040	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

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

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
<u>30 June 2018</u>				
AFS financial assets	71,410	272,802	338,761	69,484
FVTPL financial assets	-	33,211	33,211	-
	71,410	306,013	371,972	69,484
Current	601	2,569	3,171	271
Non-current	70,809	303,444	368,801	69,213
	71,410	306,013	371,972	69,484

(ii) AFS

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
<u>30 June 2018</u>				
Government Investment Issues	2,613	33,591	36,203	1,202
Islamic sukuk	53,575	196,225	249,800	34,182
Equity securities quoted in Malaysia	8,962	39,716	48,678	6,569
Islamic Unit and property trust funds	208	862	1,070	27,260
Investments in investment-linked funds	5,451	-	-	-
Accrued profit	601	2,408	3,010	271
	71,410	272,802	338,761	69,484

(iii) FVTPL

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
<u>30 June 2018</u>				
Government Investment Issues	-	2,849	2,849	-
Islamic sukuk	-	11,306	11,306	-
Equity securities quoted in Malaysia	-	13,702	13,702	-
Islamic Unit and property trust funds	-	400	400	-
Islamic Structured investments	-	4,793	4,793	-
Accrued profit	-	161	161	-
	-	33,211	33,211	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

(b) Carrying value of financial instruments

	Continuing Operations							Discountinued Operations
	AFS /FVOCI			FVTPL			AFS /FVOCI	FVTPL
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000	General Takaful Fund RM'000
At 30 June 2018	71,410	272,802	344,212	-	33,211	33,211	69,484	-
- Effect on adoption of MFRS 9	(71,410)	(272,802)	(344,212)	71,410	272,802	338,761	(69,484)	69,484
- as restated 1 July 2018	-	-	-	71,410	306,013	371,972	-	69,484
Purchases	-	-	-	258,210	243,546	501,756	-	41,647
Maturities	-	-	-	(15,000)	(7,700)	(22,700)	-	(3,999)
Disposals	-	-	-	(118,854)	(98,846)	(217,700)	-	(81,963)
Fair value gain recorded in profit or loss	-	-	-	7,032	25,275	32,022	-	(90)
Accretion of discount, net of amortisation of premium (Note 18)	-	-	-	(32)	78	46	-	-
Movement in accrued profit	-	-	-	1,203	1,441	2,644	-	(271)
Business transferred (Note 11)	-	-	-	-	-	-	-	(24,808)
At 30 June 2019	-	-	-	203,969	469,807	668,040	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

5 . FINANCIAL ASSETS (CONTINUED)

(b) Carrying value of financial instruments (continued)

	Continuing Operations				Discountinued Operations
			AFS	FVTPL	AFS
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000	General Takaful Fund RM'000
At 1 July 2017	73,856	233,391	301,804	31,296	78,526
Purchases	17,930	96,373	114,303	15,825	38,776
Maturities	(5,000)	(2,000)	(7,000)	(2,800)	(11,700)
Disposals	(14,305)	(48,993)	(63,298)	(9,721)	(34,519)
Fair value gain recorded in profit or loss (Note 20)	-	-	-	(1,445)	-
Fair value gain recorded in other comprehensive income	(154)	(2,384)	(2,546)	-	(424)
Movement in impairment allowance (Note 20)	(384)	(3,191)	(3,576)	-	(702)
Realised gains (Note 19)	(567)	(939)	(1,506)	(40)	(400)
Accretion of discount, net of amortisation of premium (Note 18)	(10)	36	26	(1)	(7)
Movement in accrued profit	44	509	553	97	(66)
At 30 June 2018	71,410	272,802	338,761	33,211	69,484

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

(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).

		Continuing operations		Discontinued operations
			FVTPL	FVTPL
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Level 1	46,431	94,830	141,261	-
Level 2	157,538	374,977	526,779	-
	203,969	469,807	668,040	-

			Continuing operations		Discontinued operations
			AFS	FVTPL	AFS
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000	General Takaful Fund RM'000
30 June 2018					
Level 1	9,170	40,577	49,747	14,101	33,830
Level 2	62,240	232,225	289,014	19,110	35,654
	71,410	272,802	338,761	33,211	69,484

6 AMORTISED COST / LOANS AND RECEIVABLES

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
Amortised cost				
30 June 2019				
Fixed and cash deposits with licensed financial institutions	-	6,363	6,363	-
Accrued profit	-	148	148	-
	-	6,511	6,511	-
Loans and receivables				
30 June 2018				
Fixed and cash deposits with licensed financial institutions	-	6,257	6,257	-
Accrued profit	-	48	48	-
	-	6,305	6,305	-

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

	Continuing operations		Discontinued operations
	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019			
Retakaful of Takaful contracts	36,888	36,888	-
30 June 2018			
Retakaful of Takaful contracts	43,446	43,446	64,084

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

8 TAKAFUL RECEIVABLES

	Continuing operations		Discontinued operations
	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019			
Outstanding contributions including agents, brokers and co-takaful balances	5,777	5,777	-
	5,777	5,777	-
Amount due from retakaful operators	103	103	-
	103	103	-
	5,880	5,880	-
Gross amounts of recognised financial assets	5,880	5,880	-
	5,880	5,880	-
Net amounts of financial assets presented in the statement of financial position	5,880	5,880	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

8 TAKAFUL RECEIVABLES (CONTINUED)

	Continuing operations		Discontinued operations
	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2018			
Outstanding contributions including agents, brokers and co-takaful balances	6,494	6,494	4,064
Less: Allowance for impairment	-	-	(148)
	6,494	6,494	3,916
Amount due from retakaful operators	103	103	2,670
Less: Allowance for impairment	-	-	(2,341)
	103	103	329
	6,597	6,597	4,245
Gross amounts of recognised financial assets	6,597	6,597	8,150
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	-	-	(1,416)
	6,597	6,597	6,734
Allowance for impairment	-	-	(2,489)
Net amounts of financial assets presented in the statement of financial position	6,597	6,597	4,245

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

9 OTHER RECEIVABLES

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Dividend receivables	50	154	204	-
Amount due from Family Takaful Fund	17,600	-	-	-
Other receivables	2,369	1,844	4,213	-
	20,019	1,998	4,417	-
30 June 2018				
Dividend receivables	11	88	99	11
Amount due from General Takaful Fund	15,281	-	-	-
Amount due from Family Takaful Fund	13,066	-	-	-
Other receivables	3,488	4,164	7,652	375
	31,846	4,252	7,751	386

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Cash and bank balances	303	8,167	8,470	-
Short term deposits	14,138	65,886	80,024	-
Accrued profit	4	26	30	-
	14,445	74,079	88,524	-
30 June 2018				
Cash and bank balances	1,444	5,712	7,156	1,897
Short term deposits	5,982	63,801	69,783	24,027
Accrued profit	3	31	34	8
	7,429	69,544	76,973	25,932

11 DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

The Islamic Financial Services Act, 2013 ("IFSA") required all composite Takaful Operators to segregate their composite licences into separate Family Takaful and General Takaful licences by 1 July 2018. In compliance with this Act, the Company had surrendered the General Takaful license and proceeded with an application for a single licence to continue its Family Takaful business and relinquished its composite Takaful license by 1 July 2018.

IFSA requires the Company to continue to discharge its obligations under the general Takaful business which remain undischarged as at 1 July 2018 and cease underwriting new general Takaful business, including renewals business, before transferring the general Takaful business to an existing Takaful operator. As a result, the Company has successfully transferred out the General Takaful business to another Takaful operator on 1 June 2019.

