

HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Company No.731530-M)
(Incorporated in Malaysia)

FINANCIAL STATEMENTS FOR THE YEAR

ENDED 31 DECEMBER 2017

Domiciled in Malaysia.
Registered Office:
10th Floor, North Tower
2, Leboh Ampang,
50100 Kuala Lumpur

HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Company No.731530-M)

(Incorporated in Malaysia)

TABLE OF CONTENTS

BOARD OF DIRECTORS.....	1
CORPORATE GOVERNANCE DISCLOSURE	2
DIRECTORS.....	2
BOARD RESPONSIBILITY AND OVERSIGHT	4
MANAGEMENT REPORTS.....	9
INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES	10
DIRECTORS' REPORT	13
STATEMENT OF FINANCIAL POSITION	17
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	18
STATEMENT OF CHANGES IN EQUITY	20
STATEMENT OF CASH FLOWS	21
NOTES TO THE FINANCIAL STATEMENTS.....	22
STATEMENT BY DIRECTORS.....	121
STATUTORY DECLARATION	121
REPORT OF THE SHARIAH COMMITTEE	122
INDEPENDENT AUDITORS' REPORT.....	125

BOARD OF DIRECTORS

Kasim bin Zakaria

Non-Independent Non-Executive Director / Chairman

K. Vithyatharan A/L V. Karunakaran

Independent Non-Executive Director

Lim Eng Seong

Executive Director

Nor Azian binti Mohd Noor (appointed on 22 February 2017)

Non-Independent Non-Executive Director

Dr Cheah You Sum (appointed on 21 August 2017)

Independent Non-Executive Director

Muhammad Ali Jinnah bin Ahmad (appointed on 21 August 2017)

Independent Non-Executive Director

Sazaliza bin Zainuddin (resigned on 22 February 2017)

Non-Independent Non-Executive Director

Datuk Haron bin Siraj (retired on 10 July 2017)

Independent Non-Executive Director

Ian Keith Moore (resigned on 21 August 2017)

Executive Director

CORPORATE GOVERNANCE DISCLOSURE

The statement of corporate governance practices set out on pages 2 to 12 and information incorporated by reference constitutes the Corporate Governance Disclosures of HSBC Amanah Takaful (Malaysia) Berhad (the Company). As a Takaful operator licensed under the Islamic Financial Services Act, 2013, the Company complies with the corporate governance standards set out in the Bank Negara Malaysia (“BNM”) Policy Document on Corporation Governance (“BNM Corporate Governance Policy”).

DIRECTORS

The Directors serving as at the date of this report are set out below.

Kasim bin Zakaria, 70
Non-Independent Chairman / Non-Executive Director
Appointed to the Board: 10 August 2006

Encik Kasim has previously served as the General Manager of the Perlis State Economic Development Corporation. He retired from the positions of Chief Executive Officer, Director and Head of Insurance Group of Mayban Fortis Holdings Bhd in June 2005. He brings with him a wealth of experience from the insurance industry for over 30 years at national and regional levels. He obtained his B.Sc. (Business Administration) from the University of Malaya, Malaysia in 1974.

Encik Kasim does not have any shareholding in the Company.

K. Vithyatharan A/L V. Karunakaran, 61
Independent Non-Executive Director
Chairman of Audit Committee and Risk Committee
Appointed to the Board: 6 May 2015

Mr K. Vithyatharan is the Chairman of the Audit Committee and Risk Committee, and a member of the Nominations and Remuneration Committee of the Company.

Mr K. Vithyatharan is a knowledgeable and experienced finance and audit professional with over 20 years in carrying out statutory and internal audit, risk management and operations and financial due diligence. He is a qualified Certified Public Accountant with over 15 years’ experience at KPMG globally (served in their London, Bahrain, Qatar, Singapore and Malaysia offices). In addition to his experience in KPMG, he was previously a VP, Credit Risk in Citibank and RHB Bank. He was the director of audit services (Financial Services) in KPMG Bahrain before his retirement as the Acting CEO of Asia Capital Reinsurance Bahrain, a reinsurance company in 2013. He has attended a number of executive leadership programmes including Harvard Business School, Boston.

Mr K. Vithyatharan does not have any shareholding in the Company.

Lim Eng Seong, 47
Executive Director
Appointed to the Board: 21 October 2013

Mr Lim Eng Seong graduated from University of Malaya with a Bachelor of Economics (Business Administration) Honors. He is currently the Head of Retail Banking and Wealth Management (RBWM) of HSBC Bank Malaysia Berhad. Prior to joining HSBC Malaysia, he was attached to an international Fast-Moving Consumer Goods company as the Marketing Director. He has worked in the Philippines and Thailand, and with extensive experience in product development and marketing of retail business.

Mr Lim does not have any shareholding in the Company. His interest in the Company’s related corporation is as disclosed in the Directors’ Report on page 15.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

DIRECTORS (CONTINUED)

Nor Azian binti Mohd Noor, 51

Independent Non-Executive Director

Member of the Nominations and Remuneration Committee

Appointed to the Board: 22 February 2017

Puan Nor Azian graduated with a Bachelor of Commerce in 1988 from the University of Wollongong, Australia, majoring in Accountancy. She is also a member of CPA Australia and the Malaysian Institute of Accountants.

She started her career at PricewaterhouseCoopers after graduation and has worked for Employees Provident Fund (“EPF”) for more than 11 years, having started her career at EPF in 1995 as an Accountant in Finance Department. She is currently the Head of Finance of Finance Department at EPF.

Puan Nor Azian does not have any shareholding in the Company.

Dr Cheah You Sum, 54

Independent Non-Executive Director

Member of the Audit Committee, Risk Committee, Nominations and Remuneration Committee

Appointed to the Board: 21 August 2017

Dr Cheah is an Associate Professor of the Centre of Commercial Law and Justice at Sunway University. He is a Fellow of the Chartered Insurance Institute (“FCII”) and a Member of the Chartered Institute of Arbitrators (“MCI Arb”).

Dr Cheah has gained many years of working experience in the financial services industry which includes experience in an established bank, general and life insurance companies. A large part of that experience is gained at middle to senior management level. He has gained overall exposure ranging from technical knowledge to business development and being the Chief Executive Officer with the overall responsibility for the bottom line performance of the company. He has worked with and led teams from diverse background, religious beliefs and culture as a result of his working experience in local companies, a foreign based company and foreign university partner.

Dr Cheah does not have any shareholding in the Company.

Muhammad Ali Jinnah bin Ahmad, 39

Independent Non-Executive Director

Chairman of the Shariah Committee

Member of the Audit Committee, Risk Committee, Nominations and Remuneration Committee

Appointed to the Board: 21 August 2017

Encik Muhammad Ali Jinnah, earned a Master degree in Islamic Management, Banking and Finance from the Loughborough University, UK in 2004. He is one of the co-authors of the world’s first most comprehensive Islamic finance textbook, “Islamic Financial System: Principles & Operations”. He is also the co-authors for several outstanding ISRA’s Research Papers including “The Parameter of Permissible Risks in Takaful”. Muhammad Ali presented at various workshops and conferences in Takaful and Islamic Finance at local and international level including Cambridge University, UK and Harvard University, USA.

Mr Muhammad Ali Jinnah does not have any shareholding in the Company.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT

Board of Directors

The objectives of the management structures within the Company, headed by the Board of Directors and led by the Chairman, are to deliver sustainable value to shareholders and promote a culture of openness and debate. The Board is responsible for overseeing the management of the Company and reviewing the Company's strategic plans and key policies. Although the Board delegates the day-to-day management of the Company's business and implementation of strategy to the Executive Committee, certain matters, including annual operating plans, risk appetite and performance targets, procedures for monitoring and controlling operations, approval of credit or market risk limits, specified senior appointments and any substantial change in balance sheet management policy are reserved by the Board for approval.

The Board meets regularly to review reports on performance against financial and other strategic objectives, key business challenges, risk, business developments, and investor and external relations. All Directors have full and timely access to all relevant information they are also encouraged to have free and open contact with management at all levels. Directors may take independent professional advice if necessary.

At the date of this report, the Board consists of six (6) members comprising one (1) Non-Independent Executive Director, two (2) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors. The names of the Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages 2 to 3.

Encik Kasim was appointed as Independent Board Chairman of the Company from June 2014 to August 2017 and re-designated as Non-Independent Non-Executive Chairman since August 2017. Encik Kasim has since vacated his membership in the Audit Committee and Risk Committee in compliance with BNM Corporate Governance requirements.

Appointments to the Board are made on merit and candidates are considered against objective criteria, having due regard to the benefits of diversity on the Board. A rigorous selection process, overseen by the Nominations and Remuneration Committee and based on agreed requirements including BNM Corporate Governance Policy requirements are followed in relation to the appointment of Directors.

All Directors, including those appointed by the Board to fill a casual vacancy, are subject to annual re-election at the Company's Annual General Meeting. Non-executive Directors are appointed for an initial three-year term and, subject to re-election by shareholder at Annual General Meetings, are typically expected to serve two three-year terms. Any term beyond six (6) years is subject to rigorous review. Tenure of independent non-executive Directors shall not exceed a cumulative term of nine (9) years.

The terms and conditions of appointment of non-executive Directors are set out in a letter of appointment, which include the expectations of them and the time estimated for them to meet their commitment to the Company. The current anticipated minimum time of commitment, which is subject to periodic review and adjustment by the Board, is 30 days per year and with appointment in not more than 5 public listed companies. Time devoted to the Company could be considerably more, particularly if serving on Board committees. All non-executive Directors have confirmed they can meet this requirement.

Non-executive Directors are not HSBC employees and do not participate in the daily business management of the Company. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Company. The Board has determined that each non-executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the independent non-executive Directors.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board of Directors (Continued)

The roles of the Non-Independent Chairman and Chief Executive Officer are separate, with a clear division of responsibilities between the running of the Board and executive responsibility for running the Company's business.

Board meetings

Seven (7) Board meetings were held in 2017. The table below show each Director's attendance at meetings of all Board and Committees' meetings during 2017.

	Board	Audit Committee	Risk Committee	Nominations and Remuneration Committee
Number of meetings held	6	7	7	5
Non-Independent Chairman: Kasim bin Zakaria*	6/6	5/5	5/5	-
Executive Directors: Lim Eng Seong Ian Keith More [^]	5/6 4/4	- -	- -	- -
Non-Executive Director: Nor Azian binti Mohd Noor**	6/6	-	-	4/5
Independent Non-Executive Directors: K. Vithyatharan A/L V. Karunakaran Dr Cheah You Sum [#] Muhammad Ali Jinnah bin Ahmad [#] Datuk Haron bin Siraj ^{^^}	 6/6 2/2 2/2 4/4	 7/7 2/2 2/2 3/4	 7/7 2/2 2/2 3/4	 5/5 2/2 2/2 3/3

* re-designated as Non-Independent Non-Executive Chairman and resigned as a member of Audit Committee and Risk Committee

[^] resigned on 21 August 2017

[#] appointed on 21 August 2017 and appointed as a member of Audit Committee and Risk Committee since 21 August 2017

^{^^} retired on 10 July 2017

** appointed on 22 February 2017

Directors' emoluments

Details of the emoluments of the Directors of the Company for 2017, disclosed in accordance with the Companies Act 2016 are shown in Note 29 to the financial statements.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Training and Development

Formal, tailored induction programmes are arranged for newly appointed Directors. The induction programmes consists of a series of meetings with senior executives to enable new Directors to familiarise themselves with the Company's business. Directors also received comprehensive guidance from the Corporation Secretary on Directors' duties and responsibilities.

Training and development are provided for Directors and are regularly reviewed by the Nominations and Remuneration Committee supported by the Corporation Secretary. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Company's businesses and functions. Non-Executive Directors have access to external training and development resources under the Directors' training and development framework approved by the Board. Awareness and discussion sessions were conducted by senior executives and subject matter experts on emerging technologies, financial crime compliance, regulatory initiatives and other business developments.

During the year, Directors have also attended talks, dialogue sessions and focus group sessions organized by FIDE Forum, and have received refresher training and presentation on MFRS 9.

Board committees

The Board has established a number of committees, the membership of which comprise non-executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' Terms of Reference are available at

http://www.takaful.hsbcamanah.com.my/1/PA_ES_Content_Mgmt/content/MYHT/pdf/INMY-BOD-TOR.pdf

As at the date of this report, the following are the principal committees:

1. Audit Committee

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on financial reporting related matters and internal controls over financial reporting, covering all material controls. The Audit Committee reviews the financial statements of the Company before submission to the Board. It also monitors and reviews the effectiveness of the internal audit function and the Company's financial and accounting policies and practices. The Audit Committee advises the Board on the appointment of the external auditors and is responsible for oversight of the external auditors.

The Audit Committee meets regularly with the Company's senior financial and internal audit management and the external auditor to consider, *inter alia*, the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting.

The current members of the Audit Committee, all being independent directors, are:

- K. Vithyatharan A/L V. Karunakaran (Chairman)
- Dr Cheah You Sum
- Muhammad Ali Jinnah bin Ahmad

During 2017, the Audit Committee held 7 meetings. Attendance is set out in the table on page 5.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board committees (Continued)

2. Risk Committee

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on high level risk related matters and risk governance.

The Risk Committee meets regularly with the Company's senior financial, risk, internal audit and compliance management to consider, *inter alia*, risk reports and internal audit reports and the effectiveness of compliance.

The Board and the Risk Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Company and mitigation actions planned and taken. The Risk Committee recommends the approval of the Company's risk appetite statement to the Board and monitors performance against the key performance/risk indicators included within the statement. The Risk Committee monitors the risk profiles for all of the risk categories within the Company's business.

The current members of the Risk Committee, all being independent directors, are:

- K. Vithyatharan A/L V. Karunakaran (Chairman)
- Dr Cheah You Sum
- Muhammad Ali Jinnah bin Ahmad

During 2017, the Risk Committee held 7 meetings. Attendance is set out in the table on page 5.

3. Nominations and Remuneration Committee

On 22 March 2017, the Board approved the setting up of a combined Nominations and Remuneration Committee and delegated the non-executive responsibility for (i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board; (ii) reviewing the candidates for appointment to the senior management team; (iii) appointment and reappointment of Shariah Committee members; and (iv) supporting the Board in overseeing the operation of the Company's remuneration system and reviewing the remuneration of Directors on the Board.

The Nominations and Remuneration Committee considers plans for orderly succession to the Board and the appropriate balance of skills, knowledge and experience on the Board. The Nominations and Remuneration Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the implementation of actions arising from the performance evaluation are reported to the Board during 2017.

Chief Executive Officer's performance evaluation is undertaken as part of the performance management process for all employees. The results will be considered by the Nominations and Remuneration Committees when reviewing the variable pay awards.

The members of the Nominations and Remuneration Committee, all being non-executive Directors, are:

- K. Vithyatharan A/L V. Karunakaran
- Dr Cheah You Sum
- Muhammad Ali Jinnah bin Ahmad
- Nor Azian binti Mohd Nor

During 2017, the Nominations and Remuneration Committee held 5 meetings. Attendance is set out in the table on page 5.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board committees (Continued)

4. Shariah Committee

The Shariah Committee was established with delegated authorities of the Board on the shariah operations and management of day-to-day running of the Company in accordance with Shariah compliance and principles based on the Board's policies and directions.

The current members of the Shariah Committee are:

- Muhammad Ali Jinnah Bin Ahmad (Chairman)
- Dr. Ghazali bin Jaapar
- Dr. Mohamad @ Md. Som bin Sujimon
- Khairul Anuar Bin Ahmad
- Dr Azrul Azlan bin Iskandar Mirza

Delegations by the Board

Executive Committee

The Executive Committee consists of key senior management members meets regularly and operates as a general management committee under the direct authority of the Board, exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day to day running of the Company, in accordance with such policies and directions as the Board may from time to time determine. The Company's Chief Executive Officer, Yahya Adnan Ahmad, chairs the Executive Committee.

Regular Risk Management Meetings of the Executive Committee, chaired by the Chief Risk Officer, Malaysia, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Company.

To strengthen the governance framework in anticipation of structural and regulatory changes that affect the Company, the following sub-committees of the Executive Committee were established:

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Company's balance sheet and the prudent management of risks.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework.

(iii) IT Steering Committee

The IT Steering Committee is responsible for the oversight of the implementation and development of IT strategy. The committee is accountable for reviewing, challenging and approving the financial planning and IT performance.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Conflicts of interest and indemnification of Directors

The Board has adopted a policy and procedures relating to Directors' conflicts of interest. Where conflicts of interest arise, the Board has the power to authorise them. A review of those conflicts which have been authorised, and the terms of those authorisations, is undertaken by the Audit Committee annually.

The Articles of Association provide that Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

None of the Directors had, during the year, a material interest, directly or indirectly, in any contract of significance with the Company. All Directors are regularly reminded of their obligations in respect of disclosure of conflicts or potential conflicts of interest in any transactions with the Company.

MANAGEMENT REPORTS

The Board meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable Directors to keep abreast with the performance of the Company, key reports submitted to the Board during the financial year include:

- Minutes of the Board Committees
- Business Progress Report
- Financial Performance Report
- Annual Operating Plan
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Risk Management Reports
- Operational Risk Report
- Scenario Stress Testing Results
- Financial Crime Compliance: Anti-Money Laundering and Counter Terrorist Financing Reports
- Regulatory Compliance Report
- Capital Contingency Funding Plan
- People Plan
- Investment Performance

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK

The Directors are responsible for reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks the Company is willing to take in achieving its strategic objectives. To meet this requirement, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures can only provide reasonable but not absolute assurance against material mis-statement, errors, losses or fraud. Key risk management and internal control procedures include the following:

- **HSBC Group standards**
HSBC Global Standards Manual (“GSM”) brings together the common standards and principles used in the conduct of all businesses, whatever its location or nature. The GSM overlays all other manuals throughout HSBC Group and is a fundamental component of the HSBC Group’s risk management structure. It establishes the high level standards and policies by which, and within which, all members of the HSBC Group conduct their businesses. The GSM is mandatory and applies to, and must be observed by, all businesses within the HSBC Group, regardless of the nature or location of their activities.
- **Enterprise Risk management framework**
The Enterprise Risk Management Framework (“ERMF”) provides the high-level risk management, structures and processes we use to manage risks, throughout the Company. The HSBC Group ERMF framework has been adopted by the Company. The ERMF has five main components: Culture and Values, Risk Governance, Roles and Responsibilities, Processes and Tools, and Internal Controls and provides a consistent mechanism to manage risks across the organisation
- **Delegation of authority within limits set by the Board**
Authority to manage the day to day running of the Company is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to certain senior positions within the Company require the approval of the Board of Directors.
- **Risk identification and monitoring**
Systems and procedures are in place to identify, control and report on the major risks facing the Company as set out below:
 - Shariah Compliance and takaful permissible risk;
 - credit risk;
 - financial crime compliance risk
 - capital management risk;
 - liquidity risk management risks;
 - model risk
 - reputational risk
 - market risk;
 - financial management risk;
 - strategic risk;
 - sustainability risk; and
 - operational risk (including accounting, tax, legal, regulatory compliance, financial crime, compliance, fraud, fiduciary, political, physical, internal, external, contingency, information security systems, operations, project and people risks.)

