FINANCIAL **STATEMENTS**

DIRECTORS' **REPORT**

The Directors have pleasure in submitting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 March 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company, principally engaged in the provision of management services to its subsidiaries.

The principal activities of the subsidiaries are as disclosed in Note 17 to the financial statements.

RESULTS

	Group RM'000	**Company RM'000**
Net profit for the financial year	140,865	6,872

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

In the opinion of the Directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDEND

Since the end of the previous financial year, no dividend has been paid or declared by the Company.

SIGNIFICANT EVENTS

a) Transfer of general and family retakaful businesses

On 1 December 2017, the transfer of the general and family retakaful businesses between 2 subsidiaries, Malaysian Reinsurance Berhad and Sinar Seroja Berhad (formerly known as MNRB Retakaful Berhad) was completed.

b) Splitting of family and general takaful business licenses

In accordance with the requirements of the Islamic Financial Service Act 2013 ("IFSA 2013") a takaful operator that carries on both classes of family and general takaful businesses required take steps to split the businesses into separate legal entities before 1 July 2018.

A new company was incorporated on 5 June 2017 as a wholly-owned subsidiary of Takaful Ikhlas Berhad ("TIB") to take over its general takaful business once the necessary approval has been obtained from BNM.

Further details of the above significant events are disclosed in Note 40 to the financial statements.

DIRECTORS

The names of the Directors of the Company in office since the beginning of the financial year to the date of this report are:

Dato Sharkawi bin Alis
Mohd Din bin Merican
Hijah Arifakh binti Othman
Mustaffa bin Ahmad
Rosinah binti Mohd Salleh
Arul Sothy Mylvaganam
Noor Rida binti Hamzah
Datuk Johar bin Che Mat (Appointed with effect from 1 October 2017)
George Oommen (Appointed with effect from 1 January 2018)
Megat Dziauddin bin Megat Mahmud (Resigned with effect from 30 June 2017)
Paisol bin Ahmad (Retired with effect from 24 August 2017)

The names of the Directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report (not including those Directors listed above) are:

Directors	Subsidiaries
Zainudin bin Ishak (resigned to be a Director of MRE effective from 2 March 2018)	Malaysian Reinsurance Berhad ("MRE"), Malaysian Re (Dubai) Ltd. ("MRDL") and MMIP Services Sdn. Bhd. ("MSSB")
Md Adnan bin Md Zain	MRE and Takaful Ikhlas Berhad ("TIB")
Datin Zaimah binti Zakaria	MRE and Sinar Seroja Berhad ("SSB") *(formerly known as MNRB Retakaful Berhad)*
Datuk Nik Moustpha bin Nik Hassan	TIB and SSB
Norazman bin Hashim	MSSB
Yahaya bin Besah (resigned effective from 3 July 2017)	SSB
Dr. Syed Musa bin Syed Jaafar Alhabshi (resigned effective from 22 July 2017)	SSB
Datuk Ab Latiff bin Abu Bakar (resigned to be a Director effective from 7 January 2018)	TIB

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors from the Company or the fixed salary and benefits receivable as a full-time employee of the Company as disclosed in Notes 9, 10 and 32 to the financial statements or benefits receivable from 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 to be disclosed under Fifth Schedule, Part I Section 3 of the Companies Act, 2016.

During the financial year, the Company purchased a Directors and Officers Liability Insurance cover to provide indemnity to all directors of the MNRB Group for a limit of RM50,000,000 at a premium of RM67,000.

DIRECTORS' **REPORT**

OTHER STATUTORY INFORMATION

(a) Prior to issuance of income statements and statements of financial position of the Group and the Company, the Directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts; and

   (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

   (i) it necessary to write-off any bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and

   (ii) the values attributed to the current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or in the financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

   (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

   (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Group and of the Company.

(f) In the opinion of the Directors:

   (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

   (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e)(ii) and (f)(i) above, contingent or other liabilities do not include liabilities arising from reinsurance, takaful and retakaful contracts underwritten in the ordinary course of business of the reinsurance/retakaful and takaful subsidiaries and associate companies.