Accordingly, the statement of financial position as at 30 June 2018, and statement of income, statement of comprehensive income and statement of cash flows for the financial year ended 30 June 2018 and 30 June 2019 of General Takaful business have been classified as discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

11 DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

The components of assets and liabilities held-for-sale attributable to the discounted operations are as follows :

(i) Assets of a disposal group classified as held-for-sale

	2019		2018	
	General Takaful Fund	Company	General Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
Available for sale financial assets (note 5)	-	-	69,484	69,484
Deferred tax assets (note 16)	-	-	653	653
Retakaful assets (note 7)	-	-	64,084	64,084
Takaful receivables (note 8)	-	-	4,245	4,245
Other receivables (note 9)	-	-	386	386
Cash and cash equivalents (note 10)	-	-	25,932	25,932
	-	-	164,784	164,784

(ii) Liabilities of a disposal group classified as held-for-sale

	2019		2018	
	General Takaful Fund	Company	General Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
Takaful contract liabilities (note 12)	-	-	116,158	116,158
Tax payable	-	-	1,883	1,883
Takaful payable (note 13)	-	-	28,211	28,211
Other payable (note 15)	-	-	18,532	18,532
	-	-	164,784	164,784

11 DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

	Note	11 Months up to 31 May 2019			2018		
		Continuing operations		Discontinued operations	Continuing operations		Discontinued operations
		Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000	Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000
Gross contributions		-	-	1,966	-	-	51,293
Contributions ceded to retakaful		-	-	(22,150)	-	-	(16,378)
Net contributions		-	-	(20,184)	-	-	34,915
Change in unearned contribution reserve		-	-	10,686	-	-	1,284
Net earned contribution		-	-	(9,498)	-	-	36,199
Wakalah income		1,218	1,218	-	20,164	20,164	-
Surplus sharing from General Takaful funds		-	-	-	11,128	11,128	-
Commission income		-	-	-	-	-	3,004
Investment income	18	-	-	2,043	-	-	3,204
Realised gains	19	-	-	-	-	-	400
Fair value (losses)/gains	20	-	-	(90)	-	-	(702)
Other operating income	21	-	-	506	-	-	360
Other income		1,218	1,218	2,459	31,292	31,292	6,266
Gross benefits and claim paid		-	-	(11,061)	-	-	(10,334)
Claims ceded to retakaful		-	-	9,223	-	-	6,449
Gross change to Takaful contract liabilities		-	-	(2,611)	-	-	(7,669)
Change in Takaful contract liabilities ceded to retakaful		-	-	14,839	-	-	2,495
Net benefits and claims		-	-	10,390	-	-	(9,059)

11 DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

	Note	11 Months up to 31 May 2019			2018		
		Continuing operations		Discontinued operations	Continuing operations		Discontinued operations
		Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000	Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000
Wakalah expenses		-	-	(1,218)	-	-	(20,164)
Surplus sharing with Takaful Operator		-	-	-	-	-	(11,128)
Fees and commision expense		(260)	(260)	-	(7,600)	(7,600)	(1,544)
Management expenses	22	(8,605)	(8,605)	-	(16,192)	(16,192)	-
Change to expense liability		5,508	5,508	-	(2,123)	(2,123)	-
Other operating expenses	23	-	-	(990)	-	-	(743)
Other expenses		(3,357)	(3,357)	(2,208)	(25,915)	(25,915)	(33,579)
(Loss)/profit before zakat and taxation		(2,139)	(2,139)	1,143	5,377	5,377	(174)
Tax expense attributable to participants		-	-	(1,143)	-	-	174
Profit before taxation attributable to Takaful Operator		(2,139)	(2,139)	-	5,377	5,377	-
Taxation	24	-	-	(1,143)	(2,574)	(2,574)	174
Tax expense attributable to participants		-	-	1,143	-	-	(174)
Tax expense attributable to Takaful Operator		-	-	-	(2,574)	(2,574)	-
Zakat							
Profit/(loss) after zakat and taxation		(2,139)	(2,139)	-	2,803	2,803	-
Earning per share		(2.14)	(2.14)	-	2.80	2.80	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

11 . DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

	Note	11 Months up to 31 May 2019			2018		
		Continuing operations		Discontinued operations	Continuing operations		Discontinued operations
		Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000	Takaful Operator RM'000	Company RM'000	General Takaful Fund RM'000
(Loss)/profit after zakat and taxation		(2,139)	(2,139)	-	2,803	2,803	-
Other comprehensive (loss)/income:							
<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		-	-	-	-	-	(424)
Gross fair value gains transferred to income statement		-	-	-	-	-	(400)
		-	-	-	-	-	(824)
Tax effects thereon		-	-	-	-	-	221
Net fair value (losses)/gains		-	-	-	-	-	(603)
Change in Takaful contract liabilities arising from unrealised net fair value losses		-	-	-	-	-	603
Other Comprehensive income for the financial year, net of tax		-	-	-	-	-	-
Total comprehensive income for the financial year		-	-	-	-	-	-

11 . DISCONTINUED OPERATIONS AND DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (CONTINUED)

Details of the transfer of General Business

	2019 RM'000	
Consideration received or receivable:		
Cash	1	*
Fair value of contingent consideration	-	
Total disposal consideration	1	*
Carrying amount of net assets transfer	-	
Gain on transfer before income tax	1	*
Income tax expense on gain	-	
Gain on transfer after income tax	1	*

* Denotes RM1

The carrying amounts of assets and liabilities transferred to another Takaful operator on 1 June 2019 as at the date of transfer were :-

	RM'000
Assets	
Financial assets - FVTPL (Note 5)	24,808
Cash and cash equivalents	5,365
Retakaful assets (Note 12)	62,110
Takaful receivables	3,435
Total assets	**95,718**
Liabilities	
Takaful contract liabilities:	
-Provision for outstanding claims (Note 12)	62,110
-Unearned contribution reserve (Note 12)	6
-Unallocated surplus (Note 12)	2,514
Takaful payables	31,071
Other payables	17
Total liabilities	**95,718**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES

				Discontinued operations 30.6.2019			Discontinued operations 30.6.2018
	Note	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
General Takaful	12(a)	-	-	-	116,158	(64,084)	52,074

				Continuing operations 30.6.2019			Continuing operations 30.6.2018
	Note	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Family Takaful	12(b)	542,641	(36,889)	505,752	396,128	(43,446)	352,682
Elimination of investment in investment-linked funds		(5,737)	-	(5,737)	(5,451)	-	(5,451)
Total Family		536,904	(36,889)	500,015	390,677	(43,446)	347,231
Total Company		536,904	(36,889)	500,015	390,677	(43,446)	347,231

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful contract liabilities

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

	Discontinued operations			Discontinued operations		
	30.6.2019			30.6.2018		
	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	-	-	-	56,499	(47,551)	8,948
Provision for IBNR	-	-	-	17,230	(11,789)	5,441
Provision for outstanding claims (i)	-	-	-	73,729	(59,340)	14,389
Unearned contribution reserve (ii)	-	-	-	15,436	(4,744)	10,692
AFS fair value adjustment (iii)	-	-	-	400	-	400
Participants' account (iv)	-	-	-	26,337	-	26,337
Unallocated surplus (v)	-	-	-	256	-	256
	-	-	-	116,158	(64,084)	52,074

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful contract liabilities (continued)

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

	Discontinued operations			Discontinued operations		
			30.6.2019			30.6.2018
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Provision for outstanding claims						
At 1 July	73,729	(59,340)	14,389	77,842	(60,959)	16,883
Claims incurred in the current accident year	3,586	(1,876)	1,710	25,508	(17,018)	8,490
Other movements in claims incurred in prior accident year	(4,372)	(9,889)	(14,261)	(19,281)	12,183	(7,098)
Claims paid during the financial year	(11,061)	9,223	(1,838)	(10,340)	6,454	(3,886)
Business transferred (Note 11)	(62,110)	62,110	-	-	-	-
At 30 June	-	-	-	73,729	(59,340)	14,389
(ii) Unearned contribution reserve						
At 1 July	15,436	(4,744)	10,692	23,038	(11,061)	11,977
Contribution written in the financial year	1,966	(22,150)	(20,184)	51,292	(16,378)	34,914
Contribution earned during the financial year	(17,396)	26,894	9,498	(58,894)	22,695	(36,199)
Business transferred (Note 11)	(6)	-	(6)	-	-	-
At 30 June	-	-	-	15,436	(4,744)	10,692

