

REGISTRATION NO. 200601018337 (738090-M)



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

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

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## **HONG LEONG MSIG TAKAFUL BERHAD**

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

The Directors have pleasure in submitting their Report together with the audited financial statements of the Company for the financial year ended 30 June 2020.

#### **PRINCIPAL ACTIVITIES**

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

#### **FINANCIAL RESULTS**

	<b>RM'000</b>
Net profit for the financial year	<u>12,941</u>

#### **DIVIDENDS**

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

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2020.

#### **SHARE CAPITAL**

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

#### **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.

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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:

Mr Martin Giles Manen <i>(Appointed as Chairman with effect from 1 July 2020)</i>	(Chairman, Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin <i>(Ceased as Chairman and redesignated as Independent Non-Executive Director with effect from 1 July 2020)</i>	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)
Mr Masakatsu Komaita	(Non-Independent Non-Executive Director)
Encik Zulkiflee Bin Hashim	(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 issued or to be issued or acquired arising from the exercise of options*			
	<u>As at 01/07/2019</u>	<u>Acquired</u>	<u>(Sold / exercised)</u>	<u>As at 30/06/2020</u>
<b>Interest of Ms Loh Guat Lan in:</b>				
Hong Leong Financial Group Berhad	592,000	3,000	(5,000)	590,000
	5,400,000*	-	-	5,400,000*

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#### **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 24 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.

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 (2019:RM67,688) and the apportioned amount of the said premium paid by the Company was RM10 (2019:RM323).

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

There have been no significant changes in the nature of the principal activities during the financial year other than as stated in Note 31.

#### **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.

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#### **CORPORATE GOVERNANCE (CONTINUED)**

The Board of Directors ("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**

##### **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 periodically 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 and compliance 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (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](http://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.

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

##### A. Board of Directors (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 Corporate Governance 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 2020, 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 seven (7) times during the financial year ended 30 June 2020 with timely notices of issues to be discussed. Details of attendance of each Director are as follow:

<u>Directors</u>	<u>Attendance</u>
Mr Martin Giles Manen (Chairman)	7/7
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	7/7
Ms Loh Guat Lan	7/7
Mr Masakatsu Komaita	7/7
Encik Zulkiflee Bin Hashim	7/7

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Profile**

**1 MR MARTIN GILES MANEN**  
**Chairman/Non-Executive Director/Independent**  
**Age 65, 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 as well as a Director and Chairman of the Board Audit and Risk Management Committee of Hong Leong Investment Bank Berhad.

Mr Martin Manen is the Chairman of Hong Leong MSIG Takaful Berhad ("HLMT") and was appointed to the Board of HLMT on 16 April 2018. He is a member of the Remuneration Committee ("RC") of HLMT and a member of the GBAC of HLAH.

Mr Martin Manen is presently an INED and Chairman of Audit Committee of Heineken Malaysia Berhad, a company listed on the Main Market of Bursa Malaysia Securities Berhad and an INED of BOS Wealth Management Malaysia Berhad, a public company.

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#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Profile (continued)**

###### **2 YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN**

**Non-Executive Director/Independent**

**Age 62, 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 was appointed to the Board of HLMT on 3 January 2012. He is a member of the 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 is also the Chairman of Financial Services Professional Board ("FSPB"), which was established by Bank Negara Malaysia and Securities Commission Malaysia in 2014.

He was previously the Chairman of VADS Berhad, a wholly-owned subsidiary of Telekom Malaysia Berhad ("TM"), the Senior Independent Director of TM, an INED 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Profile (continued)**

###### **3 MS LOH GUAT LAN**

**Executive Director/Non-Independent**

**Age 55, 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 NC 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. She is also the President of Life Insurance Association of Malaysia (LIAM) and a Board Member of Financial Industry Collective Outreach (FINCO) and FSPB.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Profile (continued)**

###### **4 MR MASAKATSU KOMAITA Non-Executive Director/Non-Independent Age 58, Male, Japanese**

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 33 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 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.

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#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Profile (continued)**

###### **5 ENCIK ZULKIFLEE BIN HASHIM Non-Executive Director/Independent Age 61, 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' of 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) Berhad. 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 was appointed to the Board of HLMT on 28 May 2019. He is the Chairman of the NC and the RC of HLMT, and a member of the GBRMC of HLAH.

Encik Zulkiflee is presently an INED of Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank) and GuocoLand (Malaysia) Berhad.

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#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (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 2020, 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Training (continued)**

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.

During the financial year ended 30 June 2020, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Enlightenment Training of Human Rights
- Legal Compliance Training
- AMLA Training 2019
- Breakfast Talk on "MFRS 17: Understanding Its Impact and Consequences"
- Audit Committee Institute Breakfast Roundtable
- Bursa Thought Leadership - Convergence Digitalisation and Sustainability
- FIDE Forum: Leadership in a Disruptive World - The Changing Role of Board
- Securities Commission Malaysia Audit Oversight Board Conversations with Audit
- Capital Markets Director Programme Module 2B Business Challenges and Regulatory Expectations - What Directors Need To Know
- Petronas Director Development Program
- UKM - The 4th Chancellor Tuanku Muhriz Lecture: "Apakah Governans yang Baik, Bagus untuk Pembangunan?"
- Khazanah Megatrends
- International Directors Summit 2019 - The Trust Compass: Resetting the Course
- BOLD 3.0: Future Fluent Board Leadership in Asia
- Tax Forum
- Leadership in the face of Crisis: Practising Gratitude for Mental Health
- AI Led Innovation at Scale - How Digital Insurers are Leading the Way
- Preparing Insurance sector for post COVID-19
- Enterprise Resilience: Now, Next and Beyond
- How customer centricity can help you stay in business
- Riding the waves of business disruption: managing tax requirements and exploring opportunities
- FIDE Forum Exclusive Webinar Session - Outthink the Competition: Excelling in a Post Covid-19 World
- How is COVID-19 impacting customer experience?
- Putting people skills and cultural change at the heart of digital transformation of the insurance industry

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **A. Board of Directors (continued)**

###### **Directors' Training (continued)**

- Spotlight on family enterprises (2): Preservation of cash and creation of liquidity
- FIDE Core Programme (Bank): Module A
- FIDE Core Programme (Bank): Module B
- Cyber Security and Technology Development
- Shariah Governance Policy
- Overview of Basel II Requirements
- Banking Recovery Proceedings

##### **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

(Independent Non-Executive Director of HLMT and HLA)

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

Mr Martin Giles Manen

(Chairman, Independent Non-Executive Director of HLMT)

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **B. Board Committees (continued)**

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

###### **SECRETARY**

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

###### **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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **B. Board Committees (continued)**

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

###### **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.

###### **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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

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

##### **Terms of Reference (continued)**

##### **Internal Audit (continued)**

- 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.
- To note significant disagreements between the Head of Insurance Audit and the rest of the senior management team, irrespective of whether these have been resolved, in order to identify any impact, the disagreements may have on the audit process or findings.
- 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 structure 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **B. Board Committees (continued)**

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

###### **Terms of Reference (continued)**

###### **Group Governance (continued)**

- 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 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.

###### **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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **B. Board Committees (continued)**

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

###### **Terms of Reference (continued)**

###### **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 financial updates 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 entities in the HLAH Group in Malaysia, who shall be independent and non-executive,
- 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.

###### **Activities**

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

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (a) GBAC of HLAH (continued)

##### Terms of Reference (continued)

During the financial year ended 30 June 2020, eight (8) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tiau Kien	8/8
YBhg Dato Siow Kim Lun @ Siow Kim Lin	8/8
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	8/8
Ms Shalet Marian	7/8
Mr Martin Giles Manen	8/8

##### 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 2020, Internal Audit carried out its duties covering audit on risk management, retakaful, investment, agency training, information system and regulatory compliance audit. These audits are performed in line with BNM Guidelines on Internal Audit Function.

The cost incurred for the Internal Audit function in respect of the current financial year was RM430,202 (2019: RM404,576).

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

##### **(b) GBRMC of HLAH**

The GBRMC was established 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

(Independent Non-Executive Director of HLMT and HLA)

YBhg Datin Ngiam Pick Ngoh

(Independent Non-Executive Director of HLA)

Encik Zulkiflee bin Hashim

(Independent Non-Executive Director of HLMT)

#### **SECRETARY**

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

#### **Terms of reference of GBRMC**

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

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

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

###### **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"), including management's stress testing programme, 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 periodic reports on risk appetite, risk exposure, risk portfolio composition 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.
- To receive reports from pertinent management committees.
- 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

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

###### **Risk Management (continued)**

- To review and advise on the appointment, remuneration, removal and redeployment of the Chief Risk Officer ("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.
- 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 ("CCO") to ensure the compliance function and CCO are provided with appropriate standing, authority and
  - 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

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

##### **Compliance (continued)**

- 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.

##### **Group Governance**

- Noted that :
  - a) HLFPG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within HLFPG Group.
  - b) HLFPG Boards responsibility is to promote the adoption of sound corporate governance principles throughout the HLFPG Group.
  - c) HLFPG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFPG Group-wide.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

#### **B. Board Committees (continued)**

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

##### **Group Governance (continued)**

- 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 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 addressed 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.

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (b) GBRMC of HLAH (continued)

###### Meetings (continued)

- 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.
- Majority with at least one representative from each of the BNM regulated entities 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 2020, eight (8) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	8/8
YBhg Dato Siow Kim Lun @ Siow Kim Lin	8/8
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	8/8
YBhg Datin Ngiam Pick Ngoh	8/8
Encik Zulkiflee bin Hashim	8/8

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (c) Nomination Committee

The composition of the NC is as follows:

Encik Zulkiflee bin Hashim (Chairman)	(Independent Non-Executive Director)
<i>(Appointed as NC Chairman with effect from 1 July 2020)</i>	
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)
Mr Martin Giles Manen	(Independent Non-Executive Director)
<i>(Resigned as NC Chairman with effect from 1 July 2020)</i>	

#### 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:

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

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (c) Nomination Committee (continued)

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

- Review annually the overall composition of the Board and SC in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, competence, knowledge and mix of skills and other core competencies required.
- Assess annually the performance and effectiveness of the Board, Board Committees, each individual director and SC member and their contributions to the overall functions.
- 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.
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2020, four (4) NC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Zulkiflee bin Hashim (Chairman)	*
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	4/4
Ms Loh Guat Lan	4/4
Mr Martin Giles Manen	4/4

\* The NC meetings were held before Encik Zulkiflee bin Hashim's appointment.