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

Exposure to these risks is monitored by Risk Committee, Asset, Liability and Capital Management Committee, Executive Committee and RMM of the Executive Committee which is chaired by Chief Risk Officer. The RMM also monitors the Company's operational risk profile and the effective implementation of the Company's operational risk management framework.

- **Changes in market conditions/practices**

Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Company to heightened risk of loss or reputational damage. The Company employs an active risks framework, which enables it to identify current and forward-looking risks and to take action which either prevents them materialising or limits their impact.
- **During 2017, attention was focused on:**
 - capital risk
 - business performance risk;
 - financial crime compliance risk ;
 - macroeconomic;
 - prudential/regulatory risk
 - people risk;
 - security risk (Information and physical security)
- **Strategic plans**

Periodic strategic plans are prepared for Businesses and Functions within the framework of the HSBC Group's strategy. The Company also prepares and adopts an Annual Operating Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that we are prepared to take in executing our strategy and sets out the key business initiatives and the likely financial effects of those initiatives.
- **Financial reporting**

The Company's financial reporting process for preparing the financial statements is in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act 2016, in Malaysia and supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Global Finance to the Company in advance of each reporting period end. The submission of financial information from the Company is subject to certification by the responsible financial officer, and analytical review procedures at the Company.
- **Responsibility for risk management**

Every employee is responsible for the identification and management of risk within the scope of their role as part of the Three Lines of Defence ("3LOD") model. The senior management team are accountable for these assigned risks in their respective areas of responsibility and report and escalate as necessary through the risk governance structures. Policies, procedures and limits are defined to ensure that business activities remain within an appropriate level of risk. All employees have a role to play in risk management. These roles are defined using the 3LOD model, which takes into account the business and functional structures. The model delineates management accountabilities and responsibilities for risk management and the control environment within each of the lines of defence, thereby creating a robust control environment to manage risks.
- **IT operations**

Centralised functional control is exercised over all IT development and operations. Common systems are employed for similar business processes wherever practicable.

CORPORATE GOVERNANCE DISCLOSURES (CONTINUED)

INTERNAL CONTROL FRAMEWORK (CONTINUED)

- **Function management**

Group-set policies, procedures and standards to control the principal risks detailed under ‘Risk identification and monitoring’ will be followed, unless those contravene the local regulations. In cases where the two do not contravene, the stricter one will be adopted. Limits of authorities to enter into credit and market risk exposures are delegated to line management of the Company. The concurrence of the appropriate Global Risks is required, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and reported at Company level and aggregated for risk concentration analysis on a Group wide basis.

- **Internal audit**

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Global Internal Audit function, provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes, focusing on the areas of greatest risk to HSBC using a risk based approach.

Executive committee is responsible for ensuring that recommendations made by the Global Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit.

During the year, the Risk Committee and the Audit Committee have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews, the Audit Committee and Risk Committee receive regular business and operational risk assessments; regular reports from the heads of key risk functions, which cover all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Risk Committee monitors the status of principal risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to HSBC policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

REMUNERATION POLICY

The remuneration policy for the HSBC Group is aiming to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to HSBC Values of being ‘open, connected and dependable’ and acting with ‘courageous integrity’. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group.

The Company has fully adopted the remuneration policy of HSBC Holdings plc. Please refer to the HSBC remuneration practices and governance at <http://www.hsbc.com/about-hsbc/corporate-governance> for more details of the governance structure and the remuneration strategy of the HSBC Group.

In recognition to the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Company. Further reviews will be conducted to ensure continued adherence to the underlying principles of the local regulations.

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of HSBC Amanah Takaful Malaysia Berhad for the financial year ended 31 December 2017.

DIRECTORS

Directors in office during the financial year and during the period from the end of the financial year to the date of this report are:

Kasim bin Zakaria

Lim Eng Seong

K. Vithyatharan A/L V. Karunakaran

Nor Azian binti Mohd Noor (appointed on 22 February 2017)

Dr Cheah You Sum (appointed on 21 August 2017)

Muhammad Ali Jinnah bin Ahmad (appointed on 21 August 2017)

Sazaliza bin Zainuddin (resigned on 22 February 2017)

Datuk Haron bin Siraj (retired on 10 July 2017)

Ian Keith Moore (resigned on 21 August 2017)

PRINCIPAL ACTIVITIES

The Company is principally engaged in managing of General Takaful and Family Takaful businesses. There has been no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the year attributable to owner of the Company	<u>7,320</u>

DIVIDEND

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

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

SHARE CAPITAL

There was no issuance of new ordinary shares during the financial year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

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

There was no arrangements to which the Company is a party during and at the end of the financial year which had the objective of enabling the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except for:

- (i) Directors who were granted the option to subscribe for shares in the ultimate holding company, HSBC Holdings plc, under Executive/Savings-Related Share Option Schemes at prices and terms as determined by the schemes, and
- (ii) Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the ordinary shares and options over shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	<u>Number of ordinary shares of USD0.50 each</u>			At 31.12.2017
	At 1.1.2017	Bought	Sold	
<u>HSBC Holdings plc</u>				
Lim Eng Seong	41,000	4,000	-	45,000

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

OPTIONS GRANTED OVER UNISSUED SHARES

No options were granted to any person to take up unissued shares of the Company during the financial year.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 21 to the financial statements. There is no indemnity given to or insurance affected for any auditor of the Company.

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION

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

- (i) all known bad debts have been written off and adequate provision made for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
- (ii) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Company had been written down to an amount which the current assets might be expected so to realise.

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

- (i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or
- (ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or
- (iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or
- (iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading, or
- (v) that would render the provision for incurred claims, including IBNR, inadequate to any substantial extent.

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

- (i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- (ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2017 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

DIRECTORS' REPORT (CONTINUED)

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The Directors regard HSBC Insurance (Asia Pacific) Holdings Ltd., a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Company respectively.

AUDITORS

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

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

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



KASIM ZAKARIA
CHAIRMAN



K. VITHYATHARAN A/L V KARUNAKARAN
DIRECTOR

Kuala Lumpur, Malaysia
21 March 2018

HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (Company No. 731530-M)
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	31 December 2017				31 December 2016			
		Takaful Operator	General Takaful Fund	Family Takaful Fund	Company	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets									
Plant and equipment	4	214	-	-	214	281	-	-	281
Intangible assets	5	14,353	-	-	14,353	16,605	-	-	16,605
Investment assets	6	145,410	30,111	1,094,365	1,269,886	139,911	49,858	994,290	1,184,059
Retakaful assets	7	-	38,175	42,811	80,986	-	32,851	34,415	67,266
Current tax assets		1,919	-	42	-	5,276	-	-	724
Financing receivables, excluding takaful receivables	8	40,711	389	7,904	37,929	47,260	1,530	6,727	37,721
Takaful receivables	9	-	3,870	9,773	13,643	-	3,647	4,371	8,018
Deferred tax assets/(liabilities)	10	1,743	165	(1,956)	(48)	735	123	1,615	2,473
Cash and cash equivalents	11	13,201	23,724	45,558	82,483	2,896	7,328	44,580	54,804
Total assets		217,551	96,434	1,198,497	1,499,446	212,964	95,337	1,085,998	1,371,951
Shareholders' equity									
Share capital	12	100,000	-	-	100,000	100,000	-	-	100,000
Retained earnings		26,502	-	-	26,502	19,182	-	-	19,182
Available-for-sale assets fair value reserves		(152)	-	-	(152)	(441)	-	-	(441)
Total equity		126,350	-	-	126,350	118,741	-	-	118,741
Liabilities									
Takaful contract liabilities	13	-	89,356	1,171,337	1,260,693	-	88,431	1,050,191	1,138,622
Expense reserves		46,969	-	-	46,969	47,014	-	-	47,014
Takaful payables	14	802	1,161	5,573	7,536	817	910	5,338	7,064
Other payables	15	16,430	3,079	20,603	29,038	19,392	4,990	26,923	33,510
Current tax liabilities		-	2,838	984	1,860	-	1,006	3,546	-
Amount due to shareholders	16	27,000	-	-	27,000	27,000	-	-	27,000
Total liabilities		91,201	96,434	1,198,497	1,373,096	94,223	95,337	1,085,998	1,253,210
Total equity and liabilities		217,551	96,434	1,198,497	1,499,446	212,964	95,337	1,085,998	1,371,951

The notes on pages 22 to 120 are an integral part of these financial statements.

HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (Company No. 731530-M)

(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017				31 December 2016			
		Takaful Operator	General Takaful Fund	Family Takaful Fund	Company	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	18	58,641	48,556	211,820	273,557	54,179	43,807	171,311	226,598
Takaful Operator income		55,930	-	-	-	60,029	-	-	-
Gross contributions		-	46,690	189,724	236,414	-	41,824	141,907	183,731
Contributions ceded to retakaful		-	(3,432)	(19,181)	(22,613)	-	(2,962)	(18,989)	(21,951)
Changes in unearned contribution reserves		-	(1,290)	-	(1,290)	-	(3)	-	(3)
Actuarial reserves		-	(1,476)	-	(1,476)	-	(433)	-	(433)
Net earned contributions		-	40,492	170,543	211,035	-	38,426	122,918	161,344
Gross benefits and claims paid		-	(5,044)	(114,263)	(119,307)	-	(6,917)	(103,950)	(110,867)
Claims ceded to retakaful		-	1,006	16,858	17,864	-	3,344	19,111	22,455
Gross changes in claims liabilities		-	(3,023)	(9)	(3,032)	-	12,894	1,358	14,252
Changes in claims liabilities ceded to retakaful		-	6,111	523	6,634	-	(9,736)	145	(9,591)
Net benefits and claims		-	(950)	(96,891)	(97,841)	-	(415)	(83,336)	(83,751)
Investment income	19	7,725	1,866	22,096	37,143	7,229	1,983	29,404	42,867
Fee and commission income	20	-	-	854	854	-	-	2,886	2,886
(Reversal of)/allowance for impairment		-	(172)	1	(171)	-	500	4	504
Other Income		45	-	117	162	283	-	2,495	2,778
Other income		7,770	1,694	23,068	37,988	7,512	2,483	34,789	49,035
Wakalah fees		-	(28,103)	(17,357)	-	-	(26,210)	(16,489)	-
Commission paid		(14,606)	-	-	(14,606)	(12,836)	-	-	(12,836)
Expense reserves		45	-	-	45	3,630	-	-	3,630
Realised gain/(loss)		83	-	(16,188)	(16,105)	-	-	(13,806)	(13,806)
Fair value gain/(loss) (unrealised)		97	-	48,453	48,550	-	-	(963)	(963)
Management expenses	21	(45,335)	-	-	(45,335)	(45,946)	-	-	(45,946)
Other expenses		(1,217)	(113)	664	(666)	(1,200)	(119)	-	(1,319)
Other expenses		(60,933)	(28,216)	15,572	(28,117)	(56,352)	(26,329)	(31,258)	(71,240)
Total profit for the period/Net underwriting surplus from operations		2,767	13,020	112,292	123,065	11,189	14,165	43,113	55,388

HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (Company No. 731530-M)

(Incorporated in Malaysia)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

	31 December 2017				31 December 2016			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Surplus attributable to the participants' risk fund	-	(561)	(3,385)	(3,946)	-	(5,788)	(5,347)	(11,135)
Surplus attributable to Takaful Operator	-	(561)	(4,453)	-	-	(5,788)	(7,291)	-
Net surplus retained in takaful funds	-	(125)	(97,773)	(97,898)	-	(1,286)	(30,663)	(31,949)
Profit/Surplus before zakat and taxation	2,767	11,773	6,681	21,221	11,189	1,303	(188)	12,304
Zakat	-	-	-	-	-	-	-	-
Taxation	22 4,553	(11,773)	(6,681)	(13,901)	(10,474)	(1,303)	188	(11,589)
Profit for the period attributable to owners of the Company	7,320	-	-	7,320	715	-	-	715
Other comprehensive income / (expenses)								
Fair value of available-for-sale financial assets								
- Gains/(Losses) arising during the period	380	110	2,162	2,652	(409)	(58)	1,643	1,176
Tax effect thereon	(91)	(27)	(173)	(291)	96	13	(131)	(22)
Other comprehensive income attributable to Takaful Operator/change in participants liabilities	-	(83)	(1,989)	(2,072)	-	45	(1,512)	(1,467)
Total other comprehensive income for the period	289	-	-	289	(313)	-	-	(313)
Total comprehensive income for the period attributable to owners of the Company	7,609	-	-	7,609	402	-	-	402

The notes on pages 22 to 120 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

← *Non-distributable* → *Distributable*

	Share capital RM'000	Available for sale financial assets ("AFS") fair value reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2016	100,000	(128)	18,467	118,339
Total other comprehensive income for the year	-	(313)	-	(313)
Profit for the year	-	-	715	715
At 31 December 2016 / 1 January 2017	100,000	(441)	19,182	118,741
Total other comprehensive income for the year	-	289	-	289
Profit for the year	-	-	7,320	7,320
At 31 December 2017	100,000	(152)	26,502	126,350

The notes on pages 22 to 120 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Cash flows from operating activities			
Cash generated from operations	23	22,750	2,829
Income tax paid		(9,086)	(10,656)
Net cash from operating activities		<u>13,664</u>	<u>(7,827)</u>
Cash flows from investing activities			
Acquisition of plant and equipment		(8)	(36)
Acquisition of intangible assets		(3,284)	(3,868)
Acquisition of investments		(327,783)	(343,116)
Proceeds from disposal of investments		222,823	181,034
Proceeds from maturities of investments		70,000	125,000
Profit from fixed deposits placed with licensed Islamic financial institutions		1,689	1,660
Profit from government guaranteed sukuk		10,377	9,882
Profit from government investment issues		3,974	4,376
Profit from corporate debt securities		19,886	19,336
Dividend received from quoted equity securities		16,340	17,136
Net cash used in investing activities		<u>14,015</u>	<u>11,404</u>
Net increase in cash and cash equivalents		27,679	3,577
Cash and cash equivalents at 1 January		<u>54,804</u>	<u>51,227</u>
Cash and cash equivalents at 31 December		<u>82,483</u>	<u>54,804</u>

Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	2017 RM'000	2016 RM'000
Fixed deposits with licensed Islamic financial institutions	11	59,419	23,480
Cash and bank balances	11	23,064	31,324
		<u>82,483</u>	<u>54,804</u>

The notes on pages 22 to 120 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

HSBC Amanah Takaful (Malaysia) Berhad is a public limited liability company, incorporated and domiciled in Malaysia. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business	Registered office
8 th - 9 th Floor, North Tower No. 2, Leboh Ampang 50100 Kuala Lumpur, Malaysia	10 th Floor, North Tower No. 2, Leboh Ampang 50100 Kuala Lumpur, Malaysia

The Company is principally engaged in managing of General Takaful and Family Takaful businesses. There have been no significant changes in the nature of these activities during the financial year.

The immediate holding company is HSBC Insurance (Asia Pacific) Holdings Ltd., a company incorporated in Hong Kong. The ultimate holding company is HSBC Holdings plc, a company incorporated in the United Kingdom.

These financial statements were authorised by the Board of Directors on 21 March 2018.

2 BASIS OF PREPARATION

(a) Statement of compliance

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

In preparing the Company’s financial statements as a whole, the assets, liabilities, income and expenses of the Takaful fund are combined with those of the Takaful Operator. Interfund balances and transactions are eliminated in arriving at the Company’s financial statements. The statements of financial position and the statements of profit or loss and other comprehensive income of the Takaful Operator, Family Takaful Fund and General Takaful Fund are supplementary financial information presented in accordance with the requirements of BNM, Islamic Financial Services Act 2013 in Malaysia to segregate assets, liabilities, income and expenses of Takaful funds from its own. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for transactions and events in similar circumstances.

The preparation of financial statements in conformity with 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 financial year. It also requires Directors to exercise their judgment in the process of applying the Company’s accounting policies. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates.

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 3 to the financial statements.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation as specifically disclosed in the accounting policies of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

- (i) Standards, amendments to published standards and interpretations that are effective and applicable to the Company

The new accounting standards and amendments to published standards that are effective and applicable to the Company for the financial year beginning on 1 January 2017 are as follows:

- Amendments to MFRS 107 'Statement of Cash Flows – Disclosure Initiative'
- Amendments to MFRS 112 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses'

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:-

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

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

The Company is in the process of assessing the financial impact onto their financial statements.

- Amendments to MFRS 4 - Applying MFRS 9 ‘Financial Instruments’ with MFRS 4 ‘Insurance Contracts’ effective for annual periods beginning on or after 1 January 2018.

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

The amendments provide two different approaches for entities: (i) a temporary exemption from MFRS 9 for entities that meet specific requirements; and (ii) the overlay approach. Both approaches are optional.

The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest. An entity may apply the temporary exemption from MFRS 9 if its activities are predominantly connected with insurance whilst the overlay approach allows an entity to adjust profit or loss for eligible financial assets by removing any accounting volatility to other comprehensive income that may arise from applying MFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

An entity can apply the temporary exemption from MFRS 9 from annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies MFRS 9 for the first time.