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful contract liabilities (continued)

	Discontinued operations	Discontinued operations Gross/Net
	2019	2018
	RM'000	RM'000
(iii) AFS fair value reserve		
At 30 June 2018	400	1003
- transfer to unallocated surplus upon adoption of MFRS 9	(400)	-
- as restated 1 July 2018	-	1,003
Net fair value change during the financial year	-	(603)
At 30 June	-	400
(iv) Participants' account		
At 1 July	26,337	20,200
Participants' account recognised as unallocated surplus	-	6,137
Surplus paid to participants	(9,918)	-
Surplus payable transferred to Takaful Operator Fund upon transfer of business	(16,419)	-
At 30 June	-	26,337
(v) Unallocated surplus		
At 30 June 2018	256	1,290
- transfer from AFS fair value reserve upon adoption of MFRS 9	400	-
- recognition of expected credit losses upon adoption of MFRS 9	(754)	-
- as restated 1 July 2018	(98)	1,290
Surplus arising during the financial year	2,612	18,796
Surplus sharing with Takaful Operator/participants	-	(19,830)
Business transferred (Note 11)	(2,514)	-
At 30 June	-	256

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful contract liabilities

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

			30.6.2019			30.6.2018
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Certificateholders' liabilities	456,735	(24,994)	431,741	337,402	(32,855)	304,547
Net asset value attributable to certificateholders	51,873	-	51,873	29,221	-	29,221
Actuarial liabilities	508,608	(24,994)	483,614	366,623	(32,855)	333,768
Claims liabilities	17,499	(11,895)	5,604	16,927	(10,591)	6,336
Unallocated surplus	16,534	-	16,534	9,992	-	9,992
AFS fair value adjustment	-	-	-	2,586	-	2,586
	542,641	(36,889)	505,752	396,128	(43,446)	352,682

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

12 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful contract liabilities (continued)

	30.6.2019			30.6.2018		
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 30 June 2018	396,128	(43,446)	352,682	312,360	(36,831)	275,529
- Effect of adoption of MFRS 9	(2,586)	-	(2,586)	-	-	-
- as restated 1 July 2018	393,542	(43,446)	350,096	312,360	(36,831)	275,529
Contribution received	257,533	(44,002)	213,531	169,870	(35,980)	133,890
Liabilities paid for death, maturities, surrenders, benefits and claims	(58,247)	34,377	(23,870)	(46,332)	30,134	(16,198)
Movement in claims liabilities	(572)	1,304	732	(1,499)	(1,925)	(3,424)
Reserve on new policies	10,305	(4,915)	5,390	11,577	(7,697)	3,880
Change in assumptions	(14,553)	12,948	(1,605)	1,032	(821)	211
Miscellaneous	(27,629)	6,845	(20,784)	(5,046)	9,675	4,629
Net asset value attributable to unit holders	22,652	-	22,652	105	-	105
Fees deducted	(65,699)	-	(65,699)	(42,518)	-	(42,518)
Investment income	42,217	-	42,217	9,261	-	9,261
Surplus distributed to Takaful Operator	(8,472)	-	(8,472)	(4,853)	-	(4,853)
Transfer surplus distribution to other liabilities	(8,435)	-	(8,435)	(4,805)	-	(4,805)
Qardhul Hassan	-	-	-	31	-	31
Movement in AFS fair value adjustments	-	-	-	(3,057)	-	(3,057)
At 30 June 2019	542,642	(36,889)	505,753	396,126	(43,445)	352,681

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

13 TAKAFUL PAYABLES

	Continuing operations		Discontinued operations
	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019			
Due to agents and intermediaries	-	-	-
Due to retakaful operators and cedants	12,231	12,231	-
	12,231	12,231	-
Gross amounts of recognised financial liabilities	12,231	12,231	-
Less: Gross amounts of recognised financial assets set off in the statement of financial position	-	-	-
Net amounts of financial liabilities presented in the statement of financial position	12,231	12,231	-
30 June 2018			
Due to agents and intermediaries	-	-	1,028
Due to retakaful operators and cedants	12,098	12,098	27,183
	12,098	12,098	28,211
Gross amounts of recognised financial liabilities	12,098	12,098	29,627
Less: Gross amounts of recognised financial assets set off in the statement of financial position	-	-	(1,416)
Net amounts of financial liabilities presented in the statement of financial position	12,098	12,098	28,211

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

14 EXPENSE LIABILITIES

	Takaful Operator/Company	
	2019	2018
	RM'000	RM'000
At the beginning of the financial year	14,563	11,780
(Decrease)/increase during the financial year	(1,366)	2,783
Transfer of general Takaful business	(99)	-
At the end of the financial year	13,098	14,563

15 OTHER PAYABLES

	Continuing operations			Discontinued operations
	Takaful Operator	Family Takaful Fund	Company	General Takaful Fund
	RM'000	RM'000	RM'000	RM'000
30 June 2019				
Contribution deposits	1	11,420	11,421	-
Amount due to Takaful Operator Fund	-	17,600	-	-
Sundry payables and accruals	35,897	8,206	44,103	-
	35,898	37,226	55,524	-
30 June 2018				
Contribution deposits	1	6,622	6,623	156
Amount due to Takaful Operator Fund	-	13,066	-	15,281
Sundry payables and accruals	14,910	5,137	20,047	3,095
	14,911	24,825	26,670	18,532

16 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:

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
At 1 July 2017	275	(610)	(335)	428
Recognised in:				
Profit or loss	45	287	332	4
Other comprehensive income	173	266	439	221
At 30 June 2018/1 July 2018	493	(57)	436	653
Recognised in:				
Profit or loss (Note 24)	(3,239)	(2,010)	(5,249)	46
Other comprehensive income	-	-	-	-
Transferred to Operator Fund	699	-	699	(699)
At 30 June 2019	(2,047)	(2,067)	(4,114)	-

Presented after appropriate offsetting as follows:

30 June 2019				
Deferred tax liabilities	(2,134)	(2,266)	(4,400)	-
Deferred tax assets	87	199	286	-
	(2,047)	(2,067)	(4,114)	-
30 June 2018				
Deferred tax liabilities	(732)	(323)	(1,055)	(125)
Deferred tax assets	1,225	266	1,491	778
	493	(57)	436	653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
30 June 2019				
Current	-	-	-	-
Non-current	(2,047)	(2,067)	(4,114)	-
	(2,047)	(2,067)	(4,114)	-
30 June 2018				
Current	568	-	568	598
Non-current	(75)	(57)	(132)	55
	493	(57)	436	653

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
<u>Continuing operations</u>					
Takaful Operator					
At 1 July 2017	(401)	(704)	-	1,380	275
Recognised in:					
Profit or loss	(21)	-	-	121	100
Other comprehensive income	-	118	-	-	118
At 30 June 2018/1 July 2018	(422)	(586)	-	1,501	493
Recognised in:					
Profit or loss	422	(1,461)	(699)	(1,501)	(3,239)
Transferred from General Fund	-	-	699	-	699
At 30 June 2019	-	(2,047)	-	-	(2,047)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
Discontinued operations					
General Takaful Fund					
At 1 July 2017	-	(256)	684	-	428
Recognised in:					
Profit or loss	-	-	94	-	94
Other comprehensive income	-	131	-	-	131
At 30 June 2018	-	(125)	778	-	653
Recognised in:					
Profit or loss	-	125	(79)	-	46
Transferred to Operator Fund	-	-	(699)	-	(699)
At 30 June 2019	-	-	-	-	-
Continuing operations					
Family Takaful Fund					
At 1 July 2017	-	(610)	-	-	(610)
Recognised in:					
Profit or loss	-	287	-	-	287
Other comprehensive income	-	266	-	-	266
At 30 June 2018/1 July 2018	-	(57)	-	-	(57)
Recognised in:					
Profit or loss	-	(2,010)	-	-	(2,010)
At 30 June 2019	-	(2,067)	-	-	(2,067)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
Continuing operations					
Company					
At 1 July 2017	(401)	(1,314)	-	1,380	(335)
Recognised in:					
Profit or loss	(21)	287	-	121	387
Other comprehensive income	-	384	-	-	384
At 30 June 2017/1 July 2017	(422)	(643)	-	1,501	436
Recognised in:					
Profit or loss	422	(3,471)	(699)	(1,501)	(5,249)
Transferred from General Fund	-	-	699	-	699
At 30 June 2019	-	(4,114)	-	-	(4,114)