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (d) Remuneration Committee

The composition of the RC is as follows:

Encik Zulkiflee bin Hashim (Chairman) (Independent Non-Executive Director)  
*(Appointed as RC Chairman with effect from 1 July 2020)*

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Independent Non-Executive Director)

Mr Martin Giles Manen (Independent Non-Executive Director)  
*(Ceased as RC Chairman and redesignated as RC member with effect from 1 July 2020)*

#### 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:

- Recommend to the Board the framework and policies governing the remuneration of the:
  - a) Directors;
  - b) SC;
  - c) CEO;
  - d) Senior management officers; and
  - e) Other material risk takers.
- Review and recommend to the Board for approval the specific remuneration packages of executive directors and the CEO.

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### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### B. Board Committees (continued)

##### (d) Remuneration Committee (continued)

- Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.
- Review and recommend to the Board for approval the remuneration of SC members.
- Other remuneration matters as may be agreed by the Board.

During the financial year ended 30 June 2020, two (2) RC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Zulkiflee bin Hashim (Chairman)	2/2
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	2/2
Mr Martin Giles Manen	2/2

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 30 June 2020 is set out in Note 24 to the financial statements.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **B. Board Committees (continued)**

###### **(d) Remuneration Committee (continued)**

###### **Remuneration Policy**

The Company's remuneration strategy supports and promotes a high performance culture to deliver the Company's vision to be a highly digital and innovative takaful insurer. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviours, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process which incorporates meritocracy in performance, the Company's values, key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

The remuneration framework also reinforces a strong internal governance on performance and remuneration of control functions which are measured and assessed independently from business units/functions they support to avoid any conflict of interests. The framework stipulates that for effective segregation these staff will be appraised principally based on achievement of their control objectives.

###### **Compensation for Material Risk Takers**

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

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020  
(CONTINUED)**

## CORPORATE GOVERNANCE (CONTINUED)

**B. Board Committees (continued)****(d) Remuneration Committee (continued)**

The remuneration for Senior Officers and Material Risk Takers for financial year 2019/2020 is shown in the table below:

Total value of remuneration awards for the financial year	CEO		Senior Management and other Material Risk Takers	
	Unrestricted (RM)	Deferred (RM)	Unrestricted (RM)	Deferred (RM)
<b>Fixed Remuneration</b>				
• Cash-based	636,000	-	2,957,617	-
• Shares and share-linked instruments	-	-	-	-
• Other	-	-	-	-
<b>Variable Remuneration</b>				
• Cash-based	277,734	-	508,695	-
• Shares and share-linked instruments	-	-	-	-
• Other	176,098	-	714,637	-

**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, the tenure of an Independent Director shall not exceed a cumulative term of 9 years from the date of his or her first appointment in the Company. Upon completion of the 9 years, an independent director shall retire on the expiry date of his or her term of office approved by BNM.

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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **C. Independence (continued)**

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.

All Directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016. They support 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.

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### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **CORPORATE GOVERNANCE (CONTINUED)**

##### **D. Commitment (continued)**

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. Director who has, directly or indirectly, an interest in a material transaction 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 reasonable 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 occurrence 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 regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 23 to the financial statements.

##### **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.

## HONG LEONG MSIG TAKAFUL BERHAD

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

##### H. Public Accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff of the Company are required to comply with the Code of Ethics and Conduct.

##### I. 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.

##### J. Shariah Committee ("SC")

The Board has appointed an independent Shariah Committee ("SC"), whose members are made up of qualified persons as approved by BNM, to provide advice, decision, views and opinions related to Shariah matters, as well as perform oversight role on Shariah matters related to the business operations, affairs and activities to ensure compliance with Shariah.

The members of the SC are as follows:

Assoc. Prof. Dr. Amir Shaharuddin (Appointed with effect from 1st April 2020)	(Chairman)
Puan Zarinah Mohd Yusoff (Appointed with effect from 1st April 2020)	(Member)
Assoc. Prof. Dr. Asmak Ab Rahman (Re-appointed with effect from 1st April 2020)	(Member)
Assoc. Prof. Dr. Nurul Aini Muhamed (Re-appointed with effect from 1st April 2020)	(Member)
Dr. Muhammad Aunurrochim Mas'ad Saleh (Re-appointed with effect from 1st April 2020)	(Member)
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani (Resigned with effect from 31st March 2020)	
Asst. Prof. Dr. Uzaimah Ibrahim (Resigned with effect from 31st March 2020)	

## HONG LEONG MSIG TAKAFUL BERHAD

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

### DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### CORPORATE GOVERNANCE (CONTINUED)

#### J. Shariah Committee ("SC") (continued)

During the financial year ended 30 June 2020, eleven (11) SC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Assoc. Prof. Dr. Amir Shaharuddin	5/5
Puan Zarinah Mohd Yusoff	5/5
Assoc. Prof. Dr. Asmak Ab Rahman	11/11
Assoc. Prof. Dr. Nurul Aini Muhamed	10/11
Dr. Muhammad Aunurrochim Mas'ad Saleh	10/11
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	6/6
Asst. Prof. Dr. Uzaimah Ibrahim	5/6

The SC has the responsibility to provide objective and sound advice to the Company to ensure that its aims and operations, business, affairs and activities are in compliance with Shariah. This includes:

- a) providing a decision or advice to the Company on the application of any rulings of the Shariah Advisory Council ("SAC") of Bank Negara Malaysia or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Company;
- b) providing a decision or advice on matters which require a reference to be made to the SAC;
- c) providing a decision or advice on the operations, business, affairs and activities of the Company which may trigger a Shariah non-compliance event;
- d) deliberating and affirming a Shariah non-compliance finding by any relevant functions; and
- e) endorsing a rectification measure to address a Shariah non-compliance event.

## **HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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 takaful liabilities in accordance with the valuation method specified in the Risk-Based Capital Framework for Takaful Operators ("RBCF Framework") 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.

## **HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

### **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (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 2020 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 19 to the financial statements.

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)  
(Incorporated in Malaysia)

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020  
(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 17 September 2020. Signed on behalf of the Board of Directors.



.....  
MARTIN GILES MANEN  
DIRECTOR



.....  
LOH GUAT LAN  
DIRECTOR

Petaling Jaya  
17 September 2020

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

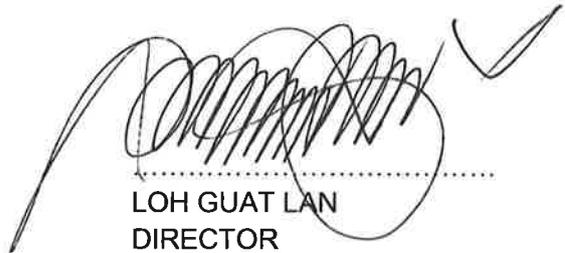
**STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016**

We, Martin Giles Manen 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 48 to 143 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 2020 and of the results and the cash flows of the Company for the financial year ended on that date.

On behalf of the Board,



.....  
MARTIN GILES MANEN  
DIRECTOR



.....  
LOH GUAT LAN  
DIRECTOR

Petaling Jaya  
17 September 2020

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

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

I, Lin Choi Foo, 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 48 to 143 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 Lin Choi Foo  
at Selangor Darul Ehsan this  
17 September 2020

)  
)  
)



Before me



COMMISSIONER FOR OATHS

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

## **HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (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 carrying out the roles and the responsibilities of the Shariah Committee as prescribed in the Shariah Governance Policy Document issued by Bank Negara Malaysia and 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 2020. 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 oversee the implementation and effectiveness of the Shariah governance and 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 had approved in our meetings, initiatives to strengthen the Shariah governance of the Company which include the review and update of Shariah Governance Policy that aim, among others, to set out the Shariah governance framework within the Company and strengthened oversight accountabilities on the key organs involved in the implementation of Shariah governance as well as to ensure the Company's business operations are in line with Shariah rules and principles.

We have assessed the work carried out by Shariah review and Shariah audit conducted on a scheduled and periodic basis which included examining, on a test basis, type of transaction, the relevant documentation and procedures adopted by the Company. As for the Shariah risk management, the Company has put an effective control in governing and managing Shariah non-compliant risk.

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.

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)  
(Incorporated in Malaysia)

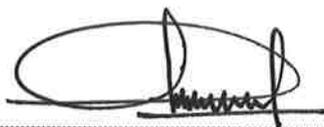
**REPORT OF THE SHARIAH COMMITTEE (CONTINUED)**

In our opinion and to the best of our knowledge:

- the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2020 as presented and deliberated to us are in compliance with the Shariah rules and principles. There was no incident involving Shariah Non-Compliance event on the business conducted by the Company;
- the allocation of profit and charging of losses relating to investment of participants and shareholders funds disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- no earnings have been realised from sources or by means prohibited by the Shariah principles;
- the calculation and distribution of business Zakat and distribution of charitable fund has been approved by us and in compliance with Shariah principles.

We, Assoc. Prof. Dr. Amir Shaharuddin and Assoc. Prof. Dr. Nurul Aini Muhamed, being two of the members of Shariah Committee of Hong Leong MSIG Takaful Berhad, do hereby confirm that the operations of Hong Leong MSIG Takaful Berhad for the year ended 30 June 2020 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. AMIR SHAHARUDDIN

Chairman  
Shariah Committee



ASSOC. PROF. DR. NURUL AINI  
BINTI MUHAMED

Member  
Shariah Committee

Petaling Jaya  
17 September 2020



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD  
(Incorporated in Malaysia)  
Registration No. 200601018337 (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 2020, 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 2020, 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 48 to 143.

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’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
Registration No. 200601018337 (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 and Report of the Shariah Committee, 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.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
Registration No. 200601018337 (738090-M)

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.



INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
Registration No. 200601018337 (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.

A handwritten signature in black ink, appearing to be 'D. F.', written over the printed name of the firm.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Wong Hui Chern', written over the printed name of the individual.