The Company's business activity are predominately insurance and hence, qualifies for the temporary exemption approach. Consequently, management has decided to apply the temporary exemption from MFRS 9 from its annual period beginning 1 January 2018 and will adopt MFRS 9 for its annual period beginning 1 January 2021.

The Company will assess the impact of MFRS 9 with the adoption of MFRS 17 "Insurance Contract".

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

Based on the Company's assessment, there is no expected material impact to the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- 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” of the underlying asset and a lease liability reflecting future lease payments for most leases.

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

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.

- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ (effective 1 January 2019) provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

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

IC Interpretation 23 will be applied retrospectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- Amendments to MFRS 112 ‘Income Taxes’ (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.
- MFRS 17 “Insurance Contracts” (effective from 1 January 2021) supercedes MFRS 4 “Insurance Contracts”.

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 from Contracts with Customers”. 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 re-measured 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 related to financial risks either in profit or loss or in other comprehensive income.

Alternative measurement models are provided for the different insurance coverages:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(a) Statement of compliance (continued)

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

- MFRS 17 “Insurance Contracts” (effective from 1 January 2021) supercedes MFRS 4 “Insurance Contracts” (continued)

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

The Company is in the preliminary stage of assessing the financial impact of MFRS 17 onto the Company’s financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgments (continued)

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

- Note 3(b) – Financial instruments
- Note 3(m) and (n) – Claims and contributions liabilities
- Note 3(p) – Expenses liability

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the reporting date, except for those that are measured at fair value that are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) Financial assets at fair value through profit or loss

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

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

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

(b) Financing receivables, excluding takaful receivables

Financing receivables category comprises debt instruments that are not quoted in an active market (including fixed deposits with licensed Islamic financial institutions with maturities more than 3 months).

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

(c) Available-for-sale financial assets

Available-for-sale category comprises investments in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Profit calculated for a debt instrument using the effective profit method is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial assets (continued)

(d) Takaful receivables

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

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 3(g) to the financial statements).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

(iii) Regular way purchase or sale of financial assets

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

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

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards if ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Plant and equipment

(i) Recognition and measurement

Plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bring the asset to working condition for its intended use.

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

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is credited or charged to the income statement.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

• Computer equipment	3 years
• Office equipment, fixtures and fittings	5-10 years
• Motor vehicles	5 years

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

At each date of the 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. Refer to accounting policy Note 3(g) on impairment of assets.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leased assets

Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(e) Intangible assets

Intangible assets comprise computer software (including costs of software under development) and are stated at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised from the date that they are available for use. Software under development is not amortised until the assets are ready for its intended use.

Amortisation is recognised in profit or loss on a straight-line basis over the expected useful economic life of computer software of between 3 to 5 years.

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

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with licensed Islamic financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

(g) Impairment

(i) Financial assets, excluding takaful receivables

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

(i) Financial assets, excluding takaful receivables (continued)

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Takaful receivables

Takaful receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or profit or both for takaful receivables is past due for more than 90 days or 3 months for those individually assessed, as prescribed in the Guidelines on Financial Reporting for Takaful Operators issued by Bank Negara Malaysia.

Individual impairment allowances are made for any contributions including agents, brokers and retakaful balances, which remain outstanding for more than three (2016: three) months from the date on which they become receivable, and for all other debts, which are considered impaired.

(iii) Non-financial assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

(iii) Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

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

(h) Equity instruments

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

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(i) Employee benefits

(i) Short-term employee benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Employee benefits

(i) Short-term employee benefits

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

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

(ii) State plans

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

(iii) Defined benefit plans

The Company participates in equity-settled and cash-settled share-based compensation plans for employees that are offered by the ultimate holding company, HSBC Holdings plc. The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they were granted, and recognised as an expense on a straight-line basis over the vesting periods, in profit or loss. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

(j) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary differences that affect neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Income taxes (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Takaful product classification

A takaful contract means an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund (General Risk Fund or Family Risk Fund) providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events. Takaful risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified financial or non-financial variable. The Takaful Operator does not sell financial risk contracts.

Contracts where insignificant takaful risks are accepted by the Funds are classified as either investment contracts or service contracts. The Company defines Takaful risk to be significant when the ratio of the Takaful risk over the deposit component is not less than 110% of the deposit component at any point of the Takaful contract in force. Based on this definition, all Takaful contracts issued by the Company met the definition of Takaful contracts as at the date of this statement of financial position.

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

(m) General Takaful Fund

The General Takaful Fund is maintained in accordance with the requirements of Islamic Financial Service Act 2013 (“IFSA”) and consists of accumulated surplus/deficit and actuarial reserves. Any actuarial deficit in the General Takaful Fund will be made good by the Takaful Operator via a Qard. Surplus distributable in each financial year is distributed in accordance with the terms and conditions prescribed by the surplus distribution policy, endorsed by the Shariah Committee and Board of Directors.

The General Takaful underwriting results are determined for each class of business after taking into account retakaful, contribution liabilities, claims liabilities and wakalah fees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General Takaful Fund (continued)

(i) Contribution income

Contribution for direct and co-takaful business is recognised in respect of risks assumed during the particular financial year as soon as the amount can be reliably measured, based on issuance of certificates, and in accordance with the principles of Shariah as advised by the Company's Shariah Committee. Contributions in respect of risks incepted before the reporting date for which certificates are issued subsequent to the end of reporting date are accrued for at the reporting date.

Inward retakaful contributions are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

Outward retakaful contributions are recognised in the same financial year as the original certificate to which the retakaful relates.

(ii) General takaful contract liabilities recognition

General Takaful Fund's liabilities consist of claim liabilities and contribution liabilities are recognised when contracts are entered into and contributions are charged.

(a) Claim liabilities

A liability for outstanding claims is recognised in respect of direct takaful business and co-takaful business. The claim liabilities are the best estimate together with related provision of risk margin for adverse deviation as well as expenses less retakaful recoveries, if any, to settle the present contractual obligations at the reporting date.

Provision for outstanding claims is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate claim costs cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and actuarial assumptions. The liability is not discounted for the time value of money and is derecognised when the contract expired, discharged or cancelled.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions. However, these uncertainties are partly addressed by holding the claim liabilities at 75% confidence level as per required by Bank Negara Malaysia ("BNM") Guideline, Guidelines on Valuation Basis for Liabilities of General Takaful Business.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General Takaful Fund (continued)

(ii) General takaful contract liabilities recognition (continued)

(b) Contribution liabilities

The unearned contribution reserves (“UCR”) represent contributions received after wakalah fee deduction for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised in statement of profit and loss and other comprehensive income of the General Takaful Fund.

In determining the UCR at the reporting date, the most prevalent method, 1/365 method, is used. This is reduced by deductions as a corresponding percentage of accounted gross direct refundable business commissions but not exceeding limits specified by Bank Negara Malaysia Guideline.

At each reporting date, the Company reviews its unexpired risk reserve (inclusive of Fund Provision of Risk Margin for Adverse Deviation, “FPRAD”) to determine whether there is any overall excess of expected claims over unearned contributions at portfolio level. This calculation uses current estimates of future contractual losses (taking into consideration current loss ratios) prior to taking account of the investment return expected to arise on assets relating to the relevant General Takaful technical provisions. If these estimates show that the carrying amount of the unearned contributions is insufficient to meet future liabilities, then the Company is required to hold the unexpired risk reserve (inclusive of Provision of Risk Margin for Adverse Deviation, “PRAD”).

(n) Family Takaful Fund

The Family Takaful Fund is maintained in accordance with the requirements of the IFSA and includes the amount attributable to participants.

The amount attributable to participants consists of the accumulated surplus attributable to the participants determined by an annual actuarial valuation of the Family Takaful Fund unallocated surplus, net asset value attributable to unitholders and other reserves, as applicable. The amount attributable to participants is distributed in accordance with the terms and conditions of the products as approved by the Shariah Committee of the Company. Any actuarial deficit in the Family Takaful Risk Fund will be made good by the Takaful Operator via a Qard. Surplus distributable to participants is determined after deducting claims/benefits paid and payable, retakaful, provisions, reserves, wakalah fees, as well as repayment of Qard, if any.

(i) Contribution income

Contribution is recognised when the amount can be reliably measured and in accordance with the principles of Shariah as advised by the Company’s Shariah Committee. Contribution income from the Family Takaful fund is recognised as soon as the amount can be reliably measured. Initial contribution is recognised from inception date and subsequent contribution is recognised when due. At the end of the financial year, all due contributions are accounted for to the extent that they can be reliably measured.

Contribution income of the Investment linked fund includes net creation of units, which represent contributions paid by participants as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on receipt basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family Takaful Fund (continued)

(i) Contribution income (continued)

Retakaful contributions are recognised as an expense when payable or on the date on which the certificate is effective.

(ii) Investment-linked business

Investment assets are classified as fair value through profit or loss (“FVTPL”) and include collective investment schemes and structured investments. Fair value of equity and corporate debt securities are determined based on methods described in Note 3(b)(ii) to the financial statements.

The gain or loss arising from disposal of any of the aforesaid investments is the difference between net disposal proceeds and the carrying value of the investment. Gain or loss on disposals of investments are credited or charged to the investment-linked business’ profit or loss.

(iii) Benefits, claims and expenses

Claims settled are charged to profit or loss, in the financial year in which the claims arise. A liability for outstanding claims is recognised when a claimable event occurs and/or the Takaful Operator is notified.

Gross outstanding claims is based on best estimate of the loss, which will eventually be payable on each unpaid claim, established by the management based on currently available information and past experience.

(iv) Provision for outstanding claims

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

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

- (a)** Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates.
- (b)** Death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the participant or occurrence of contingency covered.
- (c)** For group family business, provision is made for the cost of claims, together with related expenses.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family Takaful Fund (continued)

(v) Family takaful liabilities and actuarial reserves

In carrying out the fiduciary duty, the Company must put in place sufficient measures to ensure sustainability of the Family Takaful Funds to meet takaful benefits for the full term. These measures include setting up of appropriate provisions for liabilities in the Family Takaful Funds, to ensure that adequate funds would be available to meet all contractual obligations and commitments as they fall due, with a reasonable level of certainty.

The Family Takaful liabilities are recognised when contracts are entered into and contributions are charged. These liabilities are measured by using a prospective actuarial valuation method, discounted at the appropriate risk discount rate as defined in the BNM Guidelines on Valuation Basis for Liabilities of Family Takaful Business.

For products with a participant fund, the liabilities are valued by projecting future cash flows to ensure that all future obligations could be met without recourse to additional finance or capital support at any future time during the duration of each certificate. The cash flows for each certificate are projected on monthly intervals until the natural expiry of the certificates, and any negative cash flows at all future monthly intervals are zeroed. The cash flows include the monthly Tabarru', future benefits and netted of retakaful cessions.

For single contribution credit related products, the liabilities are determined as the sum of present value of future benefits and deducting the retakaful cessions.

The future cash flows are projected based on best estimate assumptions with the appropriate allowance for provision of adverse deviation from expected experience, and with due regard to recent experience.

In addition to the liabilities set up on future benefits, a liability for outstanding claims which includes an estimate of the incurred claims that have not been reported to Takaful Operator is accounted for.

For liabilities of a 1-year Family Takaful certificate, the liabilities were the sum of the contribution liabilities and claim liabilities. For Group Term Takaful, the contribution liabilities were taken as the unearned Tabarru'. The claim liabilities comprises of an estimate of the incurred claims that have not been reported to the Takaful Operator, net of retakaful. For Group Hospitalization & Surgery, the contribution liabilities were calculated as the higher of the provision for unearned Tabarru' and the best estimate value of the provision for unexpired risk with provision of risk margin for adverse deviation. The claim liabilities were computed by using the Expected Claim Method, also known as Expected Loss Ratio Method. The ultimate loss ratio for each accident year was selected after giving considerations to the reported-to-date loss ratio as well as the prior accident year's ultimate loss ratio.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family Takaful Fund (continued)

(v) Family takaful liabilities and actuarial reserves (continued)

Where certificate or extensions of a certificate are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

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

The valuation of takaful certificate liabilities is determined according to BNM Guidelines on Valuation Basis for Liabilities of Family Takaful Business. The Guidelines on Valuation Basis for Liabilities of Family Takaful Business meets the requirement of Liability Adequacy Test under MFRS 4.

As with all projections, there are elements of uncertainty and the projected liabilities may be different from actual benefits paid due to the significant level of uncertainty involved in the discount rate used as well as the lapse and mortality and morbidity assumptions.

(o) Retakaful

The Company enters into retakaful treaties in the normal course of business for the purpose of limiting its net loss potential and to reduce significantly the new business strain of the credit-related block of business. Retakaful arrangements do not relieve the Company from its obligations to participants. Retakaful contributions and claim recoveries are presented in profit or loss and statement of financial position on a gross basis.

The Company also assumes co-takaful risk in the normal course of business for its General Takaful contracts. Contributions and claims on assumed co-takaful are recognised as revenue or expenses in the same manner as they would be if the co-takaful were considered direct business, taking into account the product classification of the business undertaken.

Retakaful assets comprise of the retakaful share of contributions and claims obligations. The assets are subject to impairment test as described in Note 3(g) to the financial statements.

(p) Expenses liability

The contract underlying takaful operations defines a unique relationship between Takaful Operator and participants of a takaful scheme. While the General and Family Takaful Funds are responsible to meet contractual benefits accorded to participants on the basis of mutual assistance amongst participants, the Company is expected to duly observe fundamental obligations towards participants, particularly in terms of adhering to Shariah principles and undertaking fiduciary duties to prudently manage the takaful funds as well as meet costs involved in managing the takaful business.

In carrying out the fiduciary duty, the Company must put in place sufficient measures to ensure that the Takaful Operator is able to support the takaful certificates for the full term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Expenses liability (continued)

The expenses liability of the Takaful Operator's fund consists of expenses liability of the General Takaful Fund and Family Takaful Fund which are computed by actuaries approved by BNM. The expense liabilities are released over the term of the Takaful certificate and recognised in the income statement.

(i) Expenses liability of General Takaful Fund

The expenses liability is reported at the higher of the aggregate of Unearned Wakalah Fee ("UWF") and Unexpired Expense Risk ("UER") together with related provision of risk margin for adverse deviation as at the end of the financial year.

Unearned Wakalah Fee Reserves

The UWF reserves represent the portion of wakalah fee income allocated for management expenses of General Takaful certificates that relate to the unexpired periods of certificates at the end of the financial year. The method used in computing UWF is consistent with the calculation of UCR.

Unexpired Expense Risk Reserve

The UER reserve is the estimated expenses costs to service all in-force certificates as well as to process all outstanding claims and future incurred losses as at valuation date. This reserve is estimated via a range of standard actuarial approaches. This reserve is then loaded with a provision of risk margin for adverse deviations. The final provision is called as Unexpired Expense Risk Reserve at 75% sufficiency.

(ii) Expenses liability of Family Takaful Fund

Expense liabilities are conducted separately in the Takaful Operator's fund. The method used to value expense liabilities is consistent with the method used to value takaful liabilities of the corresponding Family Takaful certificate.

For products with participant funds, the expense liabilities valued by projecting future cash flows to ensure that all future obligations could be met without recourse to additional finance or capital support at any future time during the duration of each certificate. The cash flows for each certificate, then discounted using the zero coupon curve of the government investment issues sukuk were projected on monthly intervals until the natural expiry of the certificates, and any negative cash flow arising at each monthly interval is zeroed.

For single contribution credit related products, the expense liabilities are determined as the sum of present value of future expenses, including any expected maintenance expense overruns, incurred by the Takaful Operator in managing the family fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Expenses liability (continued)

(ii) Expenses liability of Family Takaful Fund (continued)

Future expenses for Takaful Operator refer to expense, commissions and surrender benefit payout (if any). The income includes wakalah fees, surrender charges (if any), monthly service charges (if any), fund management charges (if any), investment income fees and surplus distribution from the Takaful fund (from products with participant fund).

Expected future maintenance expense overruns are considered in the expense liabilities by allocation of overruns to individual certificates. Based on management's forecast of new business volumes and expense levels from the Annual Operating Plan, the ratio of allocated maintenance expense forecast to the maintenance expense allowances based on long term best estimate expense assumptions are determined for each calendar year for the entire in-force and new business portfolio. The ratios were then applied to scale up expense projections for the current in-force business.

The future cash flows are projected based on best estimate assumptions with the appropriate allowance for provision of adverse deviation from expected experience, and with due regard to recent experience.

For expense arising from managing 1-year family takaful certificates, the liability for such expense comprises the provision for unearned wakalah fees and unexpired expense risks.

Where certificates or extensions of a certificate are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

(q) Other income

Investment income is recognised on a time proportion basis that takes into account the effective yield of the asset. Profits including the amount of amortisation of premium and accretion of discount are recognised on a time proportion basis taking into account the principal outstanding and the effective date over the period to maturity, when it is determined that such income will accrue to the Company.

Dividend income is recognised in the income statement when the right to receive payment is established.

Gain or loss arising on disposals of investments are credited or charged to the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Zakat

Zakat represents alms payable by the Company to comply with the Principles of Shariah and as approved by the Shariah Committee of the Company. Zakat is only provided for when obligation exists at the reporting date.

(s) Commission and acquisition costs

Commission and acquisition costs are borne by the Takaful Operator in the Company's profit or loss at an agreed percentage for each certificate underwritten. This is in accordance with the principles of wakalah as approved by the Shariah Committee and is as agreed between the participants and the Company.

Gross commission and agency expenses, which are costs directly incurred in securing contributions on takaful certificates, and income derived from retakaful companies in the course of ceding contributions to retakaful, are charged to profit or loss in the period in which they are incurred.

(t) Wakalah fee

The wakalah fee is defined as a fee arranged under wakalah contract where the Company is entitled to receive fees for carrying out the authorised task that have been delegated to the Company. The wakalah fee is an income to the Takaful Operator and is charged to the participant and correspondingly recognised as an expense in the respective funds' profit and loss. The fee can be a fixed amount or as a percentage ratio of the contribution or fund value. The manner of payment can be in one lump sum or in several payments. This is in accordance with the principal of wakalah as approved by the Shariah Committee and the fee is determined and agreed between the participant and the Company at the time of entering into the contract.