17 SHARE CAPITAL

Takaful Operator/Company

	30.6.2019		30.6.2018	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Issued and fully paid ordinary shares:				
At the beginning of the financial year	100,000	100,000	100,000	100,000
Issued during the financial year	100,000	100,000	-	-
At the end of the financial year	200,000	200,000	100,000	100,000

During the financial year, the fully paid up share capital of the company was increased from RM100,000,000 to RM200,000,000. The newly issued ordinary share rank pari passu in all respects with existing ordinary shares of the company. There were no other issues of the shares during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

18 INVESTMENT INCOME

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
FVTPL				
Profit income	5,880	14,364	20,244	631
Accretion of discounts/ (amortisation of premiums) - net	(32)	78	46	-
Dividend income	984	1,902	2,886	1,121
Amortised cost				
Profit income	-	329	329	-
Cash and cash equivalents				
Profit income	364	1,895	2,259	261
	7,196	18,568	25,764	2,013
Less: Share of investment profit of Takaful funds with Takaful Operator	-	(1,624)	-	-
Less: Investment Charges	43	(3)	39	30
	7,239	16,941	25,803	2,043

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

18 INVESTMENT INCOME (CONTINUED)

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2018				
AFS financial assets				
Profit income	2,505	10,361	12,866	1,575
(Amortisation of premiums)/ accretion of discounts - net	(10)	36	26	(7)
Dividend income	253	1,066	1,319	1,087
FVTPL				
Profit income	-	562	562	-
Amortisation of premiums - net	-	(1)	(1)	-
Dividend income	-	454	454	-
Loans and receivables				
Profit income	8	246	254	18
Cash and cash equivalents				
Profit income	254	1,164	1,418	507
	3,010	13,888	16,898	3,180
Less: Share of investment profit of Takaful funds with Takaful Operator	-	(967)		-
Less: Investment Charges	-	(3)	(3)	24
	3,010	12,918	16,895	3,204

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

19 REALISED GAINS/(LOSSES)

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2018				
AFS financial assets				
Quoted equities	565	818	1,383	371
Government Investment issues	-	88	88	29
Islamic bond	-	33	33	-
Unit Trust	2	-	2	-
FVTPL				
Quoted equities	-	41	41	-
Islamic bonds	-	(1)	(1)	-
	567	979	1,546	400

20 FAIR VALUE GAINS/(LOSSES)

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
Fair value gains on financial assets at fair value through profit or loss	7,032	25,275	32,022	(90)
	7,032	25,275	32,022	(90)
2018				
Impairment of AFS financial assets	(384)	(3,191)	(3,575)	(702)
Fair value gains on financial assets at fair value through profit or loss	-	(1,445)	(1,445)	-
	(384)	(4,636)	(5,020)	(702)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

21 OTHER OPERATING INCOME

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
Write back of impairment loss on Takaful receivables	-	-	-	330
Other income	950	579	1,528	176
Elimination of income from investment-linked funds	-	-	(496)	-
	950	579	1,032	506
2018				
Write back of impairment loss on Takaful receivables	-	-	-	360
Other income	2,521	423	2,944	-
Elimination of income from investment-linked funds	-	-	(420)	-
	2,521	423	2,524	360

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

22 MANAGEMENT EXPENSES

	2019	2018
	RM'000	RM'000
Takaful Operator/Company		
Staff costs:		
Salary and bonus	13,274	11,459
Social security costs	90	95
Employees' provident fund	2,080	1,822
Other staff related expenses	466	561
Directors' fees (Note 28)	341	331
Shariah committee remuneration and other expenses		
- remuneration	190	182
- other expenses	-	3
Depreciation of property and equipment (Note 3)	295	641
Amortisation of intangible assets (Note 4)	1,823	2,371
Auditors' remuneration:		
Audit related services		
- current year	269	278
Non-audit related services	20	85
Other professional fee	5,507	2,091
Rental of properties	1,252	1,111
Shared service fee	5,829	4,452
Campaigns and incentives	8,993	6,023
Research & Development	4,000	-
EDP expenses	2,182	1,728
Other expenses	7,719	6,757
Total	54,330	39,990

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM985,807 (2018: RM347,296).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 28.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

22 MANAGEMENT EXPENSES (CONTINUED)

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

	2019 RM'000	2018 RM'000
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	38	36
Asst. Prof. Dr. Uzaimah Ibrahim	38	36
Assoc. Prof. Dr. Asmak Ab Rahman	38	36
Dr. Muhammad Aunurrochim Mas'ad Saleh	38	36
Dr. Nurul Aini Muhamed	38	36
Total	190	180

23 OTHER OPERATING EXPENSES

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
Others	(20)	(2,809)	(2,829)	(990)
Elimination of income from investment-linked funds	-		496	-
	(20)	(2,809)	(2,333)	(990)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2018				
Others	(725)	(2,928)	(3,653)	(743)
Elimination of income from investment-linked funds	-	-	420	-
	(725)	(2,928)	(3,233)	(743)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

24 TAXATION

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
Current tax:				
- In respect of current financial year	4,078	1,096	5,174	955
- Under/(over) provision in prior financial years	(1,041)	(6)	(1,047)	234
Deferred tax expense/(income)	3,239	2,010	5,249	(46)
	6,276	3,100	9,376	1,143
2018				
Current tax:				
- In respect of current financial year	3,655	987	4,642	1,882
- Under/(over) provision in prior financial years	1,869	(321)	1,548	(2,052)
Deferred tax income	(45)	(287)	(332)	(4)
	5,479	379	5,858	(174)

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

	2019 RM'000	2018 RM'000
Profit before zakat and taxation	10,424	11,336
Taxation at Malaysian statutory rate of 24% (2018: 24%)	2,502	2,721
Income not subject to tax	(16,045)	(10,204)
Expenses not deductible for tax purposes	20,860	11,185
Effect of difference in tax rate	3,100	287
Under/(over) provision in prior financial years	(1,041)	1,869
Tax expense for the financial year	9,376	5,858

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

25 INVESTMENT-LINKED BUSINESS

(a) Assets and liabilities as at

	2019	2018
	RM'000	RM'000
Assets		
Fair value through profit and loss financial assets	37,519	25,621
Other receivables	138	2,373
Cash and cash equivalents	14,530	3,902
Investment-linked business assets	52,187	31,896
Liabilities		
Deferred tax liabilities	166	96
Tax payables	32	34
Other payables	67	873
Amount due to non-investment linked Family Takaful Fund*	49	1,672
Investment-linked business liabilities	314	2,675
Net asset value of funds	51,873	29,221
Represented by:		
Unitholders' account		
At beginning of the financial year	29,221	29,116
Net creation of units	27,297	7,346
Net cancellation of units	(6,175)	(4,235)
Surplus/(deficit) for the financial year	1,530	(3,006)
	51,873	29,221

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

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

	2019	2018
	RM'000	RM'000
Investment income	1,223	867
Realised gain on disposal of investment	(425)	40
Fair value gains/(loss) on investments	1,501	(1,408)
Other expenses	(570)	(2,572)
Surplus/(deficit) before taxation	1,729	(3,073)
Taxation:		
- current tax	(79)	(42)
- deferred tax	(120)	109
	1,530	(3,006)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