WONG HUI CHERN  
03252/05/2022 J  
Chartered Accountant

Kuala Lumpur  
17 September 2020

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020**

	Note	2020			2019		
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Assets</b>							
Property and equipments	3	7,072	-	7,072	3,335	-	3,335
Right-of-use assets	4 (a)	725	-	725	-	-	-
Intangible assets	5	3,806	-	3,806	2,821	-	2,821
Financial assets							
- fair value through profit or loss	6 (a)	207,295	562,894	764,257	203,969	469,807	668,040
- amortised cost	6 (b)	-	19,147	19,147	-	6,511	6,511
Tax recoverable		2,269	-	2,269	-	-	-
Retakaful assets	7	-	52,125	52,125	-	36,888	36,888
Takaful receivables	8	-	6,511	6,511	-	5,880	5,880
Qard receivables		329	-	-	19	-	-
Other receivables	9	23,101	5,101	7,573	20,019	1,998	4,417
Due from related companies		350	-	350	-	-	-
Cash and cash equivalents	10	5,067	124,195	129,262	14,445	74,079	88,524
		<u>250,014</u>	<u>769,973</u>	<u>993,097</u>	<u>244,608</u>	<u>595,163</u>	<u>816,416</u>

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020 (CONTINUED)**

	Note	2020			2019		
		Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Shareholders' equity</b>							
Share capital	16	200,000	-	200,000	200,000	-	200,000
Retained profit/(accumulated losses)		5,480	-	5,480	(7,461)	-	(7,461)
<b>Total equity</b>		<b>205,480</b>	<b>-</b>	<b>205,480</b>	<b>192,539</b>	<b>-</b>	<b>192,539</b>
<b>Liabilities</b>							
Takaful contract liabilities	11	-	690,504	684,572	-	542,641	536,905
Lease liabilities	4 (b)	749	-	749	-	-	-
Tax payables		-	2,550	2,550	282	979	1,262
Takaful payables	12	1,621	24,871	26,492	-	12,231	12,231
Expense liabilities	13	12,341	-	12,341	13,098	-	13,098
Qard payables		-	329	-	-	19	-
Other payables	14	26,059	48,804	54,234	35,898	37,226	55,524
Deferred tax liabilities	15	2,983	2,915	5,898	2,047	2,067	4,114
Due to related companies		781	-	781	744	-	744
<b>Total liabilities</b>		<b>44,534</b>	<b>769,973</b>	<b>787,617</b>	<b>52,069</b>	<b>595,163</b>	<b>623,877</b>
<b>Total equity and liabilities</b>		<b>250,014</b>	<b>769,973</b>	<b>993,097</b>	<b>244,608</b>	<b>595,163</b>	<b>816,416</b>

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

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

**STATEMENT OF INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	2020			2019		
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Gross contributions	-	290,423	290,423	-	257,533	257,533
Contributions ceded to retakaful	-	(60,212)	(60,212)	-	(44,002)	(44,002)
Net contributions	-	230,211	230,211	-	213,531	213,531
Wakalah income	77,960	-	-	65,699	-	-
Surplus sharing from Family Takaful Funds	3,134	-	-	8,472	-	-
Share of investment profit from Family Takaful	2,457	-	-	1,624	-	-
Investment Income	8,669	21,312	32,438	7,239	16,941	25,803
Fair value gains	4,932	15,926	20,662	7,032	25,275	32,022
Other operating income	1,081	-	351	950	579	1,032
Other income	98,233	37,238	53,451	91,016	42,795	58,857
Gross benefits and claim paid	-	(81,105)	(81,105)	-	(58,247)	(58,247)
Claims ceded to retakaful	-	33,907	33,907	-	34,377	34,377
Gross change to Takaful contract liabilities	-	(144,353)	(144,157)	-	(149,929)	(149,929)
Change in Takaful contract liabilities ceded to retakaful	-	8,500	8,500	-	(2,447)	(2,447)
Net benefits and claims	-	(183,051)	(182,855)	-	(176,246)	(176,246)

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

**STATEMENT OF INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

	2020			2019		
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Wakalah expenses	-	(77,960)	-	-	(65,699)	-
Surplus sharing with Takaful Operator	-	(3,134)	-	-	(8,472)	-
Fees and commission expense	(31,113)	-	(31,113)	(28,566)	-	(28,566)
Management expenses	(52,780)	-	(52,780)	(45,725)	-	(45,725)
Change to expense liability	757	-	757	(4,142)	-	(4,142)
Other operating expenses	-	(846)	(116)	(20)	(2,809)	(2,333)
Other expenses	(83,136)	(81,940)	(83,252)	(78,453)	(76,980)	(80,766)
Profit before zakat and taxation	15,097	2,458	17,555	12,563	3,100	15,663
Tax expense attributable to participants	-	(2,458)	(2,458)	-	(3,100)	(3,100)
Profit before taxation attributable to Takaful Operator	15,097	-	15,097	12,563	-	12,563
Taxation	(2,056)	-	(2,056)	(6,276)	-	(6,276)
Zakat	(100)	-	(100)	(130)	-	(130)
Profit after zakat and taxation	12,941	-	12,941	6,157	-	6,157
Profit/(Loss) after zakat and taxation from discontinued operations	-	-	-	(2,139)	-	(2,139)
Net profit for the financial year	12,941	-	12,941	4,018	-	4,018
Earning per share (sen)	6.47	-	6.47	2.15	-	2.15

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

**HONG LEONG MSIG TAKAFUL BERHAD**

Registration No. 200601018337 (738090-M)

(Incorporated in Malaysia)

**STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	2020			2019		
	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
Net profit for the financial year	12,941	-	12,941	4,018	-	4,018
Total comprehensive income for the financial year	12,941	-	12,941	4,018	-	4,018
Comprising:						
- Continuing operations	12,941	-	12,941	6,157	-	6,157
- Discontinued operations	-	-	-	(2,139)	-	(2,139)
	12,941	-	12,941	4,018	-	4,018

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

**HONG LEONG MSIG TAKAFUL BERHAD**

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**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Issued and fully paid ordinary shares		Non-distributable	Distributable	Total
	Number of shares	Share Capital	Fair value reserve	(Accumulated losses)/Retained profit	
	'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2018	100,000	100,000	1,857	(13,336)	88,521
- Effect on adoption of MFRS 9	-	-	(1,857)	1,857	-
- as restated 1 July 2018	100,000	100,000	-	(11,479)	88,521
Total comprehensive income for the financial year	-	-	-	4,018	4,018
Issuance of shares during the financial year (Note 16)	100,000	100,000	-	-	100,000
At 1 July 2019	200,000	200,000	-	(7,461)	192,539
Total comprehensive income for the financial year	-	-	-	12,941	12,941
At 30 June 2020	200,000	200,000	-	5,480	205,480

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

**HONG LEONG MSIG TAKAFUL BERHAD**

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**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

	Note	2020 RM'000	2019 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net profit for the financial year		12,941	4,018
Adjustments for:			
Write back of impairment of takaful receivables		-	(330)
Depreciation of property and equipments	3	410	295
Gain on disposal of assets		(114)	-
Depreciation of right-of-use assets	4 (a)	973	-
Finance cost on lease liabilities	19	80	-
Amortisation of intangible assets	5	1,581	1,823
Fair value gain on financial assets	6 (a)	(20,662)	(31,931)
Amortisation of premiums/(accretion of discounts)-net	17	53	(46)
Profits and dividend income	17	(32,496)	(27,738)
Zakat		100	-
Taxation	20	4,514	10,521
Operating loss before changes in working capital		(32,620)	(43,388)
Proceeds from disposal of investments	6 (a)	126,438	299,663
Maturity of investments	6 (a)	15,250	26,700
Purchase of investments	6 (a)	(216,786)	(543,403)
Increase in amortised cost financial assets		(12,625)	(106)
(Increase)/decrease in retakaful assets		(15,237)	8,531
(Increase)/decrease in takaful receivables		(631)	1,858
(Increase)/decrease in other receivables		(3,164)	3,720
Decrease in amount due from related companies		(350)	-
Decrease in expenses liabilities		(757)	(1,465)
Increase in family takaful contract liabilities		147,667	146,228
Decrease in general takaful contract liabilities		-	(51,528)
Increase in takaful payables		14,261	2,992
(Decrease)/increase in other payables		(1,267)	28,075
Increase in amount due to related companies		37	105
		20,216	(122,018)
Tax paid		(3,711)	(8,957)
Zakat paid		(123)	-
Profit received		26,710	21,350
Dividend received		5,274	3,913
Net cash generated from/(used in) operating activities		48,366	(105,712)

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**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

	Note	2020 RM'000	2019 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property and equipments		114	-
Purchase of property and equipments	3	(5,656)	(2,491)
Purchase of intangible assets	5	(1,057)	(813)
Transfer of General Takaful business, net of cash transferred		-	(5,365)
Net cash used in investing activities		<u>(6,599)</u>	<u>(8,669)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of lease liabilities		(949)	-
Payment of finance cost on lease liabilities	19	(80)	-
Increase in share capital	16	-	100,000
Net cash (used in)/generated from financing activities		<u>(1,029)</u>	<u>100,000</u>
Net increase/(decrease) in cash and cash equivalents		40,738	(14,381)
Cash and cash equivalents at beginning of the financial year		88,524	76,973
Transfer to assets of disposal group classified as Held-For-Sale		-	25,932
<b>Cash and cash equivalents at the end of the financial year</b>	10	<u>129,262</u>	<u>88,524</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are mainly funded from the cash flows associated with the origination of takaful contracts, net the cash flows for payments of benefits and claims incurred for takaful contract, which are treated under operating activities.

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**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

Analysis of changes in liabilities arising from financing activities is as follows:

	Note	2020 RM'000	2019 RM'000
<b>LEASES</b>			
Balance at the beginning of the financial year		-	-
Effect on adoption of MFRS 16	4 (a)	(1,620)	-
As restated at 1 July 2019		(1,620)	-
<b>CASH CHANGES:</b>			
Repayments		949	-
Finance cost paid		80	-
<b>NON-CASH CHANGES:</b>			
Additions	4 (a)	(78)	-
Finance cost		(80)	-
Balance at the end of the financial year	4 (b)	(749)	-

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

## **HONG LEONG MSIG TAKAFUL BERHAD**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

#### **1 CORPORATE INFORMATION**

Hong Leong MSIG Takaful Berhad has been principally engaged in the management of family takaful and takaful investment-linked business. Within the financial year, there were no significant changes in the nature of the principal activities.

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 Damanela, 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 17 September 2020.

#### **2 SIGNIFICANT ACCOUNTING POLICIES**

##### **2.1 Basis of preparation**

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 amalgamated of financial information and results between Takaful Operator and Takaful funds. These two funds have been presented as a single economic entity for the respective financial years disclosed. Interfund balances and transactions are eliminated at the Company's financial statements.

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.