Commission, acquisition costs and management expenses of the General and Family Takaful Funds are borne by the Takaful Operator and included as a component of wakalah fee income.

(u) Contingencies

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Fair value measurements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 PLANT AND EQUIPMENT

Takaful Operator and Company

	Computer equipment	Motor vehicles	Office, equipment , fixtures and fittings	Total
	RM'000	RM'000	RM'000	RM'000
Cost				
At 1 January 2016	1,310	7	1,189	2,506
Additions	-	-	36	36
Disposal	-	-	(133)	(133)
Reclassification (Note 5)	(198)	-	-	(198)
At 31 December 2016 / 1 January 2017	<u>1,112</u>	<u>7</u>	<u>1,092</u>	<u>2,211</u>
Additions	8	-	-	8
31 December 2017	<u><u>1,120</u></u>	<u><u>7</u></u>	<u><u>1,092</u></u>	<u><u>2,219</u></u>
Accumulated depreciation				
At 1 January 2016	1,291	1	854	2,146
Charge for the year	19	1	95	115
Disposal	-	-	(133)	(133)
Reclassification (Note 5)	(198)	-	-	(198)
At 31 December 2016 / 1 January 2017	<u>1,112</u>	<u>2</u>	<u>816</u>	<u>1,930</u>
Charge for the year	2	1	72	75
31 December 2017	<u><u>1,114</u></u>	<u><u>3</u></u>	<u><u>888</u></u>	<u><u>2,005</u></u>
Carrying amount				
At 31 December 2016	<u><u>-</u></u>	<u><u>5</u></u>	<u><u>276</u></u>	<u><u>281</u></u>
At 31 December 2017	<u><u>6</u></u>	<u><u>4</u></u>	<u><u>204</u></u>	<u><u>214</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 INTANGIBLE ASSETS

Takaful Operator and Company

	Development of computer software RM'000	Computer software RM'000	Total RM'000
Cost			
At 1 January 2016	5,892	37,663	43,555
Additions	3,769	99	3,868
Disposal	-	(1,305)	(1,305)
Reclassification (Note 4)	(8,502)	8,700	198
At 31 December 2016 / 1 January 2017	<u>1,159</u>	<u>45,157</u>	<u>46,316</u>
Additions	3,284	-	3,284
Reclassification (Note 4)	(3,080)	3,080	-
31 December 2017	<u><u>1,363</u></u>	<u><u>48,237</u></u>	<u><u>49,600</u></u>
Accumulated depreciation			
At 1 January 2016	-	25,715	25,715
Charge for the year	-	4,894	4,894
Disposal	-	(1,096)	(1,096)
Reclassification (Note 4)	-	198	198
At 31 December 2016 / 1 January 2017	<u>-</u>	<u>29,711</u>	<u>29,711</u>
Charge for the year	-	5,536	5,536
31 December 2017	<u><u>-</u></u>	<u><u>35,247</u></u>	<u><u>35,247</u></u>
Carrying amount			
At 31 December 2016	<u>1,159</u>	<u>15,446</u>	<u>16,605</u>
At 31 December 2017	<u><u>1,363</u></u>	<u><u>12,990</u></u>	<u><u>14,353</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVESTMENT ASSETS

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
2017				
Available-for-sale financial assets				
Government investment issues	5,020	-	73,457	78,477
Government guaranteed sukuk	30,067	10,080	163,380	203,527
Corporate debt securities	110,323	20,031	237,281	367,635
Financial assets at fair value through profit or loss				
Government investment issues	-	-	5,092	5,092
Government guaranteed sukuk	-	-	64,527	64,527
Corporate debt securities	-	-	81,355	81,355
Collective investment schemes	-	-	456,003	456,003
Quoted equity securities	-	-	13,270	13,270
	<u>145,410</u>	<u>30,111</u>	<u>1,094,365</u>	<u>1,269,886</u>
2016				
Available-for-sale financial assets				
Government investment issues	25,030	-	78,335	103,365
Government guaranteed sukuk	25,030	14,865	162,224	202,119
Corporate debt securities	89,851	34,993	226,559	351,403
Financial assets at fair value through profit or loss				
Government guaranteed sukuk	-	-	10,104	10,104
Corporate debt securities	-	-	59,158	59,158
Collective investment schemes	-	-	81,129	81,129
Structured investments	-	-	363,761	363,761
Quoted equity securities	-	-	13,020	13,020
	<u>139,911</u>	<u>49,858</u>	<u>994,290</u>	<u>1,184,059</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVESTMENT ASSETS (CONTINUED)

(a) Carrying values of investment assets

Investment assets are carried at fair value. Investment assets are categorised as either available-for-sale financial assets (“AFS”) or financial assets at fair value through profit or loss (“FVTPL”).

	AFS	FVTPL	Total
	RM’000	RM’000	RM’000
At 1 January 2016	654,954	492,077	1,147,031
Purchases	126,143	216,973	343,116
Maturities	(125,000)	-	(125,000)
Disposals	-	(181,034)	(181,034)
Fair value loss recorded in profit or loss	-	(963)	(963)
AFS reserves	1,176	-	1,176
(Amortisation)/accretion adjustment	(386)	119	(267)
At 31 December 2016/1 January 2017	<u>656,887</u>	<u>527,172</u>	<u>1,184,059</u>
Purchases	65,441	262,342	327,783
Maturities	(65,000)	(5,000)	(70,000)
Disposals	(9,983)	(212,840)	(222,823)
Fair value gain recorded in profit or loss	-	48,453	48,453
AFS reserves	2,652	-	2,652
(Amortisation)/accretion adjustment	(358)	121	(237)
At 31 December 2017	<u><u>649,639</u></u>	<u><u>620,247</u></u>	<u><u>1,269,886</u></u>

(b) Fair values of investment assets

The fair value of investment assets is determined by reference to market closing prices in an active market at reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 INVESTMENT ASSETS (CONTINUED)

(c) The following investment assets mature after twelve months:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Available-for-sale financial assets	25,091	30,111	48,229	103,430
Financial assets at fair value through profit or loss	-	-	-	-
	<u>25,091</u>	<u>30,111</u>	<u>48,229</u>	<u>103,430</u>
2016				
Available-for-sale financial assets	104,930	15,013	462,117	582,060
Financial assets at fair value through profit or loss	-	-	145,376	145,376
	<u>104,930</u>	<u>15,013</u>	<u>607,493</u>	<u>727,436</u>

7 RETAKAFUL ASSETS

	Note	2017 RM'000	2016 RM'000
General Takaful Fund	13(a)	38,175	32,851
Family Takaful Fund	13(b)	42,811	34,415
		<u>80,986</u>	<u>67,266</u>

8 FINANCING RECEIVABLES, EXCLUDING TAKAFUL RECEIVABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Profit due and accrued	1,669	344	6,609	8,622
Fixed deposits with licensed Islamic financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	27,580	-	-	27,580
Other receivables in Malaysia	2,120	45	1,295	1,727
Amount due from :-				
General Takaful Fund	1,684	-	-	-
Family Takaful Fund	7,658	-	-	-
	<u>40,711</u>	<u>389</u>	<u>7,904</u>	<u>37,929</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 FINANCING RECEIVABLES, EXCLUDING TAKAFUL RECEIVABLES (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2016				
Profit due and accrued	1,495	477	6,519	8,491
Fixed deposits with licensed Islamic financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	27,638	-	-	27,638
Other receivables in Malaysia	1,910	1,053	208	1,592
Amount due from :-				
General Takaful Fund	4,092	-	-	-
Family Takaful Fund	12,125	-	-	-
	<u>47,260</u>	<u>1,530</u>	<u>6,727</u>	<u>37,721</u>

The fixed deposits with maturities of more than 3 months placed with a licensed Islamic bank that are held with related parties amounted to RM27,000,000 (2016: RM27,000,000).

9 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017			
Due contributions including agents/ brokers and co-insurers balances	2,979	3,991	6,970
Due from retakaful companies and cedants	891	5,782	6,673
	<u>3,870</u>	<u>9,773</u>	<u>13,643</u>
Offsetting financial assets and financial liabilities			
Gross amounts of recognised financial assets	4,698	15,828	20,526
Less :			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(828)	(6,055)	(6,883)
Net amounts of financial assets presented in the statement of financial position	<u>3,870</u>	<u>9,773</u>	<u>13,643</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 TAKAFUL RECEIVABLES (CONTINUED)

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2016			
Due contributions including agents/ brokers and co-insurers balances	1,892	1,925	3,817
Due from retakaful companies and cedants	1,755	2,446	4,201
	<u>3,647</u>	<u>4,371</u>	<u>8,018</u>
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	4,385	4,920	9,305
Less :			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(738)	(549)	(1,287)
Net amounts of financial assets presented in the statement of financial position	<u>3,647</u>	<u>4,371</u>	<u>8,018</u>

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2017 (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 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 relate to the same tax authority.

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	2,258	408	836	3,502
Charged/(credited) to income statement:				
Plant and equipment	(1,356)	-	-	(1,356)
Investment assets	(196)	(47)	120	(123)
Financing receivable	-	(249)	-	(249)
Expenses reserves	389	-	-	389
Unabsorbed losses	(519)	-	-	(519)
Change in tax rate	-	-	790	790
Other payable	63	(2)	-	61
	(1,619)	(298)	910	(1,007)
Charged/(credited) to other comprehensive income :				
Investment assets	98	13	(131)	(20)
Change in tax rate	(2)	-	-	(2)
At 31 December 2016/1 January 2017	735	123	1,615	2,473
Charged/(credited) to income statement:				
Plant and equipment	459	-	-	459
Investment assets	48	27	(3,874)	(3,799)
Financing receivable	-	41	-	41
Expenses reserves	654	-	-	654
Unabsorbed losses	-	-	476	476
Other payable	(62)	-	-	(62)
	1,099	68	(3,398)	(2,231)
Charged/(credited) to other comprehensive income :				
Investment assets	(91)	(26)	(173)	(290)
At 31 December 2017	1,743	165	(1,956)	(48)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The composition of deferred tax assets/(liabilities) before and after appropriate offsetting, is as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Subject to income tax:				
Deferred tax assets:(before offsetting)				
Investment assets	114	30	-	144
Financing receivables	-	135	-	135
Expenses reserves	4,017	-	-	4,017
Other payables	-	-	1,266	1,266
Unabsorbed losses	249	-	-	249
	<u>4,380</u>	<u>165</u>	<u>1,266</u>	<u>5,811</u>
Offsetting	(2,637)	-	(1,266)	(3,903)
Deferred tax assets after offsetting	<u>1,743</u>	<u>165</u>	<u>-</u>	<u>1,908</u>
Deferred tax liabilities: (before offsetting)				
Plant and equipment	(2,637)	-	-	(2,637)
Investment assets	-	-	(3,222)	(3,222)
Offsetting	2,637	-	1,266	3,903
Deferred tax liabilities after offsetting	<u>-</u>	<u>-</u>	<u>(1,956)</u>	<u>(1,956)</u>
2016				
Subject to income tax:				
Deferred tax assets:(before offsetting)				
Investment assets	157	29	825	1,011
Financing receivables	-	94	-	94
Expenses reserves	3,362	-	-	3,362
Other payables	311	-	-	311
Unabsorbed losses	-	-	790	790
	<u>3,830</u>	<u>123</u>	<u>1,615</u>	<u>5,568</u>
Offsetting	(3,095)	-	-	(3,095)
Deferred tax assets after offsetting	<u>735</u>	<u>123</u>	<u>1,615</u>	<u>2,473</u>
Deferred tax liabilities: (before offsetting)				
Plant and equipment	(3,095)	-	-	(3,095)
Offsetting	3,095	-	-	3,095
Deferred tax liabilities after offsetting	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 CASH AND CASH EQUIVALENTS

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Cash and bank balances	4,749	3,976	14,339	23,064
Fixed deposits with licensed financial institutions with maturities of less than 3 months				
- Licensed bank in Malaysia	8,452	19,748	31,219	59,419
	<u>13,201</u>	<u>23,724</u>	<u>45,558</u>	<u>82,483</u>
2016				
Cash and bank balances	2,896	3,918	24,510	31,324
Fixed deposits with licensed financial institutions with maturities of less than 3 months				
- Licensed bank in Malaysia	-	3,410	20,070	23,480
	<u>2,896</u>	<u>7,328</u>	<u>44,580</u>	<u>54,804</u>

The fixed deposits with maturities of less than 3 months placed with a Islamic licensed bank that are held with related parties is NIL (2016: NIL). It is subjected to profit rate range of [2.80% – 3.35%] (2016: 3.15% – 3.30%).

12 CAPITAL AND RESERVES

12.1 Share capital

	Takaful Operator and Company			
	2017		2016	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Authorised ordinary shares of RM50 each as at 1 January/ 31 December	-	-	3,000	150,000
Ordinary shares of RM 50 each as at 1 January	2,000	100,000	2,000	100,000
Transition to no-par value regime under the Company Act 2016*	-	-	-	-
Ordinary shares with no par value as at 31 December	<u>2,000</u>	<u>100,000</u>	<u>2,000</u>	<u>100,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 CAPITAL AND RESERVES (CONTINUED)

12.1 Share capital (continued)

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

*The new Companies Act 2016, which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

12.2 Fair value reserves

The fair value reserves comprise the cumulative net change in the fair value of available-for-sale financial assets net of tax until the investments are derecognised or impaired.

12.3 Retained earnings

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the IFSA, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 January 2015.

Pursuant to the RBC Framework for Takaful Operator, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

13 TAKAFUL CONTRACT LIABILITIES

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2017				
General Takaful Fund	13(a)	89,356	(38,175)	51,181
Family Takaful Fund	13(b)	1,171,337	(42,811)	1,128,526
Company		<u>1,260,693</u>	<u>(80,986)</u>	<u>1,179,707</u>
2016				
General Takaful Fund	13(a)	88,431	(32,851)	55,580
Family Takaful Fund	13(b)	1,050,191	(34,415)	1,015,776
Company		<u>1,138,622</u>	<u>(67,266)</u>	<u>1,071,356</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful Fund

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2017				
Provision for claims reported by participants		40,619	(32,988)	7,631
Provision for IBNR		16,089	(5,639)	10,450
Provision for outstanding claims	(i)	56,708	(38,627)	18,081
Provision for unearned contributions	(ii)	18,738	452	19,190
Participants' funds	(iii)	13,910	-	13,910
		<u>89,356</u>	<u>(38,175)</u>	<u>51,181</u>
2016				
Provision for claims reported by participants		34,399	(27,919)	6,480
Provision for IBNR		19,286	(4,598)	14,688
Provision for outstanding claims	(i)	53,685	(32,517)	21,168
Provision for unearned contributions	(ii)	18,234	(334)	17,900
Participants' funds	(iii)	16,512	-	16,512
		<u>88,431</u>	<u>(32,851)</u>	<u>55,580</u>
(i) Provision for outstanding claims				
		Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2017				
Claims incurred in the current period		8,067	(7,117)	950
Claims paid during the period		(5,044)	1,007	(4,037)
At 31 December 2017		<u>56,708</u>	<u>(38,627)</u>	<u>18,081</u>
At 1 January 2016				
Claims incurred in the current period		(5,977)	6,392	415
Claims paid during the period		(6,917)	3,344	(3,573)
At 31 December 2016		<u>53,685</u>	<u>(32,517)</u>	<u>21,168</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) **General Takaful Fund (continued)**

(ii) **Provision for unearned contributions**

	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2017	18,234	(334)	17,900
Contributions written in the period	46,690	(3,432)	43,258
Contributions earned during the year	(46,186)	4,218	(41,968)
At 31 December 2017	<u>18,738</u>	<u>452</u>	<u>19,190</u>
At 1 January 2016	18,801	(905)	17,896
Contributions written in the period	41,824	(2,962)	38,862
Contributions earned during the year	(42,391)	3,533	(38,858)
At 31 December 2016	<u>18,234</u>	<u>(334)</u>	<u>17,900</u>

(iii) **Participants' fund**

	2017 RM'000	2016 RM'000
Unallocated surplus	4,388	4,457
AFS reserves	8	(76)
Revenue account accumulated surplus	9,514	12,131
	<u>13,910</u>	<u>16,512</u>
Unallocated surplus		
At 1 January	4,457	2,577
Transfer from surplus	125	1,286
Retained surplus	420	(20)
Transfer (to)/from other liabilities	(614)	614
At 31 December	<u>4,388</u>	<u>4,457</u>
AFS reserves		
At 1 January	(76)	(31)
Increase/(decrease) in reserves	84	(45)
At 31 December	<u>8</u>	<u>(76)</u>
Revenue account accumulated surplus		
At 1 January	12,131	6,362
Surplus for the period	686	7,074
Profit paid to participants	(3,178)	(19)
Transfer to unallocated surplus	(125)	(1,286)
At 31 December	<u>9,514</u>	<u>12,131</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful Fund

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2017				
Provision for outstanding claims	(i)	13,813	(11,696)	2,117
Participants' funds	(ii)	1,157,524	(31,115)	1,126,409
		<u>1,171,337</u>	<u>(42,811)</u>	<u>1,128,526</u>
2016				
Provision for outstanding claims	(i)	13,804	(11,173)	2,631
Participants' funds	(ii)	1,036,387	(23,242)	1,013,145
		<u>1,050,191</u>	<u>(34,415)</u>	<u>1,015,776</u>

(i) Provision for outstanding claims

	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2017	13,804	(11,173)	2,631
Claims incurred during the year	23,634	(17,381)	6,253
Claims paid during the year	(23,625)	16,858	(6,767)
At 31 December 2017	<u>13,813</u>	<u>(11,696)</u>	<u>2,117</u>
At 1 January 2016	12,446	(11,028)	1,418
Claims incurred during the year	22,488	(19,256)	3,232
Claims paid during the year	(21,130)	19,111	(2,019)
At 31 December 2016	<u>13,804</u>	<u>(11,173)</u>	<u>2,631</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful Fund (continued)