AUDITORS

The retiring auditors, Messrs. Ernst & Young, have expressed their willingness to accept re-appointment. Details of Auditors' remuneration for their service as auditors are disclosed in Note 9 of the statutory financial statements.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 June 2018.

Dato Sharkawi bin Alis **Mohd Din bin Merican**

Kuala Lumpur, Malaysia

STATEMENT BY **DIRECTORS**

Pursuant to Section 251(2) of the Companies Act, 2016

We, Dato Sharkawi bin Alis and Mohd Din bin Merican, being two of the Directors of MNRB Holdings Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 117 to 227 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia, so as to give a true and fair view of the financial position of the Company and of the Group as at 31 March 2018 and of the results and the cash flows of the Company and of the Group for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 29 June 2018.

Dato Sharkawi bin Alis | **Mohd Din bin Merican**

Kuala Lumpur, Malaysia

STATUTORY **DECLARATION**

Pursuant to Section 251(1)(b) of the Companies Act, 2016

I, Norazman bin Hashim, being the officer primarily responsible for the financial management of MNRB Holdings Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 117 to 227 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by)
the abovenamed Norazman bin Hashim)
at Kuala Lumpur in Wilayah Persekutuan)
on 29 June 2018.) **Norazman bin Hashim**

Before me,

Commissioner of Oaths

INDEPENDENT **AUDITORS' REPORT**

to the members of MNRB Holdings Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of MNRB Holdings Berhad, which comprise the statements of financial position as at 31 March 2018 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 117 to 227.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. The key audit matters for the audit of the financial statements of the Group and the Company are described below. These matters were addressed in the context of our audit of the financial statements of the Group and the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed these matters is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

1. Insurance/takaful contract liabilities of the Group

The Group's insurance/takaful contract liabilities as at 31 March 2018 amounted to RM5.3 billion (as disclosed in Note 20 to the financial statements) or approximately 83% of its total liabilities. The insurance/takaful contract liabilities include the following liabilities of the reinsurance/retakaful subsidiary, Malaysian Reinsurance Berhad and the takaful subsidiary, Takaful Ikhlas Berhad:

(a) Premium/contribution and claim liabilities of the general reinsurance/retakaful and takaful businesses;

(b) Actuarial liabilities of the family retakaful and takaful businesses;

(c) Investment-linked participants' account of the family takaful business; and

(d) Expense liabilities in respect of the shareholder's fund of the takaful and retakaful businesses.

These liabilities have been estimated based on standard actuarial valuation methodologies and other estimation models as allowed under the Risk-Based Capital Framework and Risk-Based Capital Framework for Takaful Operators issued by Bank Negara Malaysia as well as the accounting policies described in Notes 2.4, 2.5 and 2.6 for the valuation of the insurance/takaful contract liabilities of the Group.

INDEPENDENT **AUDITORS' REPORT**

to the members of MNRB Holdings Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key audit matters (Cont'd)

1. Insurance/takaful contract liabilities of the Group (Cont'd)

The complexity of the actuarial valuation methodologies and other estimation models applied to derive the insurance/takaful contract liabilitites may give rise to estimation errors as a result of inadequate or incomplete data, the design and application of the relevant valuation models by the management's experts (i.e. the Appointed Actuaries) and the use of inappropriate assumptions. Siginificant professional judgement is applied by the Group in deriving the assumptions (as described in Note 3 to the financial statements) and any significant changes thereon may have a material effect on the insurance/takaful contract liabilities.