26 SEGMENTAL INFORMATION ON CASH FLOW

	Continuing operations			Discontinued operations
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	General Takaful Fund RM'000
2019				
Cash flows from:				
Operating activities	(89,660)	4,514	(85,146)	(20,567)
Investing activities	(3,304)	-	(3,304)	(5,365)
Financing activities	100,000	-	100,000	-
	7,036	4,514	11,550	(25,932)
Net increase in cash and cash equivalent	7,036	4,514	11,550	(25,932)
Cash and cash equivalents:				
At beginning of financial year	7,429	69,544	76,973	25,932
At end of financial year	14,465	74,058	88,523	-
2018				
Cash flows from:				
Operating activities	7,285	41,214	48,499	19,476
Investing activities	(887)	-	(887)	-
	6,398	41,214	47,612	19,476
Net decrease in cash and cash equivalent	6,398	41,214	47,612	19,476
At beginning of financial year	1,031	28,330	29,361	6,456
At end of financial year	7,429	69,544	76,973	25,932

27 RELATED PARTY TRANSACTIONS

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

Related Parties	Relationship
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Financial Group Berhad ("HLFG")	Penultimate holding company
HLA Holdings Sdn Bhd ("HLAH")	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
Guoline Intellectual Assets Limited	Subsidiary of ultimate holding company
Key Management Personnel	The key mangement personnel of the Company consists of: - All Directors of the Company - Key mangement personnel of the Company who make certain critical decisions in relation to the strategic of the Company
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

27 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2019	2018
	RM'000	RM'000
	Income/ (Expense)	Income/ (Expense)
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(11,191)	(11,379)
- Fund management fee	(2,054)	(1,427)
- Profit from Islamic deposits and money market placements with licensed banks	175	69
- Bank charges	(99)	(122)
- Office rental expenses	(1,056)	(1,097)
- Shared services fee	(5,829)	(4,452)
- Campaign and incentives	(4,493)	-
- Royalty fee	(4)	(4)
- Profit from investment in Islamic bonds	521	479

The related party transactions above are primarily with related parties domiciled in Malaysia.

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.

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

	2019	2018
	RM'000	RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	7,396	7,696
- Rental deposit included in other receivables	322	322
- Amount due to related companies	(744)	(639)
- Investment in Islamic bonds	-	10,034

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

28 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:

	2019	2018
	RM'000	RM'000
Non-Executive Directors		
Fees:		
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Ch)	129	133
Mr Martin Giles Manen	118	29
Zulkiflee bin Hashim *(Appointed w.e.f. 28.05.2019)*	9	-
Dr Aznan bin Hasan *(Resigned w.e.f.16.04.2019)*	85	115
Encik Mustapha bin Hamat	-	53
	341	330
Key management personnel		
Short term employee benefits:		
Salary and other remuneration	3,998	2,653
Defined contribution retirement plan	622	384
Benefits-in-kind/perquisite	197	170
	4,817	3,207
Total	5,158	3,537

During the financial year, Directors and Officers of the Company are covered under the Directors' & Officers' Liability Insurance/Takaful in respect of liabilities arising from acts committed in their respective capacity as, inter alia, Directors and Officers of the Company subject to the term of the policy. The total amount of premium for the Directors' and Officers's Liability Insurance/Takaful was paid by the intermediate holding company, HLA Holdings Sdn Bhd.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

29 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 Group Board Risk Management Commitees (“GBRMC”) 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, certificate holders 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.

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(b) Capital management objectives, policies and approach (continued)

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 GBRMC 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:

	2019	2018
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital	200,000	100,000
- Reserves, including retained earnings	9,103	(3,488)
Eligible Tier 2 capital		
- Eligible reserves	19	2,489
Amount deducted from capital	(2,840)	(4,957)
Total capital available	206,282	94,044

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

30 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.

	Discontinued Operations 2019			Discontinued Operations 2018		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Motor	-	-	-	1,238	(1)	1,237
Fire	-	-	-	25,393	(14,218)	11,175
Engineering	-	-	-	22,581	(20,834)	1,747
Liability	-	-	-	1,748	(20)	1,728
Miscellaneous	-	-	-	38,205	(29,011)	9,194
	-	-	-	89,165	(64,084)	25,081

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

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.

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

	Change in assumptions %	Impact on gross Takaful claims liabilities RM'000	Impact on net Takaful claims liabilities RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
30 June 2018					
ULRs for all business classes for all loss years	+10	17,484	5,123	-	-
ULRs for Personal Accident class for all loss years	+20	7,600	2,036	-	-
ULRs for Fire class for all loss years	+20	9,544	3,879	-	-
PRAD for all business classes for all loss years	+20	1,464	288	-	-

There is no impact to the Company's profit after taxation and equity as the impact of changes in assumptions of General Takaful fund is retained in the Takaful contract liabilities.

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2018 (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Accident year									
At end of accident year	21,080	35,591	46,842	51,089	28,280	20,759	21,409	25,507	
One year later	18,211	33,995	33,607	39,535	26,218	19,474	13,411	-	
Two years later	16,814	30,394	29,060	29,428	24,045	14,247	-	-	
Three years later	15,602	49,411	27,522	26,432	21,679	-	-	-	
Four years later	14,057	47,088	24,886	25,404	-	-	-	-	
Five years later	13,696	45,953	23,120	-	-	-	-	-	
Six years later	12,250	45,184	-	-	-	-	-	-	
Seven years later	12,306	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	12,306	45,184	23,120	25,404	21,679	14,247	13,411	25,507	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2018 (continued)

	2011	2012	2013	2014	2015	2016	2017	2018	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year									
At end of accident year	1,194	2,754	3,316	3,833	3,030	2,354	3,168	4,042	
One year later	7,562	10,018	11,610	7,664	11,047	6,695	5,440	-	
Two years later	9,097	15,254	14,562	21,215	15,817	10,051	-	-	
Three years later	10,860	39,297	15,952	23,149	16,221	-	-	-	
Four years later	11,066	17,344	18,560	23,237	-	-	-	-	
Five years later	11,683	17,652	18,636	-	-	-	-	-	
Six years later	11,749	17,701	-	-	-	-	-	-	
Seven years later	11,801	-	-	-	-	-	-	-	
Cumulative payments to-date	11,801	17,701	18,636	23,237	16,221	10,051	5,440	4,042	
Gross General Takaful claims liabilities	505	27,483	4,484	2,167	5,458	4,196	7,970	21,466	73,728

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2018 (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Accident year									
At end of accident year	8,474	13,410	18,807	13,280	10,117	8,514	8,294	8,489	
One year later	9,674	12,551	13,208	9,169	8,227	6,861	5,603	-	
Two years later	8,115	11,639	11,179	7,762	7,704	5,234	-	-	
Three years later	7,821	10,434	9,659	6,884	6,867	-	-	-	
Four years later	7,276	5,536	8,023	6,152	-	-	-	-	
Five years later	6,998	8,649	6,958	-	-	-	-	-	
Six years later	6,003	8,537	-	-	-	-	-	-	
Seven years later	6,026	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	6,026	8,537	6,958	6,152	6,867	5,234	5,603	8,489	

30 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2018 (continued)

	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Accident year									
At end of accident year	1,008	2,085	1,845	1,899	2,252	1,647	1,750	2,392	
One year later	4,234	5,152	4,482	3,692	4,709	3,579	2,812	-	
Two years later	4,875	7,287	5,631	4,584	5,715	3,812	-	-	
Three years later	5,474	7,864	6,043	5,246	5,869	-	-	-	
Four years later	5,566	3,729	6,244	5,269	-	-	-	-	
Five years later	5,699	7,312	6,260	-	-	-	-	-	
Six years later	5,747	7,317	-	-	-	-	-	-	
Seven years later	5,746	-	-	-	-	-	-	-	
Cumulative payments to-date	5,746	7,317	6,260	5,269	5,869	3,812	2,812	2,392	
Net General Takaful claims liabilities	280	1,221	698	883	998	1,422	2,791	6,097	14,390

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(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.