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **2.1 Basis of preparation (continued)**

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 2019 are as follows:

- MFRS 16 "Lease"
- Amendments to MFRS 9 "Prepayment Features with Negative Compensation"
- Amendments to MFRS 119 "Plan Amendment, Curtailment or Settlement"
- IC Interpretation 23 "Uncertainty over Income Tax Treatments"
- Annual Improvements to MFRSs 2015 – 2017 Cycle: MFRS 112 "Income Taxes"

The Company has adopted MFRS 16 for the first time in the 2020 financial statements, which resulted in changes in accounting policies. The Company has elected to use the simplified retrospective transition method and to apply a number of practical expedients as provided in MFRS 16 as summarised in Note 2.2(c).

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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)

Under the simplified retrospective transition method, the 2019 comparative information was not restated and the cumulative effects of initial application of MFRS 16 where the Company is a lessee were recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019. The comparative information continued to be reported under the previous accounting policies governed under MFRS 117 'Leases' and IC Interpretation 4 'Determining whether an Arrangement Contains a Lease'.

The impact of adoption of MFRS 16 of the Company is summarised in Note 30.

Other than that, the adoption of other amendments to published standards above did not have any impact on the current period or any prior period and is not likely to affect future periods.

- (b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective.
- i) Amendments to MFRS 101 and MFRS 108 clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting - effective 1 January 2020

The definition of 'material' has been revised as;

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments also:

- clarify that an entity assesses materiality in the context of the financial statements as a whole.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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) Amendments to MFRS 101 and MFRS 108 clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting - effective 1 January 2020 (continued)

- explain the concept of obscuring information in the new definition. Information is obscured if it has the effect similar as omitting or misstating of that information. For example, material transaction is scattered throughout the financial statements, dissimilar items are inappropriately aggregated, or material information is hidden by immaterial information.
- clarify the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendments shall be applied prospectively.

ii) The Conceptual Framework for Financial Reporting (Revised 2018) - effective 1 January 2020

The Framework was revised with the primary purpose to assist the International Accounting Standards Board ("IASB") to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS. The Framework is not an IFRS, and does not override any IFRSs.

Key changes to the Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's stewardship.
- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and 'substance over form' concept to ensure faithful representation of economic phenomenon.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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)

ii) The Conceptual Framework for Financial Reporting (Revised 2018) - effective 1 January 2020 (continued)

- Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.
- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.
- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on de-recognition of asset and liability have been added.
- Measurement - explanation of factors to consider when selecting a measurement basis have been provided.
- Presentation and disclosure - clarification that statement of income is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income/expense included in other comprehensive income to income statements is required if this results in more relevant information or a more faithful representation of statement of income.

iii) Amendments to References to the Conceptual Framework in MFRS Standards - effective 1 January 2020

The Malaysian Accounting Standards Board ("MASB") also issued Amendments to References to the Conceptual Framework in MFRS Standards ("Amendments"), to update references and quotations to fourteen (14) Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies.

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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)

iv) MFRS 17 'Insurance Contracts' - effective 1 January 2023

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 coverages:

- 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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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)

iv) MFRS 17 'Insurance Contracts' - effective 1 January 2023 (continued)

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.

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

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'.

The Company has formed a Project Steering Committee to oversee the implementation of MFRS 17. The Project Working Committee is currently working closely with the external consultant in assessing the financial and other implications that may arise during the implementation of MFRS 17.

Except as mentioned above, the initial application of the other new standards, amendments to standards or interpretations issued by MASB effective for periods subsequent to 1 July 2020 are not expected to have any material financial impact to the current period and prior period financial statements of the Company.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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. 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 statement of income during the financial year in which they are incurred.

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

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

Work-in-progress is carried at cost and is depreciated when the asset is available for use. The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each date of statement of financial position.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in statement of income.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

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

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

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

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

###### (c) Leases

###### Accounting policies applied until 30 June 2019

###### (i) Finance lease

Assets purchased under lease which in substance transfers the risks and benefits of ownership of the assets to the Company are capitalised under property and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. Such leased assets are subject to depreciation on the same basis as other property and equipment.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to statement of income.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (c) Leases (continued)

###### (ii) Operating lease

Leases of assets under which all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

###### Accounting policies applied from 1 July 2019

From 1 July 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

###### **Lease term**

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company, and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (c) Leases (continued)

###### Accounting policies applied from 1 July 2019 (continued)

###### **ROU assets**

ROU assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received; and
- any initial direct costs

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

###### **Lease liabilities**

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (c) Leases (continued)

###### Accounting policies applied from 1 July 2019 (continued)

Lease payments are discounted using profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, an incremental borrowing rate is used in determining the discount rate which assumes the interest/profit rate that the Company would have to pay to borrow over a similar term, the funds necessary to obtain the asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statements of financial position. Interest expense on the lease liability is presented under management expense in the statement of income.

###### **Short term leases and leases of low value assets**

The Company elect to apply MFRS 16 recognition exemption such as short-term leases and leases for which the underlying asset is of low value. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of income.

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **2.2 Summary of significant accounting policies (continued)**

###### **(d) Financial instruments**

###### **i) Classification and measurement of financial instruments**

The Company classifies its financial assets in the following measurement categories:

- Amortised cost
- Fair value through statement of income ("FVTPL")

At initial recognition, the Company measure a financial asset at fair value plus transaction 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").

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (d) Financial instruments (continued)

###### (i) Classification and measurement of financial instruments (continued)

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.

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

- The Company's business model for managing the financial assets; and
- 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).

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (d) Financial instruments (continued)

###### (i) Classification and measurement of financial instruments (continued)

###### 1) Debt instruments (continued)

###### 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 statement of income 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) 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.

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (d) Financial instruments (continued)

###### (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 statement of income, 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.

###### (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

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (d) Financial instruments (continued)

###### (iv) Impairment for debt instruments (continued)

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.

###### 1) 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) Simplified approach for Takaful receivables

The Company applies 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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (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.

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.

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (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 statement of income 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 statement of income of respective funds immediately.

###### (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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (i) Taxation (continued)

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 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 statement of income.

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

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

###### (j) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Advisory Committee. Zakat provision is calculated based on 2.5% of net asset method. 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 statement of income 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

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

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (k) Management expenses, commission expenses and wakalah fee (continued)

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.

###### (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 issued by BNM. If the estimate shows that there is a deficiency in the net future expense cashflow, the deficiency is recognised as expense liabilities.

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.2 Summary of significant accounting policies (continued)

###### (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 statement of income of the respective funds in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

###### (n) Product classification

The Company, on behalf of Takaful funds, issues contracts that transfer Takaful risk and financial risk.

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

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

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#### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **2.2 Summary of significant accounting policies (continued)**

###### **(n) Product classification (continued)**

Investment contracts are those contracts that transfer financial risk with no significant takaful underwriting 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 statement of income of the Company, fund or other entity that issues the contract.

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#### **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 statement of income. 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 statement of income.

###### **(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.

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **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 statement of income.

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.

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#### 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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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 methods 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.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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 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.

###### (q) 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 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.

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **2.2 Summary of significant accounting policies (continued)**

###### **(r) 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 statement of income of respective funds.

###### **(s) 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.

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **2.2 Summary of significant accounting policies (continued)**

###### **(t) 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.

##### **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 at causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

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#### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 2.3 Significant accounting judgements, estimates and assumptions (continued)

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

###### (i) 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).

Actuarial liabilities are computed by the Company's Appointed Actuary and are set up, where appropriate, based on the present value of future benefit, less the present value of future Tabarru' discounted at an appropriate discounting yield curve and based on best estimate assumptions, applied with an appropriate allowance for Provision of Risk Margin for Adverse Deviation ("PRAD").

For single contribution credit-related plans, the higher of the present value of future cash flows and the Unearned Tabarru' Reserve ("UTR") is taken as the actuarial liabilities. For regular contribution individual products without participant accounts, the liabilities are computed as the present value of future cash flows and floored at zero.

Whereas for regular contribution products with participant accounts, the liabilities are valued by using Sterling Discounted Cash Flow ("SDCF") method. Sterling reserve is valued by projecting 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 group term/medical products without participant accounts, the liabilities for such Family Takaful certificate comprises the provision for Unearned Tabarru' and Unexpired Risk, whichever is higher, as well as an estimate of Incurred But Not Reported ("IBNR") claims.

Details of key assumptions used and the sensitivity analysis are shown in Note 26.

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	Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
<u>Cost</u>					
At 1 July 2018	370	3,164	509	612	4,655
Additions	4	171	-	2,316	2,491
Reclassification (Note 5)	-	-	-	(50)	(50)
At 30 June 2019	374	3,335	509	2,878	7,096
Additions	-	776	485	4,395	5,656
Disposal	-	-	(509)	-	(509)
Reclassification (Note 5)	-	-	-	(1,509)	(1,509)
At 30 June 2020	374	4,111	485	5,764	10,734
<u>Accumulated depreciation</u>					
At 1 July 2018	366	2,593	507	-	3,466
Charge for the financial year (Note 19)	6	289	-	-	295
At 30 June 2019	372	2,882	507	-	3,761
Charge for the financial year (Note 19)	2	281	127	-	410
Disposal	-	-	(509)	-	(509)
At 30 June 2020	374	3,163	125	-	3,662
<u>Net carrying amount</u>					
At 30 June 2019	2	453	2	2,878	3,335
At 30 June 2020	-	948	360	5,764	7,072

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## 4 RIGHT-OF-USE ASSETS/LEASE LIABILITIES

Takaful Operator/Company

	2020 RM'000	2019 RM'000
(a) Right-of-use assets		
At 1 July	-	-
- Effect on adoption of MFRS 16 (Note 30)	1,620	-
- As restated at 1 July 2019	1,620	-
Additions	78	-
Charge for the financial year (Note 19)	(973)	-
At 30 June 2020	<u>725</u>	<u>-</u>
 (b) Lease liabilities	 <u>749</u>	 <u>-</u>

Scheduled repayment of lease liabilities, showing contractual discounted cash flows:

	2020 RM'000	2019 RM'000
Scheduled repayment of lease liabilities		
- Up to 1 year	485	-
- 1 to 5 years	261	-
- Over 5 years	3	-
Total	<u>749</u>	<u>-</u>