Our audit procedures were focused on the following key areas:

- Understanding and documenting the qualifications, objectivity and independence of the Appointed Actuaries tasked with estimating the insurance/takaful contract liabilities of the Group;
- Reviewing the reports prepared by the Appointed Actuaries in respect of the insurance/takaful contract liabilities of the Group;
- Assessing the valuation methodologies applied by the Group to derive the insurance/takaful contract liabilities;
- Assessing the design and testing the operating effectiveness of key internal controls over the actuarial valuation process with respect to financial reporting, including the bases used by the Group in determining and approving the key assumptions applied;
- Assessing the experience analyses of the reinsurance, retakaful and takaful business used during the setting of the key assumptions to derive the insurance/takaful contract liabilities and challenging the rationale applied by the Appointed Actuaries and management in deriving those assumptions. In addition and where appropriate, comparisons have also been made against other industry constituents and the experience of the respective subsidiaries;
- Testing the completeness and sufficiency of data used in the valuation of insurance/takaful contract liabilities including reviewing the data extraction process and reconciliations carried out by the Group. These tests also included control tests performed on selected samples of claims reserves, claims paid and reinsurance policies and retakaful and takaful certificates issued by the Group to ascertain effectiveness of operating controls over quality and accuracy of the underlying data;
- Performing audit tests on the model review process applied by management in respect of the family takaful business and independently reviewing the results thereon;
- Performing independent analyses and re-computation of the general reinsurance/retakaful/takaful contract liabilities for selected classes of business, focusing on the most significant business portfolio and those which may potentially result in significant deviations in estimates. We compared our independent analyses and recomputations to those performed by management to ascertain if the reserves were sufficient and within range of our independent analyses;
- Performing tests on the UPR/UCR calculations produced by management and thereafter, comparing the UPR/UCR against the URR valuation performed by the Appointed Actuaries to ascertain if adequate reserves have been established for the general reinsurance, retakaful and takaful business;
- Performing tests on the UWF calculations produced by management and thereafter, comparing the UWF against the UER valuation performed by the Appointed Actuaries to ascertain if adequate reserves have been established for the shareholder's fund of the retakaful and takaful business;
- Reviewing the Liability Adequacy Test results performed by the reinsurance, retakaful and takaful subsidiaries;
- Auditing the fair value of financial assets and adequacy of liabilities of the investment-linked funds of the family takaful business;
- Performing control tests over the creation and cancellation of units of the investment-linked funds as well as calculation of Net Asset Values; and
- Assessing the adequacy of disclosures made in the financial statements in respect of the insurance/takaful contract liabilities of the Group.

We have also engaged our Actuarial Services professionals in accordance with the requirements of International Standard on Auditing 620: *Reliance on the Work of an Auditors' Expert* to assist us in performing certain audit procedures on the insurance/takaful contract liabilities of the Group.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Key audit matters (Cont'd)

2. Tax Recoverable

As disclosed in Note 22 to the financial statements, the Company has disputed the additional tax assessments and penalties raised by the Inland Revenue Board of Malaysia ("IRB"), amounting to approximately RM19.7 million. The Company has disputed the claims by stating that there is no legal and factual basis for the assessments raised. The tax matter is in the preliminary stage and may take extended years to resolve. In addition, the Company has tax recoverable amounting to approximately RM17.6 million (2017: tax payable of RM2.6 million) as at 31 March 2018. The eventual resolution of the tax matter above is uncertain and could result in a material amount of tax payable or reversal of tax recoverable and, accordingly, we consider this area to be an area of audit focus.

As part of our audit procedures, we have involved our tax specialists in reviewing correspondences between the Company and external legal counsel to obtain an understanding of the matter. We have enquired and discussed with management on the developments in legal proceedings and obtained confirmations from the Company's external legal counsel to compare the expert opinions to management's position. We also considered the objectivity, independence and expertise of the legal advisers and we also assessed the basis adopted by the legal advisers in their evaluations of the possible outcome of the litigations and claims.