	Gross RM'000	Retakaful RM'000	Net RM'000
30 June 2019			
Mortgage Reducing Term and Group business	32,263	(24,183)	8,080
Others	10,750	(810)	9,940
	43,013	(24,993)	18,020
30 June 2018			
Mortgage Reducing Term and Group business	40,737	(31,105)	9,632
Others	7,689	(1,750)	5,939
	48,426	(32,855)	15,571

30 TAKAFUL RISK (CONTINUED)

(b) Family Takaful/Company (continued)

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.

30 TAKAFUL RISK (CONTINUED)

(b) Family Takaful/Company (continued)

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 RM'000	Impact on net Takaful actuarial liabilities RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
30 June 2019					
Mortality	+10%	5,515	1,014	-	-
Mortality	-10%	(4,888)	(951)	-	-
Lapse and surrender rates	+10%	(337)	(231)	-	-
Lapse and surrender rates	-10%	371	269	-	-
Discount rate	+10%	(577)	(499)	-	-
Discount rate	-10%	719	642	-	-
Investment return	+10%	(6)	(5)	-	-
Investment return	-10%	25	8	-	-

30 TAKAFUL RISK (CONTINUED)

(b) Family Takaful/Company (continued)

Sensitivity (continued)

	Change in assumptions %	Impact on gross Takaful actuarial liabilities RM'000	Impact on net Takaful actuarial liabilities RM'000	Impact on profit after tax RM'000	Impact on equity RM'000
30 June 2018					
Mortality	+10	16,622	3,468	-	-
Mortality	-10	(11,520)	(2,059)	-	-
Lapse and surrender rates	+10	(551)	(132)	-	-
Lapse and surrender rates	-10	589	147	-	-
Discount rate	+10	(1,125)	(370)	-	-
Discount rate	-10	1,246	440	-	-
Investment return	+10	(1,968)	(472)	-	-
Investment return	-10	1,861	466	-	-

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. There is no impact to the Company’s profit after taxation as the impact of changes in assumptions of the Family Takaful fund and investment-linked funds is retained in the Takaful contract liabilities.

31 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.

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating

Continuing operations

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.

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2019									
Takaful Operator									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	2,740	-	-	-	2,740
Islamic bonds	22,553	75,429	-	-	49,274	-	-	-	147,256
Equity securities	-	-	-	-	-	23,007	-	-	23,007
Unit and property trust funds	-	-	-	-	-	23,425	-	-	23,425
Investment-linked funds	-	-	-	-	-	5,736	-	-	5,736
Accrued profit	247	829	-	-	729	-	-	-	1,805
Other receivables	-	-	-	-	1,784	18,234	-	-	20,019
Cash and cash equivalents	14,442	-	-	-	3	-	-	-	14,445
	37,242	76,258	-	-	54,530	70,402	-	-	238,433

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2018									
Takaful Operator									
AFS financial assets									
Government Investment Issues	-	-	-	-	2,613	-	-	-	2,613
Islamic bonds	6,107	16,116	-	-	31,352	-	-	-	53,575
Equity securities	-	-	-	-	-	8,962	-	-	8,962
Unit and property trust funds	-	-	-	-	-	208	-	-	208
Investment-linked funds	-	-	-	-	-	5,451	-	-	5,451
Accrued profit	139	148	-	-	314	-	-	-	601
Other receivables	-	-	-	-	2,767	28,347	-	-	31,114
Cash and cash equivalents	7,426	-	-	-	3	-	-	-	7,429
	13,672	16,264	-	-	37,049	42,968	-	-	109,953

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating (continued)

Discontinued operations

	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
30 June 2018									
General Takaful Fund									
AFS financial assets									
Government Investment Issues	-	-	-	-	1,202	-	-	-	1,202
Islamic bonds	1,026	8,624	-	-	24,532	-	-	-	34,182
Equity securities	-	-	-	-	-	6,569	-	-	6,569
Unit and property trust funds	-	-	-	-	-	27,260	-	-	27,260
Accrued profit	21	56	-	-	194	-	-	-	272
Loans and receivables	-	-	-	-	-	-	-	-	-
Retakaful assets	-	-	34,327	-	25,013	-	-	-	59,340
Takaful receivables	-	-	-	-	578	-	3,667	2,489	6,734
Allowance for impairment	-	-	-	-	-	-	-	(2,489)	(2,489)
Other receivables	-	-	-	-	386	-	-	-	386
Cash and cash equivalents	25,902	30	-	-	-	-	-	-	25,932
	26,949	8,710	34,327	-	51,905	33,829	3,667	-	159,388

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

Continuing operations

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2019									
Family Takaful Fund									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	36,464	-	-	-	36,464
Islamic bonds	39,725	109,302	-	-	181,166	-	-	-	330,193
Equity securities	-	-	-	-	-	89,307	-	-	89,307
Unit and property trust funds	-	-	-	-	-	5,522	-	-	5,522
Structured investments	4,309	-	-	-	-	-	-	-	4,309
Accrued profit	573	828	-	-	2,598	-	-	-	3,999
Amortised cost	-	-	-	-	-	-	-	-	-
Fixed and call deposits	-	6,363	-	-	-	-	-	-	6,363
Accrued profit	-	148	-	-	-	-	-	-	148
Retakaful assets	-	1,256	30,762	-	4,870	-	-	-	36,888
Takaful receivables	-	-	-	-	5,880	-	-	-	5,880
Other receivables	-	-	-	-	1,998	-	-	-	1,998
Cash and cash equivalents	67,959	6,018	-	-	102	-	-	-	74,079
	112,566	123,915	30,762	-	233,078	94,829	-	-	595,150

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2018									
Family Takaful Fund									
AFS financial assets									
Government Investment Issues	-	-	-	-	33,591	-	-	-	33,591
Islamic bonds	19,402	62,899	-	-	113,924	-	-	-	196,225
Equity securities	-	-	-	-	-	39,716	-	-	39,716
Unit and property trust funds	-	-	-	-	-	862	-	-	862
Accrued profit	346	350	-	-	1,712	-	-	-	2,408
FVTPL financial assets									
Government Investment Issues	-	-	-	-	2,849	-	-	-	2,849
Islamic bonds	3,534	4,287	-	-	3,485	-	-	-	11,306
Equity securities	-	-	-	-	-	13,702	-	-	13,702
Unit and property trust funds	-	-	-	-	-	400	-	-	400
Structured investments	4,793	-	-	-	-	-	-	-	4,793
Accrued profit	68	25	-	-	68	-	-	-	161
Loans and receivables	-	-	-	-	-	-	-	-	-
Fixed and call Islamic deposits	-	6,257	-	-	-	-	-	-	6,257
Accrued profit	-	48	-	-	-	-	-	-	48
Retakaful assets	-	36	29,082	-	14,328	-	-	-	43,446
Takaful receivables	-	-	-	-	6,597	-	-	-	6,597
Other receivables	-	-	-	-	4,252	-	-	-	4,252
Cash and cash equivalents	69,475	-	-	-	69	-	-	-	69,545
	97,618	73,902	29,082	-	180,875	54,680	-	-	436,158

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

Continuing operations

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2019									
Company									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	39,204	-	-	-	39,204
Islamic bonds	62,279	184,731	-	-	230,440	-	-	-	477,450
Equity securities	-	-	-	-	-	112,314	-	-	112,314
Unit and property trust funds	-	-	-	-	-	28,947	-	-	28,947
Structured investments	4,309	-	-	-	-	-	-	-	4,309
Accrued profit	820	1,657	-	-	3,327	-	-	-	5,804
Amortised cost	-	-	-	-	-	-	-	-	-
Fixed and call deposits	-	6,363	-	-	-	-	-	-	6,363
Accrued profit	-	148	-	-	-	-	-	-	148
Retakaful assets	-	1,256	30,762	-	4,871	-	-	-	36,889
Takaful receivables	-	-	-	-	5,879	-	-	-	5,879
Other receivables	-	-	-	-	3,782	635	-	-	4,417
Cash and cash equivalents	82,400	6,018	-	-	105	-	-	-	88,523
	149,808	200,173	30,762	-	287,608	141,896	-	-	810,247