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## 5 INTANGIBLE ASSETS

Takaful Operator/Company

	2020	2019
	RM'000	RM'000
<u>Cost</u>		
At 1 July	15,243	14,380
Additions	1,057	813
Reclassification (Note 3)	1,509	50
At 30 June	<u>17,809</u>	<u>15,243</u>
 <u>Accumulated amortisation</u>		
At 1 July	12,422	10,599
Amortisation (Note 19)	1,581	1,823
At 30 June	<u>14,003</u>	<u>12,422</u>
 Net carrying amount	<u>3,806</u>	<u>2,821</u>

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## (a) Fair value through profit or loss

- i) The Company's financial assets are summarised by categories as follows:

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Government Investment Issues	2,866	49,290	52,156
Islamic bonds	147,180	371,748	518,928
Equity securities quoted in Malaysia	24,577	124,906	149,483
Unit and property trust funds	24,966	8,096	33,062
Investments in investment-linked funds	5,932	-	-
Structured investments	-	4,466	4,466
Accrued profit	1,774	4,388	6,162
<b>Total</b>	<b>207,295</b>	<b>562,894</b>	<b>764,257</b>
Current	2,786	17,929	20,715
Non-current	204,509	544,965	743,542
	<b>207,295</b>	<b>562,894</b>	<b>764,257</b>
<u>30 June 2019</u>			
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
<b>Total</b>	<b>203,969</b>	<b>469,807</b>	<b>668,040</b>
Current	1,805	4,011	5,816
Non-current	202,164	465,796	662,224
	<b>203,969</b>	<b>469,807</b>	<b>668,040</b>

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## 6 FINANCIAL ASSETS (CONTINUED)

## (a) Fair value through profit or loss (continued)

## ii) Carrying value of financial instruments

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 July 2019	203,969	469,807	668,040
Purchases	25,048	191,902	216,950
Maturities	(11,600)	(3,650)	(15,250)
Disposals	(14,981)	(111,457)	(126,438)
Fair value gains (Note 18)	4,932	15,926	20,662
Accretion of discount, net of amortisation of premium (Note 17)	(42)	(11)	(53)
Movement in accrued profit	(31)	377	346
At 30 June 2020	<u>207,295</u>	<u>562,894</u>	<u>764,257</u>
At 30 June 2018	-	33,211	33,211
- Effect on adoption of MFRS 9	71,410	272,802	338,761
- as restated 1 July 2018	71,410	306,013	371,972
Purchases	258,210	243,546	501,756
Maturities	(15,000)	(7,700)	(22,700)
Disposals	(118,854)	(98,846)	(217,700)
Fair value gains (Note 18)	7,032	25,275	32,022
Accretion of discount, net of amortisation of premium (Note 17)	(32)	78	46
Movement in accrued profit	1,203	1,441	2,644
At 30 June 2019	<u>203,969</u>	<u>469,807</u>	<u>668,040</u>

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Level 1	49,543	133,002	182,545
Level 2	157,752	429,892	581,712
	<u>207,295</u>	<u>562,894</u>	<u>764,257</u>
<u>30 June 2019</u>			
Level 1	46,432	94,829	141,261
Level 2	157,537	374,978	526,779
	<u>203,969</u>	<u>469,807</u>	<u>668,040</u>

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## 6 FINANCIAL ASSETS (CONTINUED)

## (b) Amortised cost

	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>		
Fixed and cash deposits with licensed financial institutions	18,988	18,988
Accrued profit	159	159
	<u>19,147</u>	<u>19,147</u>
<u>30 June 2019</u>		
Fixed and cash deposits with licensed financial institutions	6,363	6,363
Accrued profit	148	148
	<u>6,511</u>	<u>6,511</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

## 7 RETAKAFUL ASSETS

	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>		
Retakaful of Takaful contracts	<u>52,125</u>	<u>52,125</u>
<u>30 June 2019</u>		
Retakaful of Takaful contracts	<u>36,888</u>	<u>36,888</u>

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## 8 TAKAFUL RECEIVABLES

	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>		
Outstanding contributions including agents, brokers and co-takaful balances	6,439	6,439
Amount due from retakaful operators	72	72
	<u>6,511</u>	<u>6,511</u>
<u>30 June 2019</u>		
Outstanding contributions including agents, brokers and co-takaful balances	5,777	5,777
Amount due from retakaful operators	103	103
	<u>5,880</u>	<u>5,880</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

**Offsetting of financial assets and financial liabilities**

No financial assets and liabilities have been set off for presentation purposes.

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## 9 OTHER RECEIVABLES

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Dividend receivables	48	153	201
Amount due from Family Takaful Fund (Note 14)	20,629	-	-
Other receivables	2,424	4,948	7,372
	<u>23,101</u>	<u>5,101</u>	<u>7,573</u>
<u>30 June 2019</u>			
Dividend receivables	50	154	204
Amount due from Family Takaful Fund (Note 14)	17,600	-	-
Other receivables	2,369	1,844	4,213
	<u>20,019</u>	<u>1,998</u>	<u>4,417</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

**Offsetting of financial assets and financial liabilities**

No financial assets and liabilities have been set off for presentation purposes.

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## 10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Cash and bank balances	881	4,538	5,419
Short term deposits	4,186	119,633	123,819
Accrued profit	-	24	24
	<u>5,067</u>	<u>124,195</u>	<u>129,262</u>
<u>30 June 2019</u>			
Cash and bank balances	303	8,167	8,470
Short term deposits	14,138	65,886	80,024
Accrued profit	4	26	30
	<u>14,445</u>	<u>74,079</u>	<u>88,524</u>

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## 11 TAKAFUL CONTRACT LIABILITIES

	2020			2019		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Total Family Takaful Fund	690,504	(52,125)	638,379	542,641	(36,889)	505,752
Elimination of investment in investment-linked funds	(5,932)	-	(5,932)	(5,736)	-	(5,736)
Total Company	684,572	(52,125)	632,447	536,905	(36,889)	500,016

Family Takaful contract liabilities

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

	2020			2019		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Certificateholders' liabilities	595,958	(33,494)	562,464	456,735	(24,994)	431,741
Net asset value attributable to certificateholders	54,753	-	54,753	51,873	-	51,873
Actuarial liabilities	650,711	(33,494)	617,217	508,608	(24,994)	483,614
Claims liabilities	25,974	(18,631)	7,343	17,499	(11,895)	5,604
Unallocated surplus	13,819	-	13,819	16,534	-	16,534
	690,504	(52,125)	638,379	542,641	(36,889)	505,752

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## 11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

Family Takaful contract liabilities (continued)

	2020			2019		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
At 30 June 2019/30 June 2018	542,641	(36,889)	505,752	396,128	(43,446)	352,682
- Effect of adoption of MFRS 9	-	-	-	(2,586)	-	(2,586)
- as restated 1 July 2019/1 July 2018	542,641	(36,889)	505,752	393,542	(43,446)	350,096
Contribution received	290,423	(60,212)	230,211	257,533	(44,002)	213,531
Liabilities paid for death, maturities, surrenders, benefits and claims	(81,105)	33,907	(47,198)	(58,247)	34,377	(23,870)
Movement in claims liabilities	(8,475)	6,736	(1,739)	(572)	1,304	732
Reserve on new policies	4,028	(43)	3,985	10,305	(4,915)	5,390
Change in assumptions	2,138	244	2,382	(14,553)	12,948	(1,605)
Miscellaneous	(15,035)	4,132	(10,903)	(27,630)	6,845	(20,785)
Net asset value attributable to unit holders	2,880	-	2,880	22,652	-	22,652
Fees deducted	(77,960)	-	(77,960)	(65,699)	-	(65,699)
Investment income	37,238	-	37,238	42,217	-	42,217
Surplus distributed to Takaful Operator	(3,134)	-	(3,134)	(8,472)	-	(8,472)
Transfer surplus distribution to other liabilities	(3,135)	-	(3,135)	(8,435)	-	(8,435)
At 30 June	690,504	(52,125)	638,379	542,641	(36,889)	505,752

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## 12 TAKAFUL PAYABLES

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Due to agents and intermediaries	1,621	-	1,621
Due to retakaful operators and cedants	-	24,871	24,871
	<u>1,621</u>	<u>24,871</u>	<u>26,492</u>
<u>30 June 2019</u>			
Due to retakaful operators and cedants	-	12,231	12,231
	<u>-</u>	<u>12,231</u>	<u>12,231</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

**Offsetting of financial assets and financial liabilities**

No financial assets and liabilities have been set off for presentation purposes.

## 13 EXPENSE LIABILITIES

Takaful Operator/Company

	2020 RM'000	2019 RM'000
At the beginning of the financial year	13,098	14,563
Decrease during the financial year	(757)	(1,366)
Transfer of General Takaful business	-	(99)
At the end of the financial year	<u>12,341</u>	<u>13,098</u>

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## 14 OTHER PAYABLES

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Contribution deposits	-	13,601	13,601
Amount due to Takaful Operator Fund (Note 9)	-	20,629	-
Sundry payables and accruals	26,059	14,574	40,633
	<u>26,059</u>	<u>48,804</u>	<u>54,234</u>
<u>30 June 2019</u>			
Contribution deposits	-	11,421	11,421
Amount due to Takaful Operator Fund (Note 9)	-	17,600	-
Sundry payables and accruals	35,898	8,205	44,103
	<u>35,898</u>	<u>37,226</u>	<u>55,524</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position.

**Offsetting of financial assets and financial liabilities**

No financial assets and liabilities have been set off for presentation purposes.