(ii) Participants' fund

	Gross RM'000	Retakaful RM'000	Net RM'000
At 31 December 2017			
Actuarial reserves	240,434	(31,115)	209,319
Unallocated surplus	53,730	-	53,730
AFS reserve	(242)	-	(242)
Net asset value attributable to participants	410,692	-	410,692
Net asset value attributable to unit holders	452,910	-	452,910
	<u>1,157,524</u>	<u>(31,115)</u>	<u>1,126,409</u>
At 1 January 2017			
Contributions received	53,161	-	53,161
Liabilities paid for death, maturities, surrenders, benefits and claims	(37,925)	-	(37,925)
Fees deducted	(8,093)	-	(8,093)
Investment income	13,731	-	13,731
Retakaful reserve credit	7,873	(7,873)	-
Profit paid to participants	1,249	-	1,249
Net asset value attributable to unit holders	87,073	-	87,073
Surplus attributable to Takaful Operator	(4,453)	-	(4,453)
Reversal of impairment	1	-	1
AFS reserve	1,989	-	1,989
Deferred tax on fair value gains	(3,938)	-	(3,938)
Investment income distribution	13,284	-	13,284
Transfer surplus distribution to other liabilities	(3,385)	-	(3,385)
Others	570	-	570
At 31 December 2017	<u>1,157,524</u>	<u>(31,115)</u>	<u>1,126,409</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful Fund (continued)

(ii) Participants' fund (continued)

	Gross RM'000	Retakaful RM'000	Net RM'000
At 31 December 2016			
Actuarial reserves	238,027	(23,242)	214,785
Unallocated surplus	53,934	-	53,934
AFS reserve	(2,231)	-	(2,231)
Net asset value attributable to participants	380,821	-	380,821
Net asset value attributable to unit holders	365,836	-	365,836
	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>
	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2016			
Contributions received	47,347	-	47,347
Liabilities paid for death, maturities, surrenders, benefits and claims	(38,453)	-	(38,453)
Fees deducted	(8,293)	-	(8,293)
Investment income	13,099	-	13,099
Retakaful reserve credit	(5,121)	5,121	-
Net asset value attributable to unit holders	24,390	-	24,390
Surplus attributable to Takaful Operator	(7,291)	-	(7,291)
Reversal of impairment	4	-	4
AFS reserve	1,512	-	1,512
Transfer to unallocated surplus	2,713	-	2,713
Deferred tax on fair value gains	(921)	-	(921)
Investment income distribution	12,202	-	12,202
Transfer surplus distribution to other liabilities	(10,602)	-	(10,602)
Others	5,465	-	5,465
At 31 December 2016	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 TAKAFUL PAYABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Due to agents and intermediaries	802	-	-	802
Due to retakaful companised and cedants	-	1,161	5,573	6,734
	<u>802</u>	<u>1,161</u>	<u>5,573</u>	<u>7,536</u>
Offsetting financial assets and finacnial liabilities				
Gross amounts of recognised financial liabilities	802	1,161	29,216	31,179
Less :				-
Gross amounts of recognised financial assets set off in the statement of financial positions	-	-	(23,643)	(23,643)
Net amounts of financial liabilities presented in the statement of financial position	<u>802</u>	<u>1,161</u>	<u>5,573</u>	<u>7,536</u>
2016				
Due to agents and intermediaries	817	-	-	817
Due to retakaful companised and cedants	-	910	5,338	6,247
	<u>817</u>	<u>910</u>	<u>5,338</u>	<u>7,064</u>
Offsetting financial assets and finacnial liabilities				
Gross amounts of recognised financial liabilities	817	910	31,576	33,303
Less :				
Gross amounts of recognised financial assets set off in the statement of financial positions	-	-	(26,238)	(26,238)
Net amounts of financial liabilities presented in the statement of financial position	<u>817</u>	<u>910</u>	<u>5,338</u>	<u>7,065</u>

The carrying amounts disclosed above approximate fair values at the reporting date. All amounts are repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 OTHER PAYABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Accrued expenses	5,199	-	349	5,548
Due to :				
Takaful Operator	-	1,684	7,658	-
Related companies	8,161	-	-	8,161
Profit payable to Profit Sharing Investment Account (Note 16)	778	-	-	778
Surplus Payable to Participant	-	-	4,549	4,549
Others	2,292	1,395	8,047	10,002
	<u>16,430</u>	<u>3,079</u>	<u>20,603</u>	<u>29,038</u>
2016				
Accrued expenses	5,688	-	-	5,688
Due to :				
Takaful Operator	-	4,092	12,124	-
Related companies	9,736	-	-	9,736
Profit payable to Profit Sharing Investment Account (Note 16)	1,257	-	-	1,257
Surplus Payable to Participant	-	-	7,327	7,327
Others	2,711	898	7,472	9,502
	<u>19,392</u>	<u>4,990</u>	<u>26,923</u>	<u>33,510</u>

Included in Other Payables is zakat payable of RM377,412 (2016: RM377,412). The method of zakat payable is based on net assets of the Company as approved by the Shariah Committee.

The carrying amounts disclosed above approximate fair values at the reporting date. All amounts are repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 AMOUNT DUE TO SHAREHOLDERS

	Takaful Operator and Company	
	2017	2016
	RM'000	RM'000
Amount due to shareholders	27,000	27,000
	<u>27,000</u>	<u>27,000</u>

In 2010, the Company entered into a Mudharabah Agreement with its shareholders to set up a subordinated Profit Sharing Investment Account (“PSIA”) whereby the shareholders contributed a total of RM20,000,000 into the PSIA and are entitled to share the profits from the underlying investment.

In 2013, the Company extended the tenure of the existing RM20,000,000 to 31 December 2019 and placed an additional RM7,000,000 with a similar maturity date.

The Mudharabah contribution amount due to the shareholders is as follows:

	2017	2016
	RM'000	RM'000
Takaful Operator and Company		
HSBC Insurance (Asia Pacific) Holdings Limited	13,230	13,230
JAB Capital Berhad	8,370	8,370
Lembaga Kumpulan Wang Simpanan Pekerja	5,400	5,400
	<u>27,000</u>	<u>27,000</u>

The amount due to shareholders subject to profit rate of [2.85%] (2016: 2.85% - 3.15%), is unsecured and repayable within 3 years.

The profit payable to PSIA is as disclosed in Note 15 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 EMPLOYEE BENEFITS

(a) Equity-based compensation

The Company participated in the following equity-settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

(i) Restricted Share Plan

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

	2017	2016
	Number	Number
At 1 January	717	508
Additions during the year	-	621
Forfeited/lapsed in the year	(717)	-
Exercise during the year	-	(412)
	<hr/>	<hr/>
At 31 December	-	717
	<hr/> <hr/>	<hr/> <hr/>
	2017	2016
	RM'000	RM'000
Compensation cost recognised during the year	-	16
	<hr/> <hr/>	<hr/> <hr/>

The weighted average purchase price for all shares purchased by the Company for awards under the Restricted Share Plan is nil (2016: £5.87). The closing price of the HSBC shares at 31 December 2017 was £7.66 (2015: £6.57). The weighted average remaining vesting period as at 31 December 2017 was 0 years (2015: 0.32 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 EMPLOYEE BENEFITS (CONTINUED)

(a) Equity-based compensation (continued)

(iii) Performance Share Award

HSBC Holdings ordinary shares and deferred cash are awarded to senior executives, with corporate performance conditions and will be released to the individual after three years, provided participants remain continuously employed within the HSBC Group. Additional awards are made during the three-year life of the award. These represent the equivalent value of dividends reinvested in shares. At the end of three years, the original Award together with the Additional Share Awards (added to the original award) will be released. The cost of the awards is recognised through an annual charge based on the cost of the shares purchased, apportioned over a period of three years to which the award relates.

	2017	2016
	Number	Number
At 1 January	4,519	4,192
Additions during the year	-	327
Forfeited/lapsed in the year	(4,519)	-
	<u> </u>	<u> </u>
At 31 December	<u> </u>	<u> </u>
	-	4,519
	<u> </u>	<u> </u>
	2017	2016
	RM'000	RM'000
Compensation cost recognised during the year	-	41
	<u> </u>	<u> </u>

The weighted average purchase price for all shares purchased by the Company for awards under the Performance Share Award is nil (2016 : £6.72). The closing price of the HSBC shares at 31 December 2017 was £7.66 (2016: £6.57). The weighted average remaining vesting period as at 31 December 2017 was 0 years (2016 : 0).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 EMPLOYEE BENEFITS (CONTINUED)

(iv) Savings-Related Share Match Schemes

The Savings-Related Share Match Schemes was first introduced in Malaysia in 2014. Eligible employee are granted option to acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to the maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	2017	2016
	Number	Number
At 1 January	3,386	1,411
Additions during the year	815	2,003
Forfeited/lapsed in the year	(1,523)	(28)
	<hr/>	<hr/>
At 31 December	2,678	3,386
	<hr/> <hr/>	<hr/> <hr/>
	2017	2016
	RM'000	RM'000
Compensation cost recognised during the year	33	55
	<hr/> <hr/>	<hr/> <hr/>

The weighted average purchase price for all shares purchased by the Company for awards under the Share Match Scheme is £6.02 (2016 : £5.39). The closing price of the HSBC shares at 31 December 2017 was £7.66 (2016 : £6.57). The weighted average remaining vesting period as at 31 December 2017 was 1.18 years (2016 : 1.25 years).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 OPERATING REVENUE

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Gross contributions	-	46,690	189,724	236,414
Investment income (Note 19)	7,725	1,866	22,096	37,143
Wakalah Fee	50,916	-	-	-
	<u>58,641</u>	<u>48,556</u>	<u>211,820</u>	<u>273,557</u>
2016				
Gross contributions	-	41,824	141,907	183,731
Investment income (Note 19)	7,229	1,983	29,404	42,867
Wakalah Fee	46,950	-	-	-
	<u>54,179</u>	<u>43,807</u>	<u>171,311</u>	<u>226,598</u>
Wakalah fee by type :				
2017				
Upfront wakalah	43,367	-	-	-
Service fee	1,791	-	-	-
Surrender fee	302	-	-	-
Wakalah fund management fee	5,456	-	-	-
	<u>50,916</u>	<u>-</u>	<u>-</u>	<u>-</u>
2016				
Upfront wakalah	40,680	-	-	-
Service fee	1,766	-	-	-
Surrender fee	253	-	-	-
Wakalah fund management fee	4,251	-	-	-
	<u>46,950</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 INVESTMENT INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Profit from government guaranteed sukuk	1,014	388	8,975	10,377
Profit from government investment issues	560	-	3,414	3,974
Profit from corporate debt securities	4,070	1,223	14,593	19,886
Profit from fixed deposits with licensed Islamic financial institutions	377	291	1,021	1,689
Dividend income from quoted equity	-	-	16,340	16,340
Investment income/(expense) sharing:				
- Takaful Operator	1,895	-	(1,895)	-
- Participants	-	-	(14,441)	(14,441)
(Amortisation)/accretion of government guaranteed sukuk	(86)	65	677	656
(Amortisation)/accretion of government investment issues	(1)	-	(174)	(175)
Amortisation of corporate debt securities	(104)	(71)	(545)	(720)
Wakalah fund management fee	-	-	(5,456)	-
Fund management fee rebate	-	-	5,675	5,675
Investment expense	-	(30)	(6,088)	(6,118)
	<u>7,725</u>	<u>1,866</u>	<u>22,096</u>	<u>37,143</u>
2016				
Profit from government guaranteed sukuk	894	400	8,588	9,882
Profit from government investment issues	881	-	3,495	4,376
Profit from corporate debt securities	3,614	1,399	14,323	19,336
Profit from fixed deposits with licensed Islamic financial institutions	271	255	1,134	1,660
Dividend income from quoted equity	-	-	17,136	17,136
Investment income/(expense) sharing:				
- Takaful Operator	1,748	-	(1,748)	-
- Participants	-	-	(13,264)	(13,264)
(Amortisation)/accretion of government guaranteed sukuk	(68)	64	651	647
Accretion/(amortisation) of government investment issues	23	-	(168)	(145)
Amortisation of corporate debt securities	(114)	(118)	(536)	(768)
Wakalah fund management fee	-	-	(4,251)	-
Fund management fee rebate	-	-	4,204	4,204
Investment expense	(20)	(17)	(160)	(197)
	<u>7,229</u>	<u>1,983</u>	<u>29,404</u>	<u>42,867</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 FEE AND COMMISSION INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Retakaful commission income	-	-	854	854
Fee and commission income related to takaful contracts	-	-	854	854
2016				
Retakaful commission income	-	-	2,886	2,886
Fee and commission income related to takaful contracts	-	-	2,886	2,886

21 MANAGEMENT EXPENSES

	Takaful Operator and Company	
	2017 RM'000	2016 RM'000
Personnel expenses		
Contribution to defined contribution plans	2,828	2,971
Salaries and bonus	16,104	16,956
Shariah Committee fee	141	204
Others	2,675	2,269
	<u>21,748</u>	<u>22,400</u>
Auditor remuneration:		
Statutory audit fees	216	216
Other services	9	9
Amortisation of intangible assets	5,536	4,894
Depreciation of plant and equipment	75	115
Directors' Fees	329	295
Information technology costs	3,203	2,634
Marketing and research	551	1,976
Printing and stationery	1,338	1,302
Professional and consultancy	6,750	6,997
Postage and stamp duties	14	14
Rental of office premises	1,808	1,862
Utilities, assessment and maintenance	87	79
Others	3,671	3,153
	<u>45,335</u>	<u>45,946</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 INCOME TAX EXPENSE

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Current tax expenses				
- Current	7,741	3,078	237	11,056
- (Over)/under provision in prior year	(11,195)	8,763	3,046	614
Deferred tax expense/(income) (Note 10)				
- Origination and reversal of temporary difference	(1,099)	(68)	3,264	2,097
- Under provision in prior years	-	-	134	134
	<u>(4,553)</u>	<u>11,773</u>	<u>6,681</u>	<u>13,901</u>
2016				
Current tax expenses				
- Current	7,868	240	-	8,108
- Under provision in prior year	987	765	722	2,474
Deferred tax expense/(income) (Note 10)				
- Origination and reversal of temporary difference	1,682	296	(863)	1,115
- (Over)/under provision in prior years	(63)	2	(47)	(108)
	<u>10,474</u>	<u>1,303</u>	<u>(188)</u>	<u>11,589</u>

The income tax for the Takaful Operator and General Takaful Fund is calculated based on the standard corporate tax rate of 24% (2016: 24%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful Fund is calculated based on tax rate of 8% (2016: 8%) of the assessable investment income net of allowable deductions for the financial year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 INCOME TAX EXPENSE (CONTINUED)

Reconciliation of effective tax expense

	2017	2016
	RM'000	RM'000
Profit before taxation	21,221	12,304
Taxation at Malaysian statutory tax rate 24%	5,093	2,953
Income not subject to tax	(5,162)	(6,591)
Expenses not deductible for tax purposes	11,160	11,843
Tax expense attributable to participants	2,062	1,018
Previously unrecognised taxable temporary difference	134	-
Previously unrecognised deductible temporary difference	-	(108)
Under provision in prior year	614	2,474
Total tax expenses	<u>13,901</u>	<u>11,589</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 CASH FLOWS FROM OPERATING ACTIVITIES

	2017	2016
	RM'000	RM'000
Profit before zakat and taxation	21,221	12,304
Profit from government guaranteed sukuk	(10,377)	(9,882)
Profit from government investment issues	(3,974)	(4,376)
Profit from corporate debt securities	(19,886)	(19,336)
Profit from fixed deposits with licensed financial institutions	(1,689)	(1,660)
Dividend income from quoted equity securities	(16,340)	(17,136)
Increase/(decrease) in takaful contract liabilities	3,535	(12,103)
Non Cash items:		
Amortisation of intangible assets	5,536	4,894
Increase/(decrease) in impairment of receivables	172	(504)
Depreciation of plant and equipment	75	115
Fair value movement of investment	(48,453)	963
Net amortisation/(accretion) of investment	237	266
Provision for expenses reserves	(45)	(3,630)
Write off of intangible assets	-	209
Changes in working capital:		
(Increase)/decrease in receivables	(6,004)	2,125
Decrease in payables	(4,000)	(6,891)
Increase in participants' fund	119,641	42,207
Profit paid to participants	(3,178)	(19)
(Decrease)/increase in retakaful assets	(13,721)	15,283
Cash generated from operations	<u>22,750</u>	<u>2,829</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS

24.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (“L&R”);
- (b) Fair value through profit or loss (“FVTPL”) - Held for trading (“HFT”);
- (c) Available-for-sale financial assets (“AFS”);
- (d) Financial liabilities measured at amortised cost (“FL”).