Information other than the financial statements and auditors' report thereon

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

Our opinion on the financial statements of the Group and 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 Group and 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 Group and 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 financial statements of the Group and 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 Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

INDEPENDENT **AUDITORS' REPORT**

to the members of MNRB Holdings Berhad (Incorporated in Malaysia)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

Auditors' responsibilities for the audit of the financial statements (Cont'd)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures.
- 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 Group's or 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 Group and 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Ernst & Young
AF: 0039
Chartered Accountants

Dato' Abdul Rauf Bin Rashid
No. 02305/05/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
29 June 2018

INCOME **STATEMENTS**

for the year ended 31 March 2018

		Group		Company	
	Note	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Gross earned premiums/contributions	4(a)	**2,251,663**	2,327,336	**–**	–
Premiums/contributions ceded to reinsurers/ retakaful operators	4(b)	**(322,799)**	(348,832)	**–**	–
Net earned premiums/contributions		**1,928,864**	1,978,504	**–**	–
Investment income	5	**245,931**	227,158	**3,222**	3,889
Net realised gains	6	**1,957**	1,350	**–**	6
Net fair value gains/(losses)	7	**11,440**	(74)	**–**	–
Fee and commission income	8	**40,142**	55,381	**35,025**	31,728
Other operating revenue	11	**38,071**	64,617	**20,923**	184
Other revenue		**337,541**	348,432	**59,170**	35,807
Gross claims and benefits paid		**(1,201,819)**	(1,256,115)	**–**	–
Claims ceded to reinsurers/retakaful operators		**112,195**	107,727	**–**	–
Gross change in contract liabilities		**(187,575)**	(372,965)	**–**	–
Change in contract liabilities ceded to reinsurers/ retakaful operators		**(31,046)**	18,070	**–**	–
Net claims and benefits		**(1,308,245)**	(1,503,283)	**–**	–
Fee and commission expenses	8	**(427,525)**	(443,307)	**–**	–
Management expenses	9	**(237,989)**	(252,469)	**(35,545)**	(35,187)
Finance costs		**(15,841)**	(18,120)	**(15,841)**	(18,120)
Other operating expenses	11	**(22,894)**	(10,870)	**(208)**	(295)
Change in expense liabilities		**3,848**	(2,884)	**–**	–
Tax borne by participants	12	**(12,673)**	(15,411)	**–**	–
Other expenses		**(713,074)**	(743,061)	**(51,594)**	(53,602)
Share of results of associates		**9,712**	5,628	**–**	–
Operating profit/(loss) before surplus/(deficit) attributable to takaful and retakaful participants and taxation		**254,798**	86,220	**7,576**	(17,795)
Surplus attributable to takaful and retakaful participants	23(a)	**(62,274)**	12,708	**–**	–
Operating profit/(loss) before taxation		**192,524**	98,928	**7,576**	(17,795)
Zakat		**(563)**	–	**–**	–
Taxation	12	**(51,096)**	(27,758)	**(704)**	(405)
Net profit/(loss) for the year attributable to equity holders of the Holding Company		**140,865**	71,170	**6,872**	(18,200)
Basic and diluted earnings per share attributable to equity holders of the Holding Company (sen)	29	**44.1**	27.6		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **COMPREHENSIVE INCOME**

for the year ended 31 March 2018

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net profit/(loss) for the year	**140,865**	71,170	**6,872**	(18,200)
Other comprehensive (loss)/income				
Other comprehensive (loss)/income to be reclassified to income statement in subsequent periods:				
Effects of post-acquisition foreign exchange translation reserve on investment in associate	**(19,329)**	15,220	**–**	–
Effects of foreign exchange translation reserve on investment in subsidiary	**(1,469)**	1,700	**–**	–
Net losses on Available-for-sale ("AFS") financial assets:				
Losses on fair value changes	**(10,158)**	(3,871)	**–**	–
Realised losses transferred to income statement (Note 6)	**3,092**	946	**–**	–
Deferred tax relating to net losses on AFS financial assets	**1,306**	316	**–**	–
Other comprehensive (losses)/income attributable to participants (Note 23(b))	**3,306**	2,741	**–**	–
Other comprehensive income/(loss) not to be reclassified to income statement in subsequent periods:				
Revaluation of land and buildings	**3,950**	3,905	**–**	–
Deferred tax relating to revaluation of land and buildings	**(509)**	(305)	**–**	–
Other comprehensive income attributable to participants (Note 23(c))	**(2,519)**	(2,536)	**–**	–
Total comprehensive income/(loss) for the year	**118,535**	89,286	**6 ,872**	(18,200)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **FINANCIAL POSITION**