## 15 DEFERRED TAX ASSETS/(LIABILITIES)

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

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

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## 15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax balances are as follows:

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 July 2018	493	(57)	436
Profit or loss (Note 20)	(3,239)	(2,010)	(5,249)
Transferred from General Takaful Fund	699	-	699
At 30 June 2019/1 July 2019	<u>(2,047)</u>	<u>(2,067)</u>	<u>(4,114)</u>
Profit or loss (Note 20)	(936)	(848)	(1,784)
At 30 June 2020	<u>(2,983)</u>	<u>(2,915)</u>	<u>(5,898)</u>

Presented after appropriate offsetting as follows:

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2020</u>			
Deferred tax liabilities	(3,030)	(3,115)	(6,145)
Deferred tax assets	47	200	247
	<u>(2,983)</u>	<u>(2,915)</u>	<u>(5,898)</u>
Non-current	<u>(2,983)</u>	<u>(2,915)</u>	<u>(5,898)</u>
<u>30 June 2019</u>			
Deferred tax liabilities	(2,134)	(2,266)	(4,400)
Deferred tax assets	87	199	286
	<u>(2,047)</u>	<u>(2,067)</u>	<u>(4,114)</u>
Non-current	<u>(2,047)</u>	<u>(2,067)</u>	<u>(4,114)</u>

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

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## 15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property and equipment RM'000	Financial assets RM'000	Takaful receiv- ables RM'000	Payables RM'000	Total RM'000
<u>Takaful Operator</u>					
At 1 July 2018	(422)	(586)	-	1,501	493
Profit or loss	422	(1,461)	(699)	(1,501)	(3,239)
Transferred from					
General Takaful Fund	-	-	699	-	699
At 30 June 2019/1 July 2019	-	(2,047)	-	-	(2,047)
Profit or loss	-	(936)	-	-	(936)
At 30 June 2020	-	(2,983)	-	-	(2,983)
<u>Family Takaful Fund</u>					
At 1 July 2018	-	(57)	-	-	(57)
Profit or loss	-	(2,010)	-	-	(2,010)
At 30 June 2019/1 July 2019	-	(2,067)	-	-	(2,067)
Profit or loss	-	(848)	-	-	(848)
At 30 June 2020	-	(2,915)	-	-	(2,915)
<u>Company</u>					
At 1 July 2018	(422)	(643)	-	1,501	436
Profit or loss	422	(3,471)	-	(1,501)	(4,550)
At 30 June 2019/1 July 2019	-	(4,114)	-	-	(4,114)
Profit or loss	-	(1,784)	-	-	(1,784)
At 30 June 2020	-	(5,898)	-	-	(5,898)

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## 16 SHARE CAPITAL

Takaful Operator/Company

	2020		2019	
	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	200,000	200,000	100,000	100,000
Issued during the financial year	-	-	100,000	100,000
At the end of the financial year	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

During the financial year 2019, 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 aspects with existing ordinary shares of the Company.

## 17 INVESTMENT INCOME

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2020</u>			
<u>FVTPL</u>			
Profit income	6,442	17,603	24,045
Amortisation of premiums - net (Note 6(a))	(42)	(11)	(53)
Dividend income	1,898	3,537	5,435
<u>Amortised cost</u>			
Profit income	-	847	847
<u>Cash and cash equivalents</u>			
Profit income	372	1,797	2,169
	<u>8,670</u>	<u>23,773</u>	<u>32,443</u>
Less: Share of investment profit of Takaful funds with Takaful Operator	-	(2,457)	-
Less: Investment Charges	(1)	(4)	(5)
	<u>8,669</u>	<u>21,312</u>	<u>32,438</u>

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## 17 INVESTMENT INCOME (CONTINUED)

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2019</u>			
<u>FVTPL</u>			
Profit income	5,880	14,364	20,244
(Amortisation of premiums)/			
Accretion of discounts - net (Note 6(a))	(32)	78	46
Dividend income	984	1,902	2,886
 <u>Amortised cost</u>			
Profit income	-	329	329
 <u>Cash and cash equivalents</u>			
Profit income	364	1,895	2,259
	<u>7,196</u>	<u>18,568</u>	<u>25,764</u>
Less: Share of investment profit of			
Family Takaful funds with Takaful Operator	-	(1,624)	-
Less: Investment Charges	43	(3)	39
	<u>7,239</u>	<u>16,941</u>	<u>25,803</u>

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## 18 FAIR VALUE GAINS/(LOSSES)

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2020</u>			
Realised gains on financial assets at fair value through profit or loss	1,186	6,186	7,372
Unrealised gains on financial assets at fair value through profit or loss	3,746	9,740	13,290
	<u>4,932</u>	<u>15,926</u>	<u>20,662</u>
<u>2019</u>			
Realised gains on financial assets at fair value through profit or loss	565	447	1,012
Unrealised gains on financial assets at fair value through profit or loss	6,467	24,828	31,010
	<u>7,032</u>	<u>25,275</u>	<u>32,022</u>

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## 19 MANAGEMENT EXPENSES

	Note	2020 RM'000	2019 RM'000
<u>Takaful Operator/Company</u>			
Staff costs:			
Salary and bonus		17,227	11,198
Staff benefits		3,548	2,113
Directors' fees	24	320	341
Shariah committee remuneration and other expenses			
- remuneration		180	189
- other expenses		7	-
Depreciation of property and equipment	3	410	295
Depreciation of right-of-use assets	4 (a)	973	-
Finance cost on lease liability		80	-
Amortisation of intangible assets	5	1,581	1,823
Auditors' remuneration:			
Audit related services			
- current year		210	276
- non-audit related services		14	20
Other professional fee		1,152	3,076
Rental of properties		108	1,253
Shared service fee		6,090	7,881
Campaigns and incentives		9,669	8,993
Research & Development		1,880	4,000
Electronic Data Processing expenses		2,904	1,958
Other expenses		6,427	2,309
Total		<u>52,780</u>	<u>45,725</u>

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM1,089,832 (2019: RM985,807).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 24.

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## 19 MANAGEMENT EXPENSES (CONTINUED)

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

	2020 RM'000	2019 RM'000
Assoc. Prof. Dr. Amir Shahrudin <i>(Appointed with effect from 1st April 2020)</i>	10	-
Puan Zarinah Mohd Yusoff <i>(Appointed with effect from 1st April 2020)</i>	10	-
Assoc. Prof. Dr. Asmak Ab Rahman	38	38
Assoc. Prof. Dr. Nurul Aini Muhamed	38	38
Dr. Muhammad Aunurrochim Mas'ad Saleh	37	38
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani <i>(Resigned with effect from 31st March 2020)</i>	27	38
Asst. Prof. Dr. Uzaimah Ibrahim <i>(Resigned with effect from 31st March 2020)</i>	27	37
Total	<u>187</u>	<u>189</u>

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## 20 TAXATION

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2020</u>			
Current tax:			
- In respect of current financial year	2,905	1,692	4,597
- Over provision in prior financial years	(1,785)	(82)	(1,867)
Deferred tax expense (Note 15)	936	848	1,784
Tax expense	<u>2,056</u>	<u>2,458</u>	<u>4,514</u>
<u>2019</u>			
Current tax:			
- In respect of current financial year	4,078	1,096	5,174
- Over provision in prior financial years	(1,041)	(6)	(1,047)
Deferred tax expense (Note 15)	3,239	2,010	5,249
Tax expense	<u>6,276</u>	<u>3,100</u>	<u>9,376</u>

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

	2020 RM'000	2019 RM'000
Profit before zakat and taxation	<u>17,555</u>	<u>10,424</u>
Taxation at Malaysian statutory rate of 24%	4,213	2,502
Income not subject to tax	(76,512)	(16,045)
Expenses not deductible for tax purposes	84,070	20,860
Effect of difference in tax rate	(5,390)	3,100
Over provision in prior financial years	<u>(1,867)</u>	<u>(1,041)</u>
Tax expense for the financial year	<u>4,514</u>	<u>9,376</u>

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## 21 INVESTMENT-LINKED BUSINESS

## (a) Assets and liabilities as at position

	2020 RM'000	2019 RM'000
<u>Assets</u>		
Fair value through profit and loss financial assets	47,653	37,519
Other receivables	420	138
Cash and cash equivalents	7,085	14,530
Investment-linked business assets	<u>55,158</u>	<u>52,187</u>
<u>Liabilities</u>		
Deferred tax liabilities	135	166
Tax payables	106	32
Other payables	103	67
Amount due to non-investment linked Family Takaful Fund*	61	49
Investment-linked business liabilities	<u>405</u>	<u>314</u>
Net asset value of funds	<u>54,753</u>	<u>51,873</u>

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

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## 21 INVESTMENT-LINKED BUSINESS (CONTINUED)

## (a) Assets and liabilities as at position (continued)

	2020 RM'000	2019 RM'000
Represented by:		
<u>Unitholders' account</u>		
At beginning of the financial year	51,873	29,221
Net creation of units	14,310	27,297
Net cancellation of units	(11,043)	(6,175)
(Deficit)/surplus for the financial year	(387)	1,530
	<u>54,753</u>	<u>51,873</u>

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

	2020 RM'000	2019 RM'000
Investment income	1,595	1,223
Realised gains/(losses) on disposal of investment	838	(425)
Fair value (losses)/gains on investments	(1,253)	1,501
Other expenses	(1,566)	(570)
(Deficit)/surplus before taxation	(386)	1,729
Taxation:		
- current tax	(1)	(79)
- deferred tax	-	(120)
	<u>(387)</u>	<u>1,530</u>

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## 22 SEGMENTAL INFORMATION ON CASH FLOW

	Takaful Operator RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2020</u>			
Cash flows from:			
Operating activities	(1,750)	50,116	48,366
Investing activities	(6,599)	-	(6,599)
Financing activities	(1,029)	-	(1,029)
Net (decrease)/increase in cash and cash equivalent	(9,378)	50,116	40,738
Cash and cash equivalents:			
At beginning of financial year	14,445	74,079	88,524
At end of financial year	5,067	124,195	129,262
<u>2019</u>			
Cash flows from:			
Operating activities	(89,680)	4,535	(85,145)
Investing activities	(3,304)	-	(3,304)
Financing activities	100,000	-	100,000
Net increase in cash and cash equivalent	7,016	4,535	11,551
Cash and cash equivalents:			
At beginning of financial year	7,429	69,544	76,973
At end of financial year	14,445	74,079	88,524

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#### 23 RELATED PARTY TRANSACTIONS

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

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
Hong Leong Financial Group Berhad ("HLFG")	Penultimate holding company
HLA Holdings Sdn Bhd ("HLAH") Mitsui Sumitomo Insurance Corporation, Japan	Immediate holding company
Hong Leong Assurance Berhad	Substantial Shareholder of the Company
Hong Leong Bank Berhad	Subsidiary of immediate holding company
Hong Leong Islamic Bank Berhad	Subsidiary of penultimate holding company
Guoline Intellectual Assets Limited	Subsidiary of penultimate holding company
Key Management Personnel	Subsidiary of ultimate holding company
	The key management personnel of the Company consists of:
	- All Directors of the Company
	- Key management personnel of the Company who make certain critical decisions in relation to the strategic direction 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.