	Carrying Amount RM'000	L&R/(FL) RM'000	FVTPL - HFT RM'000	AFS RM'000
2017				
Financial assets				
Takaful Operator				
Investment assets	145,410	-	-	145,410
Financing receivables excluding takaful receivables	40,711	40,711	-	-
Cash and cash equivalents	13,201	13,201	-	-
General Takaful Fund				
Investment assets	30,111	-	-	30,111
Financing receivables excluding takaful receivables	389	389	-	-
Retakaful assets	38,175	38,175	-	-
Takaful receivables	3,870	3,870	-	-
Cash and cash equivalents	23,724	23,724	-	-
Family Takaful Fund				
Investment assets	1,094,365	-	620,247	474,118
Financing receivables excluding takaful receivables	7,904	7,904	-	-
Retakaful assets	42,811	42,811	-	-
Takaful receivables	9,773	9,773	-	-
Cash and cash equivalents	45,558	45,558	-	-
Company				
Investment assets	1,269,886	-	620,247	649,639
Financing receivables excluding takaful receivables	37,929	37,929	-	-
Retakaful assets	80,986	80,986	-	-
Takaful receivables	13,643	13,643	-	-
Cash and cash equivalents	82,483	82,483	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.1 Categories of financial instruments (continued)

	Carrying Amount RM'000	(FL) RM'000
2017		
Financial liabilities		
Takaful Operator		
Takaful payables	(802)	(802)
Other payables	(16,430)	(16,430)
Amount due to shareholders	(27,000)	(27,000)
General Takaful Fund		
Takaful contract liabilities	(89,356)	(89,356)
Takaful payables	(1,161)	(1,161)
Other payables	(3,079)	(3,079)
Family Takaful Fund		
Takaful contract liabilities	(1,171,337)	(1,171,337)
Takaful payables	(5,573)	(5,573)
Other payables	(20,603)	(20,603)
Company		
Takaful contract liabilities	(1,260,693)	(1,260,693)
Takaful payables	(7,536)	(7,536)
Other payables	(29,038)	(29,038)
Amount due to shareholders	(27,000)	(27,000)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.1 Categories of financial instruments (continued)

	Carrying Amount RM'000	L&R/(FL) RM'000	FVTPL - HFT RM'000	AFS RM'000
2016				
Financial assets				-
Takaful Operator				
Investment assets	139,911	-	-	139,911
Financing receivables excluding takaful receivables	47,260	47,260	-	-
Cash and cash equivalents	2,986	2,896	-	-
General Takaful Fund	-	-	-	-
Investment assets	49,858	-	-	49,858
Financing receivables excluding takaful receivables	1,530	1,530	-	-
Retakaful assets	32,851	32,851	-	-
Takaful receivables	3,647	3,647	-	-
Cash and cash equivalents	7,328	7,328	-	-
Family Takaful Fund				
Investment assets	994,290	-	527,172	467,118
Financing receivables excluding takaful receivables	6,727	6,727	-	-
Retakaful assets	34,415	34,415	-	-
Takaful receivables	4,371	4,371	-	-
Cash and cash equivalents	44,580	44,580	-	-
Company				
Investment assets	994,290	-	527,172	467,118
Financing receivables excluding takaful receivables	6,727	6,727	-	-
Retakaful assets	34,415	34,415	-	-
Takaful receivables	4,371	4,371	-	-
Cash and cash equivalents	44,580	44,580	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.1 Categories of financial instruments (continued)

	Carrying Amount RM'000	(FL) RM'000
2016		
Financial liabilities		
Takaful Operator		
Takaful payables	(817)	(817)
Other payables	(19,392)	(19,392)
Amount due to shareholders	(27,000)	(27,000)
General Takaful Fund		
Takaful contract liabilities	(88,431)	(88,431)
Takaful payables	(910)	(910)
Other payables	(4,990)	(4,990)
Family Takaful Fund		
Takaful contract liabilities	(1,050,191)	(1,050,191)
Takaful payables	(5,338)	(5,338)
Other payables	(26,923)	(26,923)
Company		
Takaful contract liabilities	(1,138,622)	(1,138,622)
Takaful payables	(7,064)	(7,064)
Other payables	(33,510)	(33,510)
Amount due to shareholders	(27,000)	(27,000)

24.2 Net gains and losses arising from financial instruments

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Net gains on:				
Financing receivables	377	119	1,876	2,372
Fair value through profit or loss	-	-	48,605	48,605
Available-for-sale financial assets	7,637	1,659	6,724	21,475
	<u>8,014</u>	<u>1,778</u>	<u>57,205</u>	<u>72,452</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
2016				
Net gains on:				
Financing receivables	271	755	4,024	5,050
Fair value through profit or loss	-	-	2,367	2,367
Available-for-sale financial assets	6,645	1,684	12,646	24,546
	<u>6,916</u>	<u>2,439</u>	<u>19,037</u>	<u>31,963</u>

24.3 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

24.4 Credit risk

The Company's portfolio of debt securities, and to a lesser extent short-term and other investments, are subject to credit risk. This risk is defined as the potential loss in market value resulting from adverse changes in a borrower's ability to repay the debt.

The Company's objective is to earn competitive relative returns by investing in a diversified portfolio of securities. Management has an investment credit risk policy in place. Limits are established to manage credit quality and concentration risk.

The Company also has takaful receivables and other receivables amounts subject to credit risk. Among the most significant of these are retakaful recoveries. To mitigate the risk of counterparties not paying the amount due, the Company has established certain business and financial guidelines for retakaful approval, incorporating ratings by major agencies and considering currently available market information. The Company also periodically reviews the financial stability of retakaful operators from public and other sources and the settlement trend of amounts due from retakaful companies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Exposure to credit risk and credit quality

The table below shows the maximum exposure to credit risk for the components on the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
2017				
AFS				
Government investment issues	5,020	-	73,457	78,477
Government guaranteed sukuk	30,067	10,080	163,380	203,527
Corporate debt securities	110,323	20,031	237,281	367,635
FVTPL				
Government investment issues	-	-	5,092	5,092
Government guaranteed sukuk	-	-	64,527	64,527
Corporate debt securities	-	-	81,355	81,355
Collective investment schemes	-	-	456,003	456,003
L&R				
Fixed deposits with licensed Islamic financial institutions	27,580	-	-	27,580
Financing receivables, excluding takaful receivables	13,131	389	7,904	10,349
Retakaful assets	-	38,175	42,811	80,986
Takaful receivables	-	3,870	9,773	13,643
Cash and bank balances	13,201	23,724	45,558	82,483
	<u>199,322</u>	<u>96,269</u>	<u>1,187,141</u>	<u>1,471,657</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Exposure to credit risk and credit quality (continued)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2016				
AFS				
Government investment issues	25,030	-	78,335	103,365
Government guaranteed sukuk	25,030	14,865	162,224	202,119
Corporate debt securities	89,851	34,993	226,559	351,403
FVTPL				
Government investment issues	-	-	10,104	10,104
Government guaranteed sukuk	-	-	59,158	59,158
Corporate debt securities	-	-	81,129	81,129
Collective investment schemes	-	-	363,761	363,761
L&R				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	19,622	1,530	6,727	10,083
Retakaful assets	-	32,851	34,415	67,266
Takaful receivables	-	3,647	4,371	8,018
Cash and bank balances	2,896	7,328	44,580	54,804
	<u>190,067</u>	<u>95,214</u>	<u>1,071,363</u>	<u>1,338,848</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to Rating Agency of Malaysia (“RAM”) and MARC credit rating of counter parties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA RM'000	AA RM'000	Not-rated RM'000	Total RM'000
(i) Takaful Operator				
2017				
AFS				
Government investment issues*	-	-	5,020	5,020
Government guaranteed sukuk*	-	-	30,067	30,067
Corporate debt securities	95,314	15,009	-	110,323
L&R				
Fixed deposits with licensed Islamic financial institutions	27,580	-	-	27,580
Financing receivables, excluding takaful receivables	-	-	13,131	13,131
Cash and bank balances	13,201	-	-	13,201
2016				
AFS				
Government investment issues*	-	-	25,030	25,030
Government guaranteed sukuk*	-	-	25,030	25,030
Corporate debt securities	75,016	14,835	-	89,851
L&R				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	-	-	19,622	19,622
Cash and bank balances	2,896	-	-	2,896

* Government issued/guaranteed securities are not rated by RAM or MARC but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor’s.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

	AAA RM'000	AA RM'000	Not-rated RM'000	Total RM'000
(ii) General Takaful Fund				
2017				
AFS				
Government guaranteed sukuk*	-	-	10,080	10,080
Corporate debt securities	20,031	-	-	20,031
L&R				
Financing receivables, excluding takaful receivables	-	-	389	389
Retakaful assets	-	-	38,175	38,175
Takaful receivables	-	-	3,870	3,870
Cash and bank balances	23,724	-	-	23,724
	<u>23,724</u>	<u>-</u>	<u>-</u>	<u>23,724</u>
2016				
AFS				
Government guaranteed sukuk*	-	-	14,865	14,865
Corporate debt securities	34,993	-	-	34,993
L&R				
Financing receivables, excluding takaful receivables	-	-	1,530	1,530
Retakaful assets	-	-	32,851	32,851
Takaful receivables	-	-	3,647	3,647
Cash and bank balances	7,328	-	-	7,328
	<u>7,328</u>	<u>-</u>	<u>-</u>	<u>7,328</u>

* Government issued/guaranteed securities are not rated by RAM or MARC but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor's.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

	AAA RM'000	AA RM'000	Not-rated RM'000	Total RM'000
(iii) Family Takaful Fund				
2017				
AFS				
Government investment issues*	-	-	73,457	73,457
Government guaranteed sukuk*	-	-	163,380	163,380
Corporate debt securities	207,605	29,676	-	237,281
FVTPL				
Government investment issues*	-	-	5,092	5,092
Government guaranteed sukuk*	-	-	64,527	64,527
Corporate debt securities	81,355	-	-	81,355
Collective investment schemes**	-	-	456,003	456,003
L&R				
Financing receivables, excluding takaful receivables	-	-	7,904	7,904
Retakaful assets	-	-	42,811	42,811
Takaful receivables	-	-	9,773	9,773
Cash and bank balances	45,558	-	-	45,558
2016				
AFS				
Government investment issues*	-	-	78,335	78,335
Government guaranteed sukuk*	-	-	162,224	162,224
Corporate debt securities	197,147	29,412	-	226,559
FVTPL				
Government investment issues*	-	-	10,104	10,104
Government guaranteed sukuk*	-	-	59,158	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes**	-	-	363,761	363,761
L&R				
Financing receivables, excluding takaful receivables	-	-	6,727	6,727
Retakaful assets	-	-	34,415	34,415
Takaful receivables	-	-	4,371	4,371
Cash and bank balances	44,580	-	-	44,580

* Government issued/guaranteed securities are not rated by RAM or MARC but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor's.

** Collective investment schemes are approved funds of Securities Commission of Malaysia.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

	AAA RM'000	AA RM'000	Not-rated RM'000	Total RM'000
(iv) Company				
2017				
AFS				
Government investment issues*	-	-	78,477	78,477
Government guaranteed sukuk*	-	-	203,527	203,527
Corporate debt securities	322,950	44,685	-	367,635
FVTPL				
Government investment issues*	-	-	5,092	5,092
Government guaranteed sukuk*	-	-	64,527	64,527
Corporate debt securities	81,355	-	-	81,355
Collective investment schemes**	-	-	456,003	456,003
L&R				
Fixed deposits with licensed Islamic financial institutions	27,580	-	-	27,580
Financing receivables, excluding takaful receivables	-	-	10,349	10,349
Retakaful assets	-	-	80,986	80,986
Takaful receivables	-	-	13,643	13,643
Cash and bank balances	82,483	-	-	82,483
2016				
AFS				
Government investment issues*	-	-	103,365	103,365
Government guaranteed sukuk*	-	-	202,119	202,119
Corporate debt securities	307,156	44,247	-	351,403
FVTPL				
Government investment issues*	-	-	10,104	10,104
Government guaranteed sukuk*	-	-	59,158	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes**	-	-	363,761	363,761
L&R				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	-	-	10,083	10,083
Retakaful assets	-	-	67,266	67,266
Takaful receivables	-	-	8,018	8,018
Cash and bank balances	54,804	-	-	54,804

* Government issued/guaranteed securities are not rated by RAM or MARC but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor's.

** Collective investment schemes are approved funds of Securities Commission of Malaysia.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's internal credit ratings of counterparties.

(i) Takaful Operator

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2017				
AFS				
Government investment issues	5,020	-	-	5,020
Government guaranteed sukuk	30,067	-	-	30,067
Corporate debt securities	110,323	-	-	110,323
L&R				
Fixed deposits with licensed Islamic financial institutions	27,580	-	-	27,580
Financing receivables, excluding takaful receivables	13,131	-	-	13,131
Cash and bank balances	13,201	-	-	13,201
	<u>199,322</u>	<u>-</u>	<u>-</u>	<u>199,322</u>
2016				
AFS				
Government investment issues	25,030	-	-	25,030
Government guaranteed sukuk	25,030	-	-	25,030
Corporate debt securities	89,851	-	-	89,851
L&R				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	19,622	-	-	19,622
Cash and bank balances	2,896	-	-	2,896
	<u>190,067</u>	<u>-</u>	<u>-</u>	<u>190,067</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

(ii) **General Takaful Fund**

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2017				
AFS				
Government guaranteed sukuk	10,080	-	-	10,080
Corporate debt securities	20,031	-	-	20,031
L&R				
Financing receivables, excluding takaful receivables	389	-	-	389
Retakaful assets	38,175	-	-	38,175
Takaful receivables	1,874	1,996	563	4,433
Cash and bank balances	23,724	-	-	23,724
	<u>94,273</u>	<u>1,996</u>	<u>563</u>	<u>96,832</u>
2016				
AFS				
Government guaranteed sukuk	14,865	-	-	14,865
Corporate debt securities	34,993	-	-	34,993
L&R				
Financing receivables, excluding takaful receivables	1,530	-	-	1,530
Retakaful assets	32,851	-	-	32,851
Takaful receivables	1,395	2,252	391	4,038
Cash and bank balances	7,328	-	-	7,328
	<u>92,962</u>	<u>2,252</u>	<u>391</u>	<u>95,605</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

(iii) Family Takaful Fund

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2017				
AFS				
Government investment issues	73,457	-	-	73,457
Government guaranteed sukuk	163,380	-	-	163,380
Corporate debt securities	237,281	-	-	237,281
FVTPL				
Government investment issues	5,092	-	-	5,092
Government guaranteed sukuk	64,527	-	-	64,527
Corporate debt securities	81,355	-	-	81,355
Collective investment schemes	456,003	-	-	456,003
L&R				
Financing receivables, excluding takaful receivables	7,904	-	-	7,904
Retakaful assets	42,811	-	-	42,811
Takaful receivables	4,174	5,599	-	9,773
Cash and bank balances	45,558	-	-	45,558
	<u>1,181,543</u>	<u>5,599</u>	<u>-</u>	<u>1,187,142</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

(iii) Family Takaful Fund (continued)

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2016				
AFS				
Government investment issues	78,335	-	-	78,335
Government guaranteed sukuk	162,224	-	-	162,224
Corporate debt securities	226,559	-	-	226,559
FVTPL				
Government investment issues	10,104	-	-	10,104
Government guaranteed sukuk	59,158	-	-	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes	363,761	-	-	363,761
L&R				
Financing receivables, excluding takaful receivables	6,727	-	-	6,727
Retakaful assets	34,415	-	-	34,415
Takaful receivables	2,617	1,754	-	4,371
Cash and bank balances	44,580	-	-	44,580
	<u>1,069,609</u>	<u>1,754</u>	<u>-</u>	<u>1,071,363</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

(iv) **Company**

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2017				
AFS				
Government investment issues	78,477	-	-	78,477
Government guaranteed sukuk	203,527	-	-	203,527
Corporate debt securities	367,635	-	-	367,635
FVTPL				
Government investment issues	5,092	-	-	5,092
Government guaranteed sukuk	64,527	-	-	64,527
Corporate debt securities	81,355	-	-	81,355
Collective investment schemes	456,003	-	-	456,003
L&R				
Fixed deposits with licensed Islamic financial institutions	27,580	-	-	27,580
Financing receivables, excluding takaful receivables	10,349	-	-	10,349
Retakaful assets	80,986	-	-	80,986
Takaful receivables	5,485	7,595	563	13,643
Cash and bank balances	82,483	-	-	82,483
	<u>1,463,499</u>	<u>7,595</u>	<u>563</u>	<u>1,471,657</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

(iv) **Company (continued)**

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2016				
AFS				
Government investment issues	103,365	-	-	103,365
Government guaranteed sukuk	202,119	-	-	202,119
Corporate debt securities	351,403	-	-	351,403
FVTPL				
Government investment issues	10,104	-	-	10,104
Government guaranteed sukuk	59,158	-	-	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes	363,761	-	-	363,761
L&R				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	10,083	-	-	10,083
Retakaful assets	67,266	-	-	67,266
Takaful receivables	4,011	4,006	391	8,408
Cash and bank balances	54,804	-	-	54,804
	<u>1,334,841</u>	<u>4,006</u>	<u>391</u>	<u>1,339,238</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

The movement in the allowance for impairment losses of receivables during the financial year were:

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	-	1,429	4	1,433
Impairment loss	-	(500)	(4)	(504)
Reversal of impairment	-	(538)	-	(538)
At 31 December 2016 / 1 January 2017	-	391	-	391
Reversal of impairment loss	-	172	(1)	171
31 December 2017	-	563	(1)	562

Aged analysis of financial assets past due but not impaired

	>90 days	>120 days	Total
2017			
Takaful receivables			
General Takaful Fund	261	1,735	1,996
Family Takaful Fund	622	4,977	5,599
Company	882	6,713	7,595
2016			
Takaful receivables			
General Takaful Fund	123	2,129	2,252
Family Takaful Fund	142	1,612	1,754
Company	265	3,741	4,006

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.4 Credit risk (continued)

Impairment losses (continued)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables the management to focus on the applicable risks and enables comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

At 31 December 2017, based on a collective assessment of receivables, there are impaired takaful receivables of RM563,000 (2016: RM391,000). There is no individual impairment loss provided during the financial year (2016: nil). For assets to be classified as impaired, contractual payments must be in arrears for more than three (3) months. No collateral is held as security for any past due or impaired assets. The Company records impairment of financing receivables and takaful receivables in separate impairment accounts.