as at 31 March 2018

	Note	Group 2018 RM'000	Group 2017 RM'000	Company 2018 RM'000	Company 2017 RM'000
Assets					
Property, plant and equipment	13	**240,744**	243,732	**1,251**	1,467
Investment property	14	**–**	7,400	**–**	–
Intangible assets	15	**32,131**	23,040	**1,630**	1,924
Deferred tax assets	16	**18,343**	19,518	**2,811**	3,333
Investments in subsidiaries	17	**–**	–	**904,476**	843,705
Investments in associates	18	**139,009**	145,420	**1,957**	1,957
Financial assets at fair value through profit or loss ("FVTPL")	19(a)	**116,127**	123,467	–	–
Held-to-maturity ("HTM") investments	19(b)	**644,254**	695,426	**1,000**	1,000
AFS financial assets	19(c)	**3,741,196**	3,384,744	**50**	50
Loans and receivables ("LAR")	19(d)	**1,937,263**	1,934,933	**29,796**	105,388
Reinsurance/retakaful assets	20	**478,253**	514,230	**–**	–
Insurance/takaful receivables	21	**418,304**	336,190	**–**	–
Tax recoverable	22	**27,277**	28,575	**17,630**	–
Cash and bank balances		**142,099**	99,905	**408**	3,416
Total assets		**7,935,000**	7,556,580	**961,009**	962,240
Liabilities and Participants' funds					
Participants' funds	23	**247,862**	201,196	**–**	–
Borrowings	24	**320,000**	320,000	**320,000**	320,000
Insurance/takaful contract liabilities	20	**5,319,945**	5,171,178	**–**	–
Insurance/takaful payables	25	**270,444**	210,174	**–**	–
Other payables	26	**225,745**	212,186	**8,975**	14,486
Deferred tax liabilities	16	**10,684**	10,780	**–**	–
Provision for taxation		**1,709**	11,536	**–**	2,592
Provision for zakat		**610**	64	**–**	–
Total liabilities and participants' funds		**6,396,999**	6,137,114	**328,975**	337,078
Equity					
Share capital	27	**319,605**	319,605	**319,605**	319,605
Reserves		**1,218,396**	1,099,861	**312,429**	305,557
Total equity attributable to equity holders of the Holding Company		**1,538,001**	1,419,466	**632,034**	625,162
Total liabilities, participants' funds and equity		**7,935,000**	7,556,580	**961,009**	962,240

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **CHANGES IN EQUITY**

for the year ended 31 March 2018

	Attributable to equity holders of the Holding Company						
		Reserves					
		Non-distributable				Distributable	
	Share capital RM'000	Share premium RM'000	Foreign exchange translation reserve RM'000	AFS reserve RM'000	Revaluation reserve RM'000	Retained profits RM'000	Total RM'000
Group							
At 1 April 2016	213,070	105,051	38,776	3,527	41,666	928,090	1,330,180
Net profit for the year	–	–	–	–	–	71,170	71,170
Other comprehensive income for the year	–	–	16,920	132	1,064	–	18,116
Total comprehensive income/(loss) for the year	–	–	16,920	132	1,064	71,170	89,286
Issuance of bonus shares (Note 27)	106,535	(105,051)	–	–	–	(1,484)	–
At 31 March 2017	319,605	–	55,696	3,659	42,730	997,776	1,419,466
Net profit for the year	–	–	–	–	–	140,865	140,865
Other comprehensive (loss)/income for the year	–	–	(20,798)	(2,454)	922	–	(22,330)
Total comprehensive (loss)/income for the year	–	–	(20,798)	(2,454)	922	140,865	118,535
At 31 March 2018	**319,605**	**–**	**34,898**	**1,205**	**43,652**	**1,138,641**	**1,538,001**