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired					Not subject	Past due but	Past due	
	AAA	AA	A	BBB	Not rated	to credit risk	not impaired	and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2018									
Company									
AFS financial assets									
Government Investment Issues	-	-	-	-	36,203	-	-	-	36,203
Islamic bonds	25,509	79,015	-	-	145,276	-	-	-	249,800
Equity securities	-	-	-	-	-	48,678	-	-	48,678
Unit and property trust funds	-	-	-	-	-	1,070	-	-	1,070
Accrued profit	485	498	-	-	2,027	-	-	-	3,010
FVTPL financial assets									
Government Investment Issues	-	-	-	-	2,849	-	-	-	2,849
Islamic bonds	3,534	4,287	-	-	3,485	-	-	-	11,306
Equity securities	-	-	-	-	-	13,702	-	-	13,702
Unit and property trust funds	-	-	-	-	-	400	-	-	400
Structured investments	4,793	-	-	-	-	-	-	-	4,793
Accrued profit	68	25	-	-	68	-	-	-	161
Loans and receivables	-	-	-	-	-	-	-	-	-
Fixed and call deposits	-	6,257	-	-	-	-	-	-	6,257
Accrued profit	-	48	-	-	-	-	-	-	48
Retakaful assets	-	36	29,082	-	14,328	-	-	-	43,446
Takaful receivables	-	-	-	-	6,597	-	-	-	6,597
Other receivables	-	-	-	-	7,019	-	-	-	7,019
Cash and cash equivalents	76,900	-	-	-	73	-	-	-	76,973
	111,289	90,166	29,082	-	217,925	63,850	-	-	512,312

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Aging analysis of financial assets past due but not impaired

	Discontinued operations General Takaful Fund	Discontinued operations General Takaful Fund
	30.6.2019	30.6.2018
	RM'000	RM'000
Takaful receivables		
61 to 180 days	-	1,627
>180 days	-	2,040
	-	3,667

Impaired Takaful receivables

At 30 June 2018, there are impaired Takaful receivables of RM 2.489 million (2017: RM 2.849 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	
	30.6.2019	30.6.2018
	RM'000	RM'000
As at 30 June 2018	2,489	2,849
- Recognition of expeced credit losses under MFRS 9	754	-
- As at 1 July 2018 - restated balance	3,243	2,849
(Write back)/charge for the financial year	(330)	(360)
Business transferred	(2,913)	-
As at 30 June	-	2,489

31 FINANCIAL RISK (CONTINUED)

Liquidity risk

Liquidity risk arises due to inability of the Company to meet its financial obligations as and when they fall due. The Company manages liquidity risk via short term cash flow projection to determine net cash flow required. In addition, the Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. Should there be any abnormal and unexpected cash outflow required, the Company is still able to meet its obligation in short period via the liquidation of bond holdings.

The Company endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

Maturity profiles

The tables below analyses the carrying amounts of the Company’s financial assets.

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 liabilities are repayable or transferable on demand and are included under the "up to 1 year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Continuing operations

	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
30 June 2019						
Takaful Operator						
FVTPL financial assets	203,969	11,835	51,270	88,696	52,168	203,969
Other receivables	20,019	20,019	-	-	-	20,019
Cash and cash equivalents	14,445	14,445	-	-	-	14,445
Total financial assets	238,433	46,299	51,270	88,696	52,168	238,433
Other payables	35,898	35,898	-	-	-	35,898
Amount due to related companies	744	744	-	-	-	744
Total financial liabilities	36,642	36,642	-	-	-	36,642

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	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
30 June 2018						
Takaful Operator						
AFS financial assets	65,959	5,036	34,523	17,230	9,170	65,959
Other receivables	31,114	31,114	-	-	-	31,114
Cash and cash equivalents	7,429	7,429	-	-	-	7,429
Total financial assets	104,502	43,579	34,523	17,230	9,170	104,502
Other payables	14,911	14,911	-	-	-	14,911
Amount due to related companies	639	639	-	-	-	639
Total financial liabilities	15,550	15,550	-	-	-	15,550

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Continuing operations

	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
30 June 2018						
General Takaful Fund						
AFS financial assets	69,484	11,134	13,385	11,135	33,830	69,484
Loans and receivables	653	653	-	-	-	653
Retakaful assets	59,340	40,889	17,372	1,079	-	59,340
Takaful receivables	4,245	4,245	-	-	-	4,245
Other receivables	386	386	-	-	-	386
Cash and cash equivalents	25,932	25,932	-	-	-	25,932
Total financial assets	160,040	83,239	30,757	12,214	33,830	160,040
Takaful contract liabilities	73,729	49,477	22,836	1,416	-	73,729
Takaful payables	28,211	28,211	-	-	-	28,211
Other payables	18,532	18,532	-	-	-	18,532
Total financial liabilities	120,472	96,220	22,836	1,416	-	120,472

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Continuing operations

	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
30 June 2019						
Family Takaful Fund						
FVTPL financial assets	469,807	3,721	75,471	295,786	94,830	469,807
Amortised cost financial assets	6,511	6,511	-	-	-	6,511
Retakaful assets	36,888	20,601	9,666	6,622	-	36,889
Takaful receivables	5,879	5,879	-	-	-	5,879
Other receivables	1,998	1,998				1,998
Cash and cash equivalents	74,079	74,079	-	-	-	74,079
Total financial assets	595,162	112,789	85,137	302,408	94,830	595,162
Takaful contract liabilities	542,641	37,945	23,668	38,007	482,130	581,750
Takaful payables	12,231	12,231	-	-	-	12,231
Other payables	37,226	37,226	-	-	-	37,226
Total financial liabilities	592,098	87,402	23,668	38,007	482,130	631,207

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	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
30 June 2018						
Family Takaful Fund						
AFS financial assets	272,802	7,553	31,863	192,809	40,577	272,802
FVTPL financial assets	33,211	1,711	11,343	6,055	14,102	33,211
Loans and receivables	6,305	6,305	-	-	-	6,305
Retakaful assets	43,446	17,402	1,693	24,351	-	43,446
Takaful receivables	6,597	6,597	-	-	-	6,597
Other receivables	4,252	4,252				4,252
Cash and cash equivalents	69,544	69,544	-	-	-	69,544
Total financial assets	436,157	113,364	44,899	223,215	54,679	436,157
Takaful contract liabilities	393,542	33,009	11,778	32,503	328,188	405,478
Takaful payables	12,098	12,098	-	-	-	12,098
Other payables	24,825	24,825	-	-	-	24,825
Total financial liabilities	430,465	69,932	11,778	32,503	328,188	442,401

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Continuing operations

	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
30 June 2019						
Company						
FVTPL financial assets	668,040	15,556	126,741	384,481	141,262	668,040
Amortised cost financial assets	6,511	6,511	-	-	-	6,511
Retakaful assets	36,888	20,601	9,666	6,622	-	36,889
Takaful receivables	5,879	5,879	-	-	-	5,879
Other receivables	4,417	4,417	-	-	-	4,417
Cash and cash equivalents	88,524	88,524	-	-	-	88,524
Total financial assets	810,259	141,487	136,407	391,103	141,262	810,260
Takaful contract liabilities	542,641	37,945	23,668	38,007	482,130	581,750
Takaful payables	12,231	12,231	-	-	-	12,231
Other payables	55,525	55,525	-	-	-	55,525
Amount due to related companies	744	744	-	-	-	744
Total financial liabilities	611,141	106,445	23,668	38,007	482,130	650,250