24.5 Liquidity risk

The Company has to meet daily calls on its cash resources, notably from claims arising on its takaful contracts and early surrender of certificates for surrender value. There is therefore a risk that cash will not be available to settle liabilities when due at a reasonable cost. The Company manages this risk by monitoring and setting an appropriate level of operating funds to settle these liabilities. Investment portfolios are also structured with regards to the liquidity requirement of each underlying fund, and withdrawal fee applies to reduce unexpected cash requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.5 Liquidity risk (continued)

Maturity analysis

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
(i) Takaful Operator							
Takaful payables	802	-	-	-	-	-	802
Other payables	16,430	-	-	-	-	-	16,430
Amount due to shareholders	-	27,000	-	-	-	-	27,000
Total liabilities	17,232	27,000	-	-	-	-	44,232
(ii) General Takaful Fund							
Takaful contract liabilities	25,425	45,739	2,749	1,534	-	13,909	89,356
Takaful payables	1,161	-	-	-	-	-	1,161
Other payables	3,079	-	-	-	-	-	3,079
Total liabilities	29,665	45,739	2,749	1,534	-	13,909	93,596
(iii) Family Takaful Fund							
Takaful contract liabilities	18,694	50,731	32,204	255,039	745,913	68,755	1,171,336
Takaful payables	5,573	-	-	-	-	-	5,573
Other payables	20,603	-	-	-	-	-	20,603
Total liabilities	44,870	50,731	32,204	255,039	745,913	68,755	1,197,512

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.5 Liquidity risk (continued)

Maturity analysis (continued)

	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2017							
(iii) Company							
Takaful contract liabilities	44,119	96,470	34,953	256,573	745,913	82,664	1,260,692
Takaful payables	7,536	-	-	-	-	-	7,536
Other payables	29,038	-	-	-	-	-	29,038
Amount due to shareholders	-	27,000	-	-	-	-	27,000
Total liabilities	80,693	123,470	34,953	256,573	745,913	82,664	1,324,266
2016							
(i) Takaful Operator							
Takaful payables	817	-	-	-	-	-	817
Other payables	19,392	-	-	-	-	-	19,392
Amount due to shareholders	-	27,000	-	-	-	-	27,000
Total liabilities	20,209	27,000	-	-	-	-	47,209
(ii) General Takaful Fund							
Takaful contract liabilities	25,629	43,654	2,277	359	-	16,512	88,431
Takaful payables	910	-	-	-	-	-	910
Other payables	4,990	-	-	-	-	-	4,990
Total liabilities	31,529	43,654	2,277	359	-	16,512	94,331

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.5 Liquidity risk (continued)

Maturity analysis (continued)

	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity	Total
2016	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(iii) Family Takaful Fund							
Takaful contract liabilities	14,165	49,532	40,544	227,360	648,416	70,174	1,050,191
Takaful payables	5,338	-	-	-	-	-	5,338
Other payables	26,923	-	-	-	-	-	26,923
Total liabilities	<u>46,426</u>	<u>49,532</u>	<u>40,544</u>	<u>227,360</u>	<u>648,416</u>	<u>70,174</u>	<u>1,082,452</u>
(iii) Company							
Takaful contract liabilities	39,794	93,186	42,821	227,719	648,416	86,686	1,138,622
Takaful payables	7,064	-	-	-	-	-	7,064
Other payables	33,510	-	-	-	-	-	33,510
Amount due to shareholders	-	27,000	-	-	-	-	27,000
Total liabilities	<u>80,368</u>	<u>120,186</u>	<u>42,821</u>	<u>227,719</u>	<u>648,416</u>	<u>86,686</u>	<u>1,206,196</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk

Market risk is the risk of loss in the valuation of the Company's investments due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises of profit rate risk and price risk.

24.6.1 Profit rate risk

The Company is mainly exposed to profit rate risk arising from its holdings of debt securities. The Company calculates and monitors on a monthly basis its Present Value of Basis Point ("PVBP"), which measures the impact on asset and liability cash flows of a one basis point increase in profit rate and its utilisation of market risk limits set by the Company's Insurance Head Office, based on the Company's profile.

Currently, the Company invests and issues certificates in local currency only. The underlying equity and profit rate risk in investment-linked business is borne by the participant as the participants benefits are directly linked to the value of the fund's assets. The Company's market risk to this business is therefore limited to the extent that fee income from investment-linked business is based on the net asset value of the fund.

Exposure to profit rate risk

The profit rate profile of the Company's significant profit-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Fixed rate instruments				
Financial assets	<u>145,410</u>	<u>30,111</u>	<u>625,093</u>	<u>800,613</u>
2016				
Fixed rate instruments				
Financial assets	<u>139,911</u>	<u>49,858</u>	<u>617,509</u>	<u>807,278</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.1 Profit rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company accounts for certain fixed rate financial assets at fair value through statement of profit or loss. Therefore, these financial assets are exposed to a risk of change in their fair value due to changes in profit rates.

The analysis below assumes that all other variables remain constant:

	Change in variables	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
2017				
Profit rate	+ 100bps	-	-	(8,773)
Profit rate	- 100bps	-	-	9,622
2016				
Profit rate	+ 100bps	-	-	(9,190)
Profit rate	- 100bps	-	-	10,091

24.6.2 Equity price risk

Equity price risk arises from the Company's investments in equity securities.

Risk management objectives, policies and processes for managing the risk

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company outsources its investment function of the equity investment portfolio to external fund manager. The Company manages its equity price risk by continuous monitoring of the exposure against policies set and agreed in the investment mandate. These policies include monitoring the portfolio's exposure against benchmark set and single security exposure of the portfolio against the limits set.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.6 Market risk (continued)

24.6.2 Equity price risk (continued)

Equity price risk sensitivity analysis

This analysis assumes that all other variables remain constant and the Company's equity investments move in correlation with the FTSE Bursa Malaysia EMAS Shariah Index ("FBMS").

A 10% strengthening in the FBMKLCI at the end of the reporting period would have increased participants' fund and equity by the amounts shown below. A 10% weakening in the FBMKLCI would have equal but opposite effect on participants' funds, equity and profit or loss respectively.

	Change in variables	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
2017				
Equity price	+ 10bps	-	-	46,927
Equity price	- 10bps	-	-	(46,927)
2016				
Equity price	+ 10bps	-	-	(37,678)
Equity price	- 10bps	-	-	(37,678)

24.7 Fair value information

The carrying amounts of takaful receivables, other receivables (excluding prepayments), cash and cash equivalents, takaful payables and other payables reasonably approximate fair values due to the relatively short term nature of these financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

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

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2017										
Takaful Operator										
<u>Financial assets</u>										
Government investment issues	-	5,020	-	5,020	-	-	-	-	5,020	5,020
Government guaranteed sukuk	-	30,067	-	30,067	-	-	-	-	30,067	30,067
Corporate debt securities	-	110,323	-	110,323	-	-	-	-	110,323	110,323
<u>Financial liabilities</u>										
Amount due to shareholders	-	-	-	-	-	-	(25,524)	(25,524)	(25,524)	(27,000)
General Takaful Fund										
<u>Financial assets</u>										
Government guaranteed sukuk	-	10,080	-	10,080	-	-	-	-	10,080	10,080
Corporate debt securities	-	20,031	-	20,031	-	-	-	-	20,031	20,031

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000		
2017										
Family Takaful Fund										
<u>Financial assets</u>										
Quoted equity securities	13,270	-	-	13,270	-	-	-	-	13,270	13,270
Collective investment schemes	-	456,003	-	456,003	-	-	-	-	456,003	456,003
Government investment issues	-	78,549	-	78,549	-	-	-	-	78,549	78,549
Government guaranteed sukuk	-	227,907	-	227,907	-	-	-	-	227,907	227,907
Corporate debt securities	-	318,636	-	318,636	-	-	-	-	318,636	318,636
Company										
<u>Financial assets</u>										
Quoted equity securities	13,270	-	-	13,270	-	-	-	-	13,270	13,270
Collective investment schemes	-	456,003	-	456,003	-	-	-	-	456,003	456,003
Government investment issues	-	83,569	-	83,569	-	-	-	-	83,569	83,569
Government guaranteed sukuk	-	268,054	-	268,054	-	-	-	-	268,054	268,054
Corporate debt securities	-	448,989	-	448,989	-	-	-	-	448,989	448,989
<u>Financial liabilities</u>										
Amount due to shareholders	-	-	-	-	-	-	(25,524)	(25,524)	(25,524)	(27,000)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

	Fair value of financial instruments carried				Fair value of financial instruments not				Total fair	Carrying
	at fair value				carried at fair value					
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
2016										
Takaful Operator										
<u>Financial assets</u>										
Government investment issues	-	25,030	-	25,030	-	-	-	-	25,030	25,030
Government guaranteed sukuk	-	25,030	-	25,030	-	-	-	-	25,030	25,030
Corporate debt securities	-	89,851	-	89,851	-	-	-	-	89,851	89,851
<u>Financial liabilities</u>										
Amount due to shareholders	-	-	-	-	-	-	(24,664)	(24,664)	(24,664)	(27,000)
General Takaful Fund										
<u>Financial assets</u>										
Government guaranteed sukuk	-	14,865	-	14,865	-	-	-	-	14,865	14,865
Corporate debt securities	-	34,993	-	34,993	-	-	-	-	34,993	34,993
Family Takaful Fund										
<u>Financial assets</u>										
Quoted equity securities	13,020	-	-	13,020	-	-	-	-	13,020	13,020
Collective investment schemes	-	363,761	-	363,761	-	-	-	-	363,761	363,761
Government investment issues	-	88,439	-	88,439	-	-	-	-	88,439	88,439
Government guaranteed sukuk	-	221,382	-	221,382	-	-	-	-	221,382	221,382
Corporate debt securities	-	307,688	-	307,688	-	-	-	-	307,688	307,688

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value				Total fair value	Carrying amount
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
2016										
Company										
<u>Financial assets</u>										
Quoted equity securities	13,020	-	-	13,020	-	-	-	-	13,020	13,020
Collective investment schemes	-	363,761	-	363,761	-	-	-	-	363,761	363,761
Government investment issues	-	113,469	-	113,469	-	-	-	-	113,469	113,469
Government guaranteed sukuk	-	261,277	-	261,277	-	-	-	-	261,277	261,277
Corporate debt securities	-	432,532	-	432,532	-	-	-	-	432,532	432,532
<u>Financial liabilities</u>										
Amount due to shareholders	-	-	-	-	-	-	(24,664)	(24,664)	(24,664)	(27,000)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 FINANCIAL INSTRUMENTS (CONTINUED)

24.7 Fair value information (continued)

Policy on transfer between levels

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

Level 1 fair value

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

Level 2 fair value

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of expected future cash flows, discounted at the market rate of profit rate at the end of the reporting period.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year (2016: NIL).

Level 3 fair value

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the profit rate at the end of the reporting period as disclosed below:

Profit rates used to determine fair value

The profit rates used to discount estimated cash flows are as follows:

	Takaful Operator and Company	
	2017	2016
	%	%
Amount due to shareholders	<u>2.88</u>	<u>3.06</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25 CAPITAL MANAGEMENT

The objective of the Company's Capital Management Plan (“CMP”) is to ensure that the Company has sufficient working capital including equity (share capital and retained reserves) to support planned business growth and to meet regulatory capital requirements established by the local regulator at all times in a prudent and efficient manner.

In order to achieve these objectives, the CMP sets out the optimal amount and mix of regulatory and working capital required to ensure that these objectives are met.

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

	2017	2016
	RM'000	RM'000
Eligible Tier 1 Capital		
Share capital	100,000	100,000
Reserve, including retained earnings	26,500	19,182
Valuation surplus maintained in the takaful funds	58,118	58,391
Eligible Tier 2 Capital		
AFS fair value reserves	(138)	(700)
PSIA	10,800	16,200
Amount deducted from capital	(16,260)	(17,463)
Capital available	<u>179,020</u>	<u>176,610</u>
Total capital available	<u><u>149,215</u></u>	<u><u>146,495</u></u>

26 TAKAFUL RISK

The Company is exposed to the following risks in respect of its takaful operations:

26.1 Operational risk

Operational risk is the risk of loss from system failures, human error, fraud or other external events. The Company categorises these risks into four areas: people, process, system and external and has put in place internal controls, including, but not limited to segregation of duties, access controls, authorisation and reconciliation, adequate staff training and assessment on regulatory and operational matters and use of internal audit to mitigate those risks.

HSBC Group standards require the Company to identify its top 10 operational risks and management to report to the Risk Committee on actions taken to reduce those risks. Any operational incident with or without financial loss is reported for monitoring purpose and assessment of severity and remedial action.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.2 Underwriting risk

A portion of the risks underwritten is ceded in order to protect exposures to losses and protect capital resources. Under the terms of these retakaful arrangements the retakaful operators agree to reimburse the ceded amount in the event of a claim. However, the Takaful Funds remain liable to its participants with respect to the risk ceded, if any retakaful operator fails to meet the obligations assumed. Proportional and non-proportional retakaful is availed in order to reduce net exposure through treaty and facultative arrangements.

26.3 Other risks

Further description of takaful risk in respect of General Takaful contracts and Family Takaful contracts is set out in the following paragraphs.

(a) General takaful contracts

The table below sets out the concentration of contributions of General Takaful contracts by type of contract.

	Gross RM'000	Retakaful RM'000	Net RM'000
2017			
Fire	40,719	(3,500)	37,219
Personal accident	5,611	128	5,739
Miscellaneous	330	(46)	284
Marine	30	(14)	16
	<u>46,690</u>	<u>(3,432)</u>	<u>43,258</u>
2016			
Fire	35,953	(2,264)	33,689
Personal accident	5,349	(620)	4,729
Miscellaneous	434	(74)	360
Marine	88	(4)	84
	<u>41,824</u>	<u>(2,962)</u>	<u>38,862</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

Principal assumptions - estimation of General Takaful liabilities

The principal assumption underlying the estimation of General Takaful liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrences, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Sensitivities

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and underwriting surplus. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in Assumptions (Gross) %	Impact on gross liabilities RM'000
2017		
Fire loss ratio	2.2	6,032
Personal accident loss ratio	4.3	1,796
2016		
Fire loss ratio	1.9	4,410
Personal accident loss ratio	5.5	3,734

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

	Change in Assumptions (Net) %	Impact on net liabilities RM'000	Impact on under- writing surplus RM'000
2017			
Fire loss ratio	1.0	2,419	(1,088)
Personal accident loss ratio	4.6	1,786	(804)
		<hr/> <hr/>	<hr/> <hr/>
2016			
Fire loss ratio	0.9	1,839	(827)
Personal accident loss ratio	3.2	2,057	(926)
		<hr/> <hr/>	<hr/> <hr/>

Sensitivity information will also vary according to current economic assumptions. The probability for 1% and 4% deterioration in outstanding loss ratio is 1 in 10 years, for fire and personal accident class respectively. Sensitivity analysis is not performed for miscellaneous and marine classes due to the relatively low value of contributions from these classes; changes in assumptions are not expected to materially impact gross and net liabilities and underwriting surplus.

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each financial year end, together with cumulative payments to date.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

Claims development table (continued)

Best Estimation for Gross General Takaful Certificate Liabilities for 2017

Accident year	Prior to	2010	2010	2011	2012	2013	2014	2015	2016	2017	Total
	2010	RM'000	RM'000								
At the end of accident year	11,035	11,866	21,862	12,852	36,929	24,291	14,623	7,988	9,956	9,956	
One year later	10,070	10,781	21,493	12,575	41,481	26,917	8,920	6,248	-	6,248	
Two years later	7,196	8,273	19,314	12,310	41,608	25,162	6,701	-	-	6,701	
Three years later	7,768	8,645	18,579	13,031	39,165	28,024	-	-	-	28,024	
Four years later	7,544	8,372	17,579	12,143	38,073	-	-	-	-	38,073	
Five years later	7,112	7,994	17,570	12,233	-	-	-	-	-	12,233	
Six years later	6,962	7,994	17,750	-	-	-	-	-	-	17,750	
Seven years later	6,963	7,990	-	-	-	-	-	-	-	7,990	
Eight years later	6,963	-	-	-	-	-	-	-	-	6,963	
Current estimated of cumulative claim incurred	6,963	7,994	17,570	12,143	39,165	25,162	8,920	7,988	9,956	133,936	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

Claims development table (continued)

Best Estimation for Gross General Takaful Certificate Liabilities for 2017 (continued)

Accident year	Prior to									
	2010 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	Total RM'000
At the end of accident year	4,835	3,670	7,841	3,795	3,559	3,195	2,456	1,511	973	973
One year later	6,080	7,965	8,449	8,154	10,215	11,520	3,466	2,895	-	2,895
Two years later	6,367	7,237	13,381	10,169	17,422	17,212	4,907	-	-	4,907
Three years later	6,961	7,237	13,385	11,290	17,808	17,707	-	-	-	17,707
Four years later	6,961	7,237	13,391	11,504	17,719	-	-	-	-	17,719
Five years later	6,962	7,240	13,392	11,595	-	-	-	-	-	11,595
Six years later	6,962	7,240	13,392	-	-	-	-	-	-	13,392
Seven years later	6,963	7,990	-	-	-	-	-	-	-	7,990
Eight years later	6,963	-	-	-	-	-	-	-	-	6,963
Cumulative payment todate	<u>6,963</u>	<u>7,990</u>	<u>13,392</u>	<u>11,595</u>	<u>17,719</u>	<u>17,707</u>	<u>4,907</u>	<u>2,895</u>	<u>973</u>	<u>84,140</u>
Gross general takaful certificates liabilities										
Best estimate of Claims Liabilities										
(incl. ALAE)	-	-	4,358	638	20,354	10,317	1,794	3,353	8,983	49,796
Fund PRAD at 75%										<u>6,913</u>
Total										<u><u>56,709</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

Claims development table (continued)

Best Estimation for Net General Takaful Certificate Liabilities for 2017

Accident year	Prior to	2010	2011	2012	2013	2014	2015	2016	2017	Total
	2010	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At the end of accident year	5,534	8,048	7,399	11,570	15,232	18,019	10,003	6,787	7,501	7,501
One year later	9,704	7,312	6,234	10,400	13,246	12,929	8,056	4,986	-	4,986
Two years later	6,934	7,086	5,594	9,902	11,990	10,242	5,366	-	-	5,366
Three years later	7,598	6,933	5,121	9,014	10,726	10,181	-	-	-	10,181
Four years later	7,339	6,718	4,325	8,794	10,707	-	-	-	-	10,707
Five years later	6,931	6,361	4,315	8,859	-	-	-	-	-	8,859
Six years later	6,781	6,362	4,283	-	-	-	-	-	-	4,283
Seven years later	6,782	6,361	-	-	-	-	-	-	-	6,361
Eight years later	6,782	-	-	-	-	-	-	-	-	6,782
Current estimated of cumulative claim incurred	<u>6,782</u>	<u>6,361</u>	<u>4,283</u>	<u>8,859</u>	<u>10,707</u>	<u>10,181</u>	<u>5,366</u>	<u>4,986</u>	<u>7,501</u>	<u>65,026</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(a) General takaful contracts (continued)

Claims development table (continued)

Best Estimation for Net General Takaful Certificate Liabilities for 2017 (continued)

Accident year	Prior to	2010	2011	2012	2013	2014	2015	2016	2017	Total
	2010	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000							
At the end of accident year	4,713	2,867	2,808	3,500	3,004	2,765	2,355	1,489	922	922
One year later	5,862	5,364	3,419	6,696	6,230	7,224	3,286	2,741	-	2,741
Two years later	6,128	6,031	3,880	8,028	9,049	8,194	4,226	-	-	4,226
Three years later	6,771	6,031	3,883	8,198	9,201	8,555	-	-	-	8,555
Four years later	6,771	6,075	3,889	8,221	9,423	-	-	-	-	9,423
Five years later	6,781	6,075	3,890	8,278	-	-	-	-	-	8,278
Six years later	6,781	6,075	3,890	-	-	-	-	-	-	3,890
Seven years later	6,782	6,361	-	-	-	-	-	-	-	6,361
Eight years later	6,782	-	-	-	-	-	-	-	-	6,782
Cumulative payment todate	<u>6,782</u>	<u>6,361</u>	<u>3,890</u>	<u>8,278</u>	<u>9,423</u>	<u>8,555</u>	<u>4,226</u>	<u>2,741</u>	<u>922</u>	<u>51,178</u>
Gross general takaful certificates liabilities										
Best estimate of Claims Liabilities										
(incl. ALAE)	-	-	393	581	1,284	1,626	1,140	2,245	6,579	13,849
Fund PRAD at 75%										<u>4,233</u>
Total										<u><u>18,082</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(b) Family takaful contracts

The following gives details of the Company's main product categories:

	Gross RM'000	Retakaful RM'000	Net RM'000
2017			
Endowment	410,444	-	410,444
Mortgage	294,169	(31,115)	263,054
Investment-linked	452,910	-	452,910
Total family reserves	<u>1,157,523</u>	<u>(31,115)</u>	<u>1,126,408</u>
2016			
Endowment	378,773	-	378,773
Mortgage	291,778	(23,242)	268,536
Investment-linked	365,836	-	365,836
Total family reserves	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>

All Family Takaful contract liabilities arise from Malaysia.