	Attributable to equity holders of the Holding Company			
		Reserves		
	Non-distributable		Distributable	
	Share capital RM'000	Share premium RM'000	Retained profits RM'000	Total RM'000
Company				
At 1 April 2016	213,070	105,051	325,241	643,362
Issuance of bonus shares (Note 27)	106,535	(105,051)	(1,484)	–
Total comprehensive loss for the year	–	–	(18,200)	(18,200)
At 31 March 2017	319,605	–	305,557	625,162
Total comprehensive income for the year	–	–	6,872	6,872
At 31 March 2018	**319,605**	**–**	**312,429**	**632,034**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF **CASH FLOWS**

for the year ended 31 March 2018

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Cash flows from operating activities				
Profit/(loss) before zakat and taxation	**192,524**	98,928	**7,576**	(17,795)
Adjustments for:				
Net fair value (gains)/losses on financial assets at FVTPL	**487**	(2,987)	**–**	–
Net impairment losses on AFS financial assets	**(12,178)**	3,147	**–**	–
Reversal of revaluation deficits on properties	**–**	(86)	**–**	–
Reversal of impairment loss on other receivables	**254**	(62)	**–**	–
Net impairment/(Reversal of impairment loss) on insurance/takaful receivables	**(20,565)**	9,558	**–**	–
Depreciation of property, plant and equipment	**7,272**	8,069	**499**	644
Amortisation of intangible assets	**4,312**	3,260	**355**	290
Net gains on investment property	**(100)**	–	**–**	–
Net losses/(gains) on disposals of property, plant and equipment	**–**	9	**–**	(6)
Decrease in gross premium/contribution liabilities	**(34,960)**	(33,782)	**–**	–
Intangible assets written off	**613**	–	**38**	–
Reversal impairment loss on investment in subsidiary	**–**	–	**(20,771)**	–
Interest/profit income	**(238,502)**	(205,737)	**(2,772)**	(3,889)
Dividend income	**(8,597)**	(20,038)	**(400)**	–
Rental income	**(3,954)**	(5,887)	**–**	–
Finance cost	**15,841**	18,120	**15,841**	18,120
Realised gains on disposals of investments	**(1,857)**	(1,359)	**–**	–
Net amortisation of premiums on investments	**5,094**	4,470	**–**	–
Share of results of associates	**(9,712)**	(5,628)	**–**	–
Loss from operations before changes in operating assets and liabilities	**(104,028)**	(130,005)	**366**	(2,636)
Decrease/(increase) in placements with licensed financial institutions, Islamic investment accounts and marketable securities	**(19,431)**	127,613	**71,748**	14,143
Net purchase of investments	**(299,671)**	(635,218)	**–**	–
Decrease/(increase) in staff loans	**1,674**	1,303	**(76)**	582
(Increase)/decrease in insurance/takaful receivables	**(61,549)**	11,264	**–**	–
Decrease/(Increase) in other receivables	**32,412**	(5,445)	**142**	1,383
Net change in balances with subsidiaries	**–**	–	**(745)**	(893)
Increase in gross claim liabilities, actuarial liabilities and unallocated surplus	**187,575**	356,193	**–**	–
(Decrease)/increase in expense liabilities	**(3,848)**	2,884	**–**	–
Increase/(decrease) in participants' funds	**47,453**	4,064	**–**	–
Decrease/(increase) in reinsurance/retakaful assets	**35,977**	(17,050)	**–**	–
Increase in insurance/takaful payables	**60,270**	10,889	**–**	–
Increase/(decrease) in other payables	**13,123**	18,510	**(1,488)**	1,501
Taxes and zakat (paid)/refunded	**(58,404)**	(25,033)	**(20,404)**	(92)
Interest/profit received	**220,720**	207,654	**2,835**	3,819
Dividends received	**8,868**	20,410	**400**	–
Rental received	**4,228**	6,161	**–**	–
Net cash generated from/(used in) operating activities	**65,369**	(45,806)	**52,778**	17,807