31 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	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
30 June 2018						
Company						
AFS financial assets	338,761	12,589	66,386	210,039	49,747	338,761
FVTPL financial assets	33,211	1,710	11,344	6,055	14,102	33,211
Loans and receivables	6,305	6,305	-	-	-	6,305
Retakaful assets	43,446	17,402	1,693	24,351	-	43,446
Takaful receivables	6,597	6,597	-	-	-	6,597
Other receivables	7,751	7,751	-	-	-	7,751
Cash and cash equivalents	76,973	76,973	-	-	-	76,973
Total financial assets	513,044	129,327	79,423	240,445	63,849	513,044
Amount due to related companies	393,542	33,009	11,778	32,503	328,188	405,478
Takaful contract liabilities	12,098	12,098	-	-	-	12,098
Takaful payables	11,389	11,389	-	-	-	11,389
Other payables	639	639	-	-	-	639
Total financial liabilities	417,668	57,135	11,778	32,503	328,188	429,604

31 FINANCIAL RISK (CONTINUED)

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 after taxation RM'000	Impact on equity* RM'000
30 June 2019		
Change in variables		
+100 basis point of profit rate	(6,102)	(6,102)
-100 basis point of profit rate	6,687	6,687
30 June 2018		
Change in variables		
+100 basis point of profit rate	-	(1,681)
-100 basis point of profit rate	-	1,811

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

31 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(i) Profit rate risk (continued)

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 after taxation RM'000	Impact on equity* RM'000
30 June 2019		
Change in variables		
+20% of equity price	7,930	7,930
-20% of equity price	(7,930)	(7,930)
30 June 2018		
Change in variables		
+20% of equity price	-	1,394
-20% of equity price	-	(1,394)

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(ii) Price risk (continued)

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 after 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.

32 COMMITMENTS AND CONTINGENCIES

	Company	
	30.06.2019	30.06.2018
	RM'000	RM'000
Approved and contracted for:		
Property and equipment	348	229
	348	229

33 OPERATING LEASE COMMITMENTS

As at the reporting date, the Company and Takaful funds lease office premises under lease agreements that are not cancellable within a year. The leases contain renewable options.

Future minimum lease payments for leases with initial or remaining terms of one year or more are as follows :

	30.06.2019	30.06.2018
	RM'000	RM'000
Within 1 year	1,011	996
After 1 year but not more than 5 years	464	1,437
	1,475	2,433

Rental expenses recognised in income statement during the financial year is disclosed in Note 22.

34 SIGNIFICANT EVENTS DURING AND AFTER THE FINANCIAL YEAR

a) On 28 May 2018, the Board of Directors approved a Letter of Undertaking to be submitted to Bank Negara Malaysia (“BNM”) to increase the paid-up capital by an additional of RM100 million by end September 2018. On 11 July 2018, the existing shareholders have injected a total of share capital amounting to RM50 million and another RM50 million on 26 September 2018 according to its proposed share capital structure after receiving the approval by the Ministry of Finance and BNM for a single Family Takaful License to the Company.

b) The Islamic Financial Services Act, 2013 ("IFSA") required all composite Takaful Operators to segregate their composite licences into separate Family Takaful and General Takaful licences by 1 July 2018. In compliance with this Act, the Company had surrendered the General Takaful license and proceeded with an application for a single licence to continue its Family Takaful business and relinquished its composite Takaful license by 1 July 2018.

   IFSA requires the Company to continue to discharge its obligations under the general Takaful business which remain undischarged as at 1 July 2018 and cease underwriting new general Takaful business, including renewals business, before transferring the general Takaful business to an existing Takaful operator. As a result, the Company has successfully transferred out the General Takaful business to another Takaful operator on 1 June 2019.

35. FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018:

Impact of adopting MFRS 9 as at 1 July 2018

Company	**30 June 2018**	**Classification**	**Measurement**	**01 July 2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Assets				
Property, plant and equipment	1,189	-	-	1,189
Intangible assets	3,781	-	-	3,781
Financial assets	441,456	-	-	441,456
- Available-for-sale financial assets (AFS)	408,245	(408,245)	-	-
- Fair value through profit or loss financial assets (FVTPL)	33,211	408,245	-	441,456
- Amortised cost	-	6,305	-	6,305
Loans and receivables	6,305	(6,305)	-	-
Deferred tax assets	1,146	-	-	1,146
Tax recoverable	2,455	-	-	2,455
Retakaful assets	107,530	-	-	107,530
Takaful receivables	10,842	-	(754)	10,088
Other receivables	8,137	-	-	8,137
Cash and cash equivalents	102,905	-	-	102,905
Total assets	**685,746**	**(6,305)**	**(754)**	**678,687**
Equity				-
Share capital	100,000	-	-	100,000
Accumulated losses	(13,335)	1,856	-	(11,479)
AFS fair value reserves	1,856	(1,856)	-	-
Total equity	**88,521**	**-**	**-**	**88,521**
Liabilities				-
Takaful contract liabilities	506,835	-	(754)	506,081
-AFS fair value adjustment	2,986	(2,986)	-	-
-Unallocated Surplus	10,248	2,986	(754)	12,480
Tax payables	4,901	-	-	4,901
Deferred tax liabilities	57	-	-	57
Takaful payables	40,309	-	-	40,309
Expense liabilities	14,563	-	-	14,563
Other payables	29,921	-	-	29,921
Due to related companies	639	-	-	639
Total liabilities	**610,459**	**-**	**(754)**	**608,951**
Total equity, policyholders' fund and liabilities	**698,980**	**-**	**(754)**	**697,472**

35. FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Impact of adopting MFRS 9 as at 1 July 2018 (continued)

	Company RM'000
Financial assets at Available-for-sale financial assets (AFS)	
Closing balance under MFRS 139 as at 30 June 2018	408,245
-redesignation to financial assets at fair value through profit or loss financial assets (FVTPL)	(408,245)
Closing balance under MFRS 9 as at 1 July 2018	-
Financial assets at Fair value through profit or loss financial assets (FVTPL)	
Closing balance under MFRS 139 as at 30 June 2018	33,211
-redesignation from financial assets at available-for-sale financial assets (AFS)	408,245
Closing balance under MFRS 9 as at 1 July 2018	441,456
Loans and receivables	
Closing balance under MFRS 139 as at 30 June 2018	6,305
-redesignation to financial assets at amortised cost	(6,305)
Closing balance under MFRS 9 as at 1 July 2018	-
Financial assets at Amortised Cost	
Closing balance under MFRS 139 as at 30 June 2018	-
-redesignation from loans and receivables	6,305
Closing balance under MFRS 9 as at 1 July 2018	6,305
AFS Fair value reserves	
Closing balance under MFRS 139 as at 30 June 2018	1,856
-transfer to accumulated losses	(1,856)
Closing balance under MFRS 9 as at 1 July 2018	-
Accumulated losses	
Closing balance under MFRS 139 as at 30 June 2018	(13,335)
-transfer from AFS fair value reserves	1,856
Closing balance under MFRS 9 as at 1 July 2018	(11,479)
Takaful Contract liabilities (AFS fair value reserves)	
Closing balance under MFRS 139 as at 30 June 2018	2,986
-transfer to unallocated surplus	(2,986)
Closing balance under MFRS 9 as at 1 July 2018	-

35. FINANCIAL EFFECTS ARISING FROM ADOPTION OF MFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)

The following table analyses the impact of transition on the Statements of Financial Position of the Company from MFRS 139 to MFRS 9 as at 1 July 2018: (continued)

Impact of adopting MFRS 9 as at 1 July 2018 (continued)

	Company RM'000
Takaful Contract liabilities (Unallocated Surplus)	
Closing balance under MFRS 139 as at 30 June 2018	10,248
-transfer from AFS fair value reserve	2,986
-recognition of expected credit losses under MFRS 9	(754)
Closing balance under MFRS 9 as at 1 July 2018	12,480
Takaful receivables	
Closing balance under MFRS 139 as at 30 June 2018	10,842
-recognition of expected credit losses under MFRS 9	(754)
Closing balance under MFRS 9 as at 1 July 2018	10,088