Principle assumptions - estimation of Family Takaful liabilities

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

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Mortality and morbidity rates
- Investment returns
- Expenses
- Lapse and surrender rates
- Discount rates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(b) Family takaful contracts (continued)

A summary of key assumptions used for sensitivity analysis is as below:

	Mortality and morbidity rates	Investment returns	Expense	Lapse and surrender rates	Discount rate
<u>2017</u>					
Endowment	+10% ⁽ⁱⁱ⁾	+1.0%	+10%	+50%	-1.0%
Mortgage	+10% ⁽ⁱⁱ⁾	+1.0%	+10%	+50%	-1.0%
Investment-linked	+10% ^{(i)&(ii)}	+1.0%	+10%	+50%	-1.0%
<u>2016</u>					
Endowment	+10% ⁽ⁱⁱ⁾	+1.0%	+10%	+50%	-1.0%
Mortgage	+10% ⁽ⁱⁱ⁾	+1.0%	+10%	+50%	-1.0%
Investment-linked	+10% ^{(i)&(ii)}	+1.0%	+10%	+50%	-1.0%

⁽ⁱ⁾ 10% industry mortality and morbidity experience tables that were observed in Malaysia between year 1983 and 1988 and 90% retakaful rates.

⁽ⁱⁱ⁾ 100% retakaful rates

Sensitivities

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

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on under - writing surplus
<u>2017</u>				
Mortality and morbidity	+10	15,593	2,447	(2,447)
Investment returns	+100 bps	-	-	-
Expense*	+10	(7,789)	(7,789)	-
Lapse and surrender rates	+50	4,017	5,720	(5,720)
Discount rates	-100 bps	18,309	17,031	(17,031)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 TAKAFUL RISK (CONTINUED)

26.3 Other risks (continued)

(b) Family takaful contracts (continued)

Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on under-writing surplus
2016				
Mortality and morbidity	+10	15,769	3,194	(3,194)
Investment returns	+100 bps	(374)	(68)	68
Expense*	+10	(7,269)	(7,269)	-
Lapse and surrender rates	+50	4,792	6,577	(6,577)
Discount rates	-100 bps	19,216	(17,913)	(17,913)

* This assumption applies on Operator Expense Liability in relation to family fund.

27 CAPITAL AND OTHER COMMITMENTS

	Takaful Operator and Company	
	2017	2016
	RM'000	RM'000
Capital expenditure commitments		
Intangible assets		
Approved and contracted for	3,918	3,270
Approved but not contracted for	-	2,249

28 RELATED PARTIES

Identity of related parties

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

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company, and certain members of senior management of the Company.

The Company has related party relationship with its holding companies, related companies, Directors and key management personnel.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 RELATED PARTIES (CONTINUED)

Significant related party transactions

Related party transactions have been entered into in the normal course of business under agreed terms and conditions. The significant related party transactions of the Company are as follows:

	2017	2016
	RM'000	RM'000
Immediate holding company		
Profit expenses ("PSIA")	(381)	(410)
Related companies		
Contribution income from Family Takaful	1,689	3,744
Contribution income from General Takaful	1,595	1,106
Investment income	111	123
Claims expense for Family Takaful	(341)	(1,299)
Claims expense for General Takaful	(421)	(1,910)
Fees and commission	(14,229)	(10,764)
Information technology costs and professional service and administrative recharges	(3,390)	(1,858)
Rental and maintenance expenses	(1,808)	(1,795)
Shared cost for service centre and support service and administrative recharges	(5,809)	(6,336)
Profit expenses ("PSIA")	(397)	(427)
Marketing allowance and campaigns	649	(1,414)

The significant outstanding balances of the Company as at the end of the financial year with its related parties are as follows:

	2017	2016
	RM'000	RM'000
Amount due from/(to):		
Fixed deposits with licensed Islamic financial institutions	27,580	27,638
Bank balances	23,033	31,307
Amount due to shareholders	(27,778)	(28,257)
Other payables	(8,161)	(9,736)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Takaful Operator and Company	
	2017	2016
	RM'000	RM'000
Key management personnel		
Chief executive officer		
Yahya Adnan Ahmad		
Salary	712	655
Bonus	155	212
Contributions to defined contribution plans	165	177
Other short-term employee benefits (including estimated monetary value of benefit-in-kind)	118	195
Non-executive directors:		
Fees:		
Kasim bin Zakaria	84	92
K. Vithyatharan A/L V. Karunakaran	82	81
Nor Azian bt Mohd Noor	28	-
Dr. Cheah You Sum	29	-
Muhammad Ali Jinnah Ahmad	29	29
Datuk Haron bin Siraj	42	79
Sazaliza bin Zainuddin	-	65
Saiful Yazan Ahmad	-	45
Shariah committee members		
Fees:		
Muhammad Ali Jinnah Ahmad	24	24
Khairul Anuar Ahmad	20	20
Muhamad Faisal Ashaari	5	20
Assoc. Prof. Dr. Md. Som Sujimon	20	20
Asst. Prof. Dr Ghazali Jaapar	20	20
Dr Azrul Azlan Iskandar Mirza	5	-
Other emoluments:		
Muhammad Ali Jinnah Ahmad	6	6
Khairul Anuar Ahmad	6	6
Muhamad Faisal Ashaari	2	6
Assoc. Prof. Dr. Md. Som Sujimon	4	5
Asst. Prof. Dr Ghazali Jaapar	6	5
Dr Azrul Azlan Iskandar Mirza	2	-
	1,564	1,762

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Value of remuneration awards

	2017		2016	
	Unrestricted RM'000	Deferred RM'000	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
- Cash	1,572	-	2,317	-
Variable remuneration				
- Cash	310	-	433	624
Number of officer received fixed & variable remunerations	5	-	6	5

Key management personnel include the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no transactions with key management personnel other than compensation.

30 FAMILY TAKAFUL FUNDS

Statement of financial position by fund

	Note	Investment		Total	
		Family Fund RM'000	linked Funds RM'000	2017 RM'000	2016 RM'000
Assets					
Investment assets	6	638,362	456,003	1,094,365	994,290
Retakaful assets	7	42,811	-	42,811	34,415
Current tax assets		42		42	-
Financing receivables, excluding takaful receivables	8	6,614	1,290	7,904	6,727
Takaful receivables	9	9,773	-	9,773	4,371
Deferred tax assets	10	(1,291)	(665)	(1,956)	1,615
Cash and cash equivalents	11	44,939	619	45,558	44,580
Total family takaful assets		741,250	457,247	1,198,497	1,085,998
Liabilities					
Takaful contract liabilities	13	718,428	452,909	1,171,337	1,050,191
Takaful payables	15	5,573	-	5,573	5,338
Other payables	16	16,444	4,159	20,603	26,923
Current tax liabilities		805	179	984	3,546
Total family takaful liabilities		741,250	457,247	1,198,497	1,085,998

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 FAMILY TAKAFUL FUNDS (CONTINUED)

	Note	Family Fund RM'000	Investment linked Funds RM'000	Total 2017 RM'000	Total 2016 RM'000
Gross contributions		72,342	117,382	189,724	141,907
Contribution ceded to retakaful		(19,181)	-	(19,181)	(18,989)
Net earned contributions		<u>53,161</u>	<u>117,382</u>	<u>170,543</u>	<u>122,918</u>
Gross benefits and claims paid		(55,297)	(58,966)	(114,263)	(103,950)
Claims ceded to retakaful		16,858	-	16,858	19,111
Gross changes in claims liabilities		(9)	-	(9)	1,359
Changes in claims liabilities ceded to retakaful		523	-	523	145
Net benefits and claims		<u>(37,925)</u>	<u>(58,966)</u>	<u>(96,891)</u>	<u>(83,335)</u>
Investment income	19	11,735	10,361	22,096	29,404
Fee and commission income	20	854	-	854	2,886
Writeback of impairment of receivables		1	-	1	4
Other operating income		-	117	117	2,495
Other income		<u>12,590</u>	<u>10,478</u>	<u>23,068</u>	<u>34,789</u>
Wakalah fees		(8,094)	(9,263)	(17,357)	(16,489)
Realised gain and losses		371	(16,559)	(16,188)	(13,806)
Fair value gain/(loss) (unrealised)		1,623	46,830	48,453	(963)
Other expenses		750	(86)	664	-
Other expenses		<u>(5,350)</u>	<u>20,922</u>	<u>15,572</u>	<u>(31,258)</u>
Net underwriting surplus from operations		22,476	89,816	112,292	43,114
Surplus attributable to:-					
Participants		(3,385)	-	(3,385)	(5,347)
Takaful Operator		(4,453)	-	(4,453)	(7,291)
Net surplus retained in takaful funds		(10,699)	(87,074)	(97,773)	(30,663)
Surplus/(deficit) before taxation		<u>3,939</u>	<u>2,742</u>	<u>6,681</u>	<u>(187)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 SIGNIFICANT EVENT SUBSEQUENT TO THE FINANCIAL YEAR END

a) Conversion to single takaful business

Pursuant to the requirement of Section 16 (1) of the IFSA, a licensed takaful operator shall not carry on both family takaful business and general takaful business with effect from 30 June 2018.

The Board of Directors have approved the Company to continue the operations of its family takaful business whilst running-off its general takaful business effective 1 July 2018.

During the running-off its general takaful business, the Company will cease :-

- a) receiving proposals to participate in general takaful arrangements;
- b) negotiating on proposals to participate in general takaful arrangements on behalf of a takaful operator; and
- c) issuing of general takaful certificates for takaful arrangements.

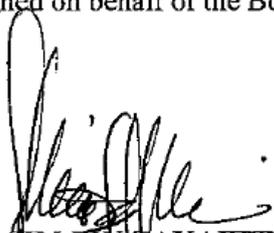
The Company will continue to discharge its obligations of all general takaful certificates that it had issued in accordance with Section 20(2) of the IFSA in respect of the following:

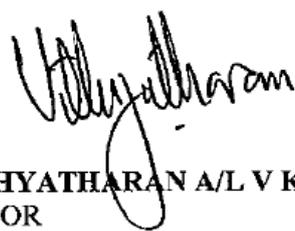
- a) collection or receipt of takaful contributions on general takaful certificates for takaful arrangements; and/or
- b) settlement or recovery of takaful claims on general takaful certificates for takaful arrangements.

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

In the opinion of the Directors, the financial statements set out on pages 17 to 120 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act 2016 in Malaysia, so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and cash flows for the financial year then ended.

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

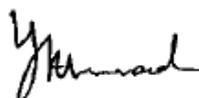

KASIM BIN ZAKARIA
CHAIRMAN


K. VITHYATHARAN A/L V KARUNAKARAN
DIRECTOR

Kuala Lumpur, Malaysia
21 March 2018

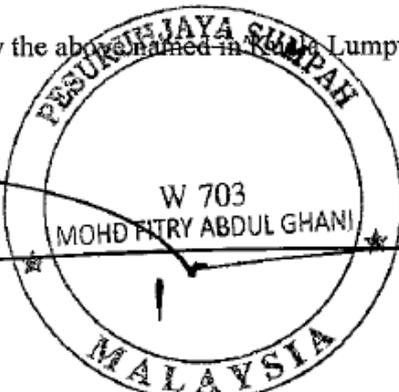
STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Yahya Adnan Ahmad, the officer primarily responsible for the financial management of HSBC Amanah Takaful (Malaysia) Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 17 to 120 are 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.


YAHYA ADNAN AHMAD

Subscribed and solemnly declared by the above named in Kuala Lumpur on 21 March 2018.

Before me:


NO. 58A, JALAN BUKIT RAJA
TAMAN SEPUTEH
58000 KUALA LUMPUR

REPORT OF THE SHARIAH COMMITTEE

In the name of Allah, the Beneficent, the Merciful

Pursuant to our duties and responsibilities as Shariah Committee Members of HSBC Amanah Takaful (Malaysia) Berhad, we hereby submit our report for the financial year ended 31st December 2017:

We held eleven (11) meetings whereby we deliberated and confirmed on the principles and the contracts relating to the products; business transactions and operation applied by HSBC Amanah Takaful (Malaysia) Berhad (“the Company”) for the period 1 January 2017 to 31 December 2017. We have also confirmed all the review done by internal audit and Shariah unit of the Company to form an opinion as to whether the Company has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Company is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our observation via all information supplied to us on the operations of the Company and to report to you.

We have assessed the work carried out by the Shariah unit and internal audit of the Company which includes examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Company.

We planned and performed our advisory tasks so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company has not violated the Shariah principles.

In addition, we hereby report the following:

1. Throughout the financial year; we had eleven (11) Shariah Committee meetings and deliberated various issues in relation to Takaful products, marketing and operations. Besides; we also approved improvement initiative for the issues related to general takaful business;
2. We approved new product collaterals and revision made to the existing products documentation;
3. We also approved revision made to the existing internal policies; and
4. There was no Shariah Non-Compliant issue decided throughout the year.

In our opinion:

1. the contracts applicable to products, transactions and dealings entered into by the Company during the period 1 January 2017 to 31 December 2017 that we have observed are in compliance with the Shariah principles;
2. the allocation of the profit and charging of the losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been realised from sources by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and
4. all the Shariah review done by Shariah unit and internal audit had been supplied to us and we concluded that the findings of the Shariah reviews were satisfactory.

REPORT OF THE SHARIAH COMMITTEE (CONTINUED)

We, the Shariah Committee of the Company do hereby confirm that in our opinion, the operations of the Company to the best of its effort for the year ended 31 December 2017 and to the best of our knowledge, have been conducted in conformity with the Shariah principles.



.....
MUHAMMAD ALI JINNAH BIN AHMAD



.....
KHAIRUL ANUAR AHMAD

Kuala Lumpur,

Date: 21 March 2018

REPORT OF THE SHARIAH COMMITTEE (CONTINUED)

**SHARIAH COMMITTEE MEETINGS OF
HSBC AMANAH TAKAFUL MALAYSIA BERHAD YEAR 2017**

No	Month	Meeting Ref No.	Meeting Date
1.	January	SC Meeting 01(01/17)	17 January 2017
2.	February	SC Meeting 02(02/17)	16 February 2017
3.	March	SC Meeting 03(03/17)	20 March 2017
4.	April	SC Meeting 04(04/17)	20 April 2017
5.	May	SC Meeting 05(05/17)	23 May 2017
6.	July	SC Meeting 06(07/17)	25 July 2017
7.	August	SC Meeting 07(08/17)	24 August 2017
8.	Ad Hoc	SC Meeting Ad Hoc 01(09/17)	19 September 2017
9.	September	SC Meeting 08(10/17)	16 October 2017
10.	November	SC Meeting 09(11/17)	22 November 2017
11.	December	SC Meeting Ad Hoc 02(12/17)	20 December 2017

ATTENDANCE

The meeting attendances of the respective Shariah Committee Members are as follows:-

No.	Name	Attendance
1.	En. Muhammad Ali Jinnah Ahmad	10/11
2.	En. Khairul Anuar Ahmad	11/11
3.	En. Muhammad Faisal Ashaari*	03/11
4.	Assoc. Prof. Dr. Md. Som Sujimon	07/11
5.	Asst. Prof. Dr. Ghazali Jaapar	11/11
6.	Dr Azrul Azlan Iskandar Mirza#	03/11

* ceased on 31 March 2017

appointed on 1 October 2017



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Company No. 731530-M)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

Our Opinion

In our opinion, the financial statements of HSBC Amanah Takaful (Malaysia) Berhad ("the Company") give a true and fair view of the financial position of the Company as of 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies, as set out on pages 17 to 120.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

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

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 02.01.2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)
(Company No. 731530-M)
(Incorporated in Malaysia)

REPORT ON 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 Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)
(Company No. 731530-M)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (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 represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)
(Company No. 731530-M)
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
(No. LLP 0014401-LCA & AF 1146)
Chartered Accountants

WONG HUI CHERN
(No. 3252/05/18(J))
Chartered Accountant

Kuala Lumpur
21 March 2018