STATEMENTS OF **CASH FLOWS**
for the year ended 31 March 2018

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from investing activities				
Subscription of shares in subsidiary	**–**	–	**(40,000)**	–
Purchase of property, plant and equipment	**(1,255)**	(1,197)	**(283)**	(94)
Purchase of intangible assets	**(14,016)**	(11,476)	**(99)**	(324)
Proceeds from disposal of investment properties	**7,500**	–	**–**	–
Proceeds from disposal of property, plant and equipment	**–**	9	**–**	6
Transfers of intangible assets to subsidiary	**–**	–	**–**	1,351
Net cash (used in)/generated from investing activities	**(7,771)**	(12,664)	**(40,382)**	939
Cash flows from financing activities				
Profit paid	**(15,404)**	(18,938)	**(15,404)**	(18,938)
Net cash used in financing activities	**(15,404)**	(18,938)	**(15,404)**	(18,938)
Cash and bank balances				
Net (decrease)/increase during the year	**42,194**	(77,408)	**(3,008)**	(192)
At beginning of the year	**99,905**	177,313	**3,416**	3,608
At end of the year	**142,099**	99,905	**408**	3,416

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

31 March 2018

1. CORPORATE INFORMATION

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 12th Floor, Bangunan Malaysian Re, No. 17, Lorong Dungun, Damansara Heights, 50490 Kuala Lumpur, Malaysia.

The Company is an investment holding company, principally engaged in the provision of management services to its subsidiaries.

The principal activities of the subsidiaries are as disclosed in Note 17 to the financial statements. There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year.

The number of employees in the Group and in the Company at the end of the financial year were 885 and 178 (2017: 909 and 171) respectively.

The financial statements were authorised for issue by the Board in accordance with a resolution on 29 June 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company and of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Companies Act, 2016 in Malaysia.

At the beginning of the current financial year, the Group and the Company had adopted the amended MFRSs and new MFRSs applicable for annual financial periods beginning on or after 1 January 2017, as fully described in Note 2.29.

The financial statements of the Group and the Company have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

As at the reporting date, the reinsurance/retakaful and takaful subsidiaries have met the minimum capital requirements as prescribed by the Risk-Based Capital ("RBC") Framework and Risk-Based Capital for Takaful Operators ("RBCT") Framework issued by Bank Negara Malaysia ("BNM").

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Accounting period

For the general reinsurance business, the Group adopts quarterly accounting periods ending on 31 March, 30 June, 30 September and 31 December, insofar as the underwriting income and outgo for Market Cessions business is concerned. This is to correspond with the ceding companies' accounting periods.

Underwriting income and outgo in respect of other business classes and all other income and expenditure are for the 12 months ended 31 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Subsidiaries, associates and basis of consolidation

(a) Subsidiaries

A subsidiary is an entity over which the Company has all the following:

(i) power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) exposure, or rights, to variable returns from its investment with the investee; and

(iii) the ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;

(ii) rights arising from other contractual arrangements; and

(iii) the Company's voting rights and potential voting rights.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less any accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in the income statement.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, all intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the acquisition method. The acquisition method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Subsidiaries, associates and basis of consolidation (Cont'd)

(c) Takaful and retakaful operations and funds

Under the concept of takaful/retakaful, participants/cedants make contributions to a pool which is managed by a third party with the overall aim of using the monies to aid fellow participants in times of need. Accordingly, TIB and MRE's Retakaful Division ("MRRD") manage the general and family takaful and retakaful funds in line with the principles of Wakalah (agency). Under the Wakalah model, TIB/MRRD is not a participant in the fund but manages the funds (including the relevant assets and liabilities) towards the purpose outlined above.