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

	2020 RM'000	2019 RM'000
	Income/ (Expense)	Income/ (Expense)
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(9,541)	(11,191)
- Fund management fee	(2,444)	(2,054)
- Profit from Islamic deposits and money market placements with licensed banks	176	175
- Bank charges	(171)	(99)
- Office rental expenses	(1,047)	(1,056)
- Shared services fee	(6,090)	(5,829)
- Royalty fee	(4)	(4)

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

Transactions between companies within Hong Leong Company (Malaysia) Berhad Group, inclusive of Hong Leong Bank Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Assurance Berhad were deemed as related party transactions.

Included in the statement of financial position of the Company were significant related party balances and being represented by the following:

	2020 RM'000	2019 RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	4,133	7,396
- Rental deposit	307	322
- Shared services fee	(739)	(744)
- Reinsurance ceded	(1,253)	-

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

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#### 24 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are defined as an individual with authority and responsibility on planning, directing and control the Company's activities, either directly or otherwise. The key management personnel inclusive all Directors of the Company and selected senior management members.

Key management personnel's remuneration disclosed as follows:

	2020	2019
	RM'000	RM'000
<u>Non-Executive Directors</u>		
Fees:		
Martin Giles Manen (Chairman)	106	118
Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	121	129
Zulkiflee bin Hashim	93	9
Dr Aznan bin Hasan ( <i>Resigned w.e.f. 16.04.2019</i> )	-	85
	<u>320</u>	<u>341</u>
<u>Key management personnel</u>		
Short term employee benefits:		
Salary and other remuneration	4,380	3,998
Defined contribution retirement plan	631	622
Benefits-in-kind/perquisite	260	197
	<u>5,271</u>	<u>4,817</u>
Total	<u>5,591</u>	<u>5,158</u>

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 (2019:RM67,688) and the apportioned amount of the said premium paid by the Company was RM10 (2019:RM323).

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#### 25 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Company has in place a risk management framework and methodology which is based on the Enterprise Risk Management ("ERM") approach. ERM is designed to systematically support the identification, assessment, monitoring and control of significant risks covering market risk, credit risk, operational risk, shariah risk, compliance 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 activities under ERM keeps the Senior Management and Group Board Risk Management Committees ("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.

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#### 25 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 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:

	2020	2019
	<u>RM'000</u>	<u>RM'000</u>
Eligible Tier 1 capital		
- Share capital	200,000	200,000
- Reserves, including retained profits	19,314	9,103
Eligible Tier 2 capital		
- Eligible reserves	329	19
Amount deducted from capital	<u>(4,134)</u>	<u>(2,840)</u>
Total capital available	<u>215,509</u>	<u>206,282</u>

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

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#### 26 TAKAFUL RISK

##### 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 contractual obligations.

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 certificate holder), 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
<u>30 June 2020</u>			
Mortgage Reducing Term and Group business	41,232	(28,948)	12,284
Others	22,037	(4,547)	17,490
	<u>63,269</u>	<u>(33,495)</u>	<u>29,774</u>
<u>30 June 2019</u>			
Mortgage Reducing Term and Group business	32,263	(24,183)	8,080
Others	10,750	(810)	9,940
	<u>43,013</u>	<u>(24,993)</u>	<u>18,020</u>

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#### 26 TAKAFUL RISK (CONTINUED)

##### 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 the choice of assumptions which shall be prudent, appropriate and justifiable for the purpose of valuation of Participants' Risk Fund ("PRF") liabilities to ensure fund sufficiency in meeting all contractual obligations with a reasonable level of certainty. The Company's assumptions were derived based on studies on past experience, current internal data and other published information.

The key assumptions to the Company's liabilities are as follows:

- i. Mortality and Morbidity - used in projecting the Company's expected claim experience. These assumptions were derived by applying adjustment factors which reflect the Company's past experience, risk portfolios and product design, to the established industry rates or retakaful rates.
- ii. Discount Rate - used in discounting the takaful certificates cash flow and is based on Government Investment Issues (GII) yield curve.
- iii. Outforce (Lapse/Surrender) - used in projecting the expected persistency of the certificates, reflecting the probability of customer lapsing/ surrendering the certificates. These assumptions were derived based on the Company's actual outforce experience in the past taking into account specific features of the products.

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#### 26 TAKAFUL RISK (CONTINUED)

##### 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. The correlation of assumptions may 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 may 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
<u>30 June 2020</u>					
Mortality & Morbidity	+10%	8,496	1,981	-	-
Mortality & Morbidity	-10%	(7,708)	(1,808)	-	-
Lapse and surrender rates	+10%	(639)	(530)	-	-
Lapse and surrender rates	-10%	683	577	-	-
Discount rate	+10%	(1,188)	(1,083)	-	-
Discount rate	-10%	1,279	1,166	-	-
Investment return	+10%	(239)	(197)	-	-
Investment return	-10%	246	211	-	-

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## 26 TAKAFUL RISK (CONTINUED)

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
<u>30 June 2019</u>					
Mortality & Morbidity	+10%	5,515	1,014	-	-
Mortality & Morbidity	-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	-	-

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.

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27 FINANCIAL RISK

Credit risk

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

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

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

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## 27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)Credit exposure by credit rating

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

	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
<u>30 June 2020</u>									
<u>Takaful Operator</u>									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	2,866	-	-	-	2,866
Islamic bonds	22,913	7,220	-	-	117,047	-	-	-	147,180
Equity securities	-	-	-	-	-	24,577	-	-	24,577
Unit and property trust funds	-	-	-	-	-	24,966	-	-	24,966
Investment-linked funds	-	-	-	-	-	5,932	-	-	5,932
Accrued profit	246	24	-	-	1,504	-	-	-	1,774
Other receivables	-	-	-	-	23,101	-	-	-	23,101
Due from related companies	350	-	-	-	-	-	-	-	350
Cash and cash equivalents	4,674	-	390	-	3	-	-	-	5,067
	<u>28,183</u>	<u>7,244</u>	<u>390</u>	<u>-</u>	<u>144,521</u>	<u>55,475</u>	<u>-</u>	<u>-</u>	<u>235,813</u>

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27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	AAA	AA	Neither past due nor impaired			Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	A	BBB	Not rated	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>									
<u>Takaful Operator</u>									
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
Accrued profit	247	829	-	-	729	-	-	-	1,805
Investment-linked funds	-	-	-	-	-	5,736	-	-	5,736
Other receivables	-	-	-	-	1,784	18,235	-	-	20,019
Cash and cash equivalents	14,442	-	-	-	3	-	-	-	14,445
	<u>37,242</u>	<u>76,258</u>	<u>-</u>	<u>-</u>	<u>54,530</u>	<u>70,403</u>	<u>-</u>	<u>-</u>	<u>238,433</u>

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#### 27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	AAA	AA	Neither past due nor impaired			Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	A	BBB	Not rated	RM'000	RM'000	RM'000	RM'000
<b>30 June 2020</b>									
<u>Family Takaful Fund</u>									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	37,881	11,409	-	-	49,290
Islamic bonds	51,952	23,905	-	-	119,180	176,711	-	-	371,748
Equity securities	-	-	-	-	-	124,906	-	-	124,906
Unit and property trust funds	-	-	-	-	-	8,096	-	-	8,096
Structured investments	4,466	-	-	-	-	-	-	-	4,466
Accrued profit	598	-	-	-	1,738	2,052	-	-	4,388
Amortised cost									
Fixed and call deposits	-	18,988	-	-	-	-	-	-	18,988
Accrued profit	-	159	-	-	-	-	-	-	159
Retakaful assets	5,995	1,086	45,044	-	-	-	-	-	52,125
Takaful receivables	-	-	-	-	6,511	-	-	-	6,511
Other receivables	-	-	-	-	5,101	-	-	-	5,101
Cash and cash equivalents	115,564	-	-	8,479	152	-	-	-	124,195
	<b>178,575</b>	<b>44,138</b>	<b>45,044</b>	<b>8,479</b>	<b>170,563</b>	<b>323,174</b>	<b>-</b>	<b>-</b>	<b>769,973</b>

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#### 27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	AAA	AA	Neither past due nor impaired			Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	A	BBB	Not rated	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>									
<u>Family Takaful Fund</u>									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	36,464	-	-	-	36,464
Islamic bonds	39,725	109,302	-	-	181,167	-	-	-	330,194
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	-	-	2,610	-	-	-	4,011
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
	<u>112,566</u>	<u>123,915</u>	<u>30,762</u>	<u>-</u>	<u>233,091</u>	<u>94,829</u>	<u>-</u>	<u>-</u>	<u>595,163</u>

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#### 27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	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
<u>30 June 2020</u>									
<u>Company</u>									
FVTPL financial assets									
Government Investment Issues	-	-	-	-	40,747	11,409	-	-	52,156
Islamic bonds	74,865	31,125	-	-	236,227	176,711	-	-	518,928
Equity securities	-	-	-	-	-	149,483	-	-	149,483
Unit and property trust funds	-	-	-	-	-	33,062	-	-	33,062
Structured investments	4,466	-	-	-	-	-	-	-	4,466
Accrued profit	844	24	-	-	3,242	2,052	-	-	6,162
Amortised cost									
Fixed and call deposits	-	18,988	-	-	-	-	-	-	18,988
Accrued profit	-	159	-	-	-	-	-	-	159
Retakaful assets	5,995	1,086	45,044	-	-	-	-	-	52,125
Takaful receivables	-	-	-	-	6,511	-	-	-	6,511
Other receivables	-	-	-	-	7,573	-	-	-	7,573
Due from related companies	350	-	-	-	-	-	-	-	350
Cash and cash equivalents	120,238	-	390	8,479	155	-	-	-	129,262
	<u>206,758</u>	<u>51,382</u>	<u>45,434</u>	<u>8,479</u>	<u>294,455</u>	<u>372,717</u>	<u>-</u>	<u>-</u>	<u>979,225</u>

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27 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	AAA	AA	Neither past due nor impaired			Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	A	BBB	Not rated	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>									
<u>Company</u>									
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	-	-	3,339	-	-	-	5,816
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	-	-	-	-	3,782	635	-	-	4,417
Cash and cash equivalents	82,400	6,018	-	-	106	-	-	-	88,524
	<u>149,808</u>	<u>200,173</u>	<u>30,762</u>	<u>-</u>	<u>287,621</u>	<u>141,896</u>	<u>-</u>	<u>-</u>	<u>810,260</u>

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#### 27 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 sukuk 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 analyse the carrying amounts of the Company's financial assets.

The contractual undiscounted cash flows payable for financial liabilities are based on the remaining contractual maturities.

All liabilities are presented on a contractual cash flow basis except for Takaful contract liabilities, whereby the maturity profiles are determined based on estimated timing of net cash outflows from the recognised Takaful liabilities. 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.

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2020</u>						
<u>Takaful Operator</u>						
FVTPL financial assets	207,295	1,012	53,414	97,393	55,476	207,295
Other receivables	23,101	23,101	-	-	-	23,101
Due from related companies	350	350	-	-	-	350
Cash and cash equivalents	5,067	5,067	-	-	-	5,067
Total financial assets	<u>235,813</u>	<u>29,530</u>	<u>53,414</u>	<u>97,393</u>	<u>55,476</u>	<u>235,813</u>
Lease liabilities	749	485	261	3	-	749
Takaful payables	1,621	1,621	-	-	-	1,621
Expense liabilities	12,341	2,177	8,581	1,583	-	12,341
Other payables	26,059	26,059	-	-	-	26,059
Due to related companies	781	781	-	-	-	781
Total financial liabilities	<u>41,551</u>	<u>31,123</u>	<u>8,842</u>	<u>1,586</u>	<u>-</u>	<u>41,551</u>

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>						
<u>Takaful Operator</u>						
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	<u>238,433</u>	<u>46,299</u>	<u>51,270</u>	<u>88,696</u>	<u>52,168</u>	<u>238,433</u>
Expense liabilities	13,098	255	8,508	4,335	-	13,098
Other payables	35,898	35,898	-	-	-	35,898
Due to related companies	744	744	-	-	-	744
Total financial liabilities	<u>49,740</u>	<u>36,897</u>	<u>8,508</u>	<u>4,335</u>	<u>-</u>	<u>49,740</u>

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2020</u>						
<u>Family Takaful Fund</u>						
FVTPL financial assets	562,894	13,559	93,181	323,152	133,002	562,894
Amortised cost financial assets	19,147	19,147	-	-	-	19,147
Retakaful assets	52,125	34,621	9,381	8,123	-	52,125
Takaful receivables	6,511	6,511	-	-	-	6,511
Other receivables	5,101	5,101	-	-	-	5,101
Cash and cash equivalents	124,195	124,195	-	-	-	124,195
Total financial assets	<u>769,973</u>	<u>203,134</u>	<u>102,562</u>	<u>331,275</u>	<u>133,002</u>	<u>769,973</u>
Takaful contract liabilities	690,504	48,294	12,474	28,474	601,262	690,504
Takaful payables	24,871	24,871	-	-	-	24,871
Other payables	48,804	48,804	-	-	-	48,804
Total financial liabilities	<u>764,179</u>	<u>121,969</u>	<u>12,474</u>	<u>28,474</u>	<u>601,262</u>	<u>764,179</u>

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>						
<u>Family Takaful Fund</u>						
FVTPL financial assets	469,807	3,720	75,471	295,786	94,830	469,807
Amortised cost	6,511	6,511	-	-	-	6,511
Retakaful assets	36,888	20,600	9,666	6,622	-	36,888
Takaful receivables	5,880	5,880	-	-	-	5,880
Other receivables	1,998	1,998	-	-	-	1,998
Cash and cash equivalents	74,079	74,079	-	-	-	74,079
Total financial assets	<u>595,163</u>	<u>112,788</u>	<u>85,137</u>	<u>302,408</u>	<u>94,830</u>	<u>595,163</u>
Takaful contract liabilities	542,641	29,226	12,886	18,399	482,130	542,641
Takaful payables	12,231	12,231	-	-	-	12,231
Other payables	37,226	37,226	-	-	-	37,226
Total financial liabilities	<u>592,098</u>	<u>78,683</u>	<u>12,886</u>	<u>18,399</u>	<u>482,130</u>	<u>592,098</u>

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2020</u>						
<u>Company</u>						
FVTPL financial assets	764,257	14,571	146,595	420,547	182,546	758,327
Amortised cost financial assets	19,147	19,147	-	-	-	19,147
Retakaful assets	52,125	34,621	9,381	8,123	-	52,125
Takaful receivables	6,511	6,511	-	-	-	6,511
Other receivables	7,573	7,573	-	-	-	7,573
Due from related companies	350	350	-	-	-	350
Cash and cash equivalents	129,262	129,262	-	-	-	129,262
<b>Total financial assets</b>	<b>979,225</b>	<b>212,035</b>	<b>155,976</b>	<b>428,670</b>	<b>182,546</b>	<b>973,295</b>
Takaful contract liabilities	684,572	48,294	12,474	28,474	595,330	684,572
Lease liabilities	749	485	261	3	-	749
Takaful payables	26,492	26,492	-	-	-	26,492
Expense liabilities	12,341	2,177	8,581	1,583	-	12,341
Other payables	54,234	54,234	-	-	-	54,234
Due to related companies	781	781	-	-	-	781
<b>Total financial liabilities</b>	<b>779,169</b>	<b>132,463</b>	<b>21,316</b>	<b>30,060</b>	<b>595,330</b>	<b>779,169</b>

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## 27 FINANCIAL RISK (CONTINUED)

Maturity profiles (continued)

	Carrying value	Up to a year	1-5 years	Over 5 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>30 June 2019</u>						
<u>Company</u>						
FVTPL financial assets	668,040	15,556	126,741	384,481	141,262	668,040
Amortised cost	6,511	6,511	-	-	-	6,511
Retakaful assets	36,888	20,601	9,666	6,621	-	36,888
Takaful receivables	5,880	5,880	-	-	-	5,880
Other receivables	4,417	4,417	-	-	-	4,417
Cash and cash equivalents	88,524	88,524	-	-	-	88,524
Total financial assets	<u>810,260</u>	<u>141,489</u>	<u>136,407</u>	<u>391,102</u>	<u>141,262</u>	<u>810,260</u>
Takaful contract liabilities	542,641	29,226	12,886	18,399	476,394	536,905
Takaful payables	12,231	12,231	-	-	-	12,231
Expense liabilities	13,098	255	8,508	4,335	-	13,098
Other payables	55,524	55,524	-	-	-	55,524
Amount due to related companies	744	744	-	-	-	744
Total financial liabilities	<u>624,238</u>	<u>97,980</u>	<u>21,394</u>	<u>22,734</u>	<u>476,394</u>	<u>618,502</u>

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 27 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
<u>30 June 2020</u>		
Change in variables		
+100 basis point of profit rate	(6,215)	(6,215)
-100 basis point of profit rate	6,836	6,836
<u>30 June 2019</u>		
Change in variables		
+100 basis point of profit rate	(6,102)	(6,102)
-100 basis point of profit rate	6,687	6,687

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

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#### 27 FINANCIAL RISK (CONTINUED)

##### Market risk (continued)

##### (i) Profit rate risk (continued)

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

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#### 27 FINANCIAL RISK (CONTINUED)

##### Market risk (continued)

##### (ii) Price risk (continued)

	Impact on profit after taxation RM'000	Impact on equity* RM'000
<u>30 June 2020</u>		
Change in variables		
+20% of equity price	8,432	8,432
-20% of equity price	(8,432)	(8,432)
<u>30 June 2019</u>		
Change in variables		
+20% of equity price	7,930	7,930
-20% of equity price	(7,930)	(7,930)

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

The impact to the Company's equity arose from Takaful Operator's investments in equity securities. 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 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 as well as Key Risk Indicators ("KRIs") in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)****28 COMMITMENTS AND CONTINGENCIES**

	2020	2019
	RM'000	RM'000
Approved and contracted for:		
Property and equipments	373	348
Software	4,860	-
	<u>5,233</u>	<u>348</u>

**29 OPERATING LEASE COMMITMENTS**

As at the reporting date, the Company 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 :

	2020	2019
	RM'000	RM'000
Within 1 year	-	1,011
After 1 year but not more than 5 years	-	464
	<u>-</u>	<u>1,475</u>

Lease liabilities recognised in statement of financial position during the financial year is disclosed in Note 4.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 30 ADDITIONAL DISCLOSURE UNDER ADOPTION OF MFRS 16 LEASES

##### Financial Effects Arising from Adoption of MFRS 16 Leases

MFRS 16 'Leases' (effective from 1 January 2019) 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" ("ROU") of the underlying asset and a lease liability reflecting future lease payments for most leases.

The ROU asset is depreciated in accordance with the principle as set out in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in statements of income.

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.

The Company has adopted this standard from its mandatory adoption date of 1 July 2019. As permitted by MFRS 16, the Company has applied the modified retrospective approach and will not restate comparative amounts for the financial year prior to the first adoption. ROU assets for property leases will be measured on transition as if the new rules had always been applied. All other ROU assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 for the Company was at 6.89% per annum.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)****30 ADDITIONAL DISCLOSURE UNDER ADOPTION OF MFRS 16 LEASES (CONTINUED)**Financial Effects Arising from Adoption of MFRS 16 Leases (continued)

- (i) The table below summarises the effects upon adoption of MFRS 16 as at 1 July 2019:

	As at 30 June 2019	Effects of adopting MFRS 16	As restated 1 July 2019
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Right-of-use assets	-	1,620	1,620
Lease liabilities	-	1,620	1,620

- (ii) The reconciliation on the operating lease commitments disclosed under MFRS 117 to MFRS 16 are as follows:

	<u>RM'000</u>
Operating lease commitments as at 30 June 2019	1,475
Discounted using the incremental borrowing rates	<u>(61)</u>
	1,414
Adjustment as a result of a different treatment of extension and termination options	<u>206</u>
Lease liabilities recognised as at 1 July 2019	<u><u>1,620</u></u>

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

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

On 11 March 2020, the World Health Organisation ("WHO") declared COVID-19 as a pandemic and this was followed by a Movement Control Order ("MCO") imposed by Malaysian government starting 18 March 2020 to control the spread of the pandemic. The pandemic has disrupted business operations globally and the resulting lower interest rates affecting takaful contract liabilities, volatile equity markets and MCO have impacted the progress of the Company's business growth initiatives.

On 27 March 2020, Bank Negara Malaysia ("BNM") had announced a number of measures to assist certificate holders to manage the impact of the COVID-19 outbreak.

The relief measures that are extended to our affected certificate holders included:

- (a) Deferment of takaful contract contributions;
- (b) Extension of flexibilities to reinstate or preserve takaful contract; and
- (c) Expedited claims processing.

Under the relief measures, affected certificate holders are eligible to apply for deferment of payment of their contributions and flexibilities are extended to the affected certificate holders to reinstate or preserve their takaful contract. The take up rate has been minimal and has no significant impact to the Company.