In accordance with the Islamic Financial Services Act ("IFSA") 2013, the assets and liabilities of the takaful/retakaful funds are segregated from those of the shareholder's funds of TIB/MRRD: a concept known as segregation of funds. However, in compliance with MFRS 10 Consolidated Financial Statements, the assets, liabilities, income and expenses of the takaful and retakaful funds are consolidated with those of the shareholder's funds to represent the control possessed by TIB and MRRD over the respective funds.

In preparing the Group financial statements, the balances and transactions of the shareholder's funds of TIB and MRRD were amalgamated and combined with those of the takaful and retakaful funds respectively. Interfund balances, transactions and unrealised gains or losses are eliminated in full during amalgamation and consolidation.

The takaful and retakaful funds of TIB and MRRD are consolidated and amalgamated from the date of control and continue to be consolidated until the date such control ceases.

(d) Associates

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in the Group's share of net assets of the associates. The Group's share of the net profit or loss of the associates is recognised in the consolidated income statement. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of such changes.

In applying the equity method, unrealised gains and losses on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investments in the associates. The investments in associates are accounted for using the equity method from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associates or the investments become subsidiaries.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associates' identifiable assets, liabilities and contingent liabilities over the cost of the investments is excluded from the carrying amount of the investments and is instead included as income in the determination of the Group's share of the associates' profit or loss in the period in which the investments are acquired.

When the Group's share of losses in associates equal or exceed its interest in the associates, including any long-term interests that, in substance, form part of the Group's net investments in the associates, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

NOTES TO THE **FINANCIAL STATEMENTS**

31 March 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Subsidiaries, associates and basis of consolidation (Cont'd)

(d) Associates (Cont'd)

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not co-terminous with those of the Group, the share of results is derived from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting polices are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less any accumulated impairment losses.

On disposal of such investments, the difference between net disposal proceeds and the carrying amount is included in the income statement.

2.4 General reinsurance, takaful and retakaful underwriting results

The general reinsurance, takaful and retakaful underwriting results are determined after taking into account premiums/contributions, reinsurance/retakaful/retrotakaful costs, commissions, movements in premium/contribution liabilities, net claims incurred and wakalah fees.

The general takaful and retakaful funds are maintained in accordance with the IFSA 2013 and consist of the accumulated surplus/deficit in the funds, AFS reserves and revaluation surplus. Any deficit will be made good by the shareholder's fund via a loan or Qard.

In general takaful and retakaful funds, the surplus distributable to the participants is determined after deducting retakaful/retrotakaful costs, movements in contribution liabilities, commissions, net claims incurred, wakalah fees, expenses, taxation and surplus administration charges. The surplus may be distributed to the shareholder and participants in accordance with the terms and conditions of the respective contracts or as prescribed by the Group Shariah Committee.

(a) Premium and contribution recognition

Gross premiums/contributions are recognised in a financial period in respect of risks assumed during the particular financial period. Gross premiums/contributions include premium/contribution income in relation to direct general business, inwards facultative business, inwards proportional treaty reinsurance/retakaful and inwards non-proportional treaty reinsurance/retakaful.

Contributions from direct businesses are recognised following individual risks' inception dates. Inwards facultative premiums/contributions are recognised in the financial period in respect of the facultative risk assumed during the particular financial period following individual risks inception dates.

Inwards proportional treaty premiums/contributions are recognised on the basis of periodic advices received from cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured/covered at various inception dates of these risks and contractually accounted for under the terms of the proportional reinsurance/retakaful treaty.

Premium/contribution income on inwards non-proportional treaties, which cover losses occurring during a specified treaty period, are recognised based on the contractual premiums/contributions already established at the start of the treaty period under the terms and conditions of each contract.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 General reinsurance, takaful and retakaful underwriting results (Cont'd)

(b) Premium and contribution liabilities

Premium/contribution liabilities represent the future obligations on insurance/takaful contracts as represented by premiums/contributions received for risks that have not yet expired. The movement in premium/contribution liabilities is released over the term of the insurance/takaful contracts and recognised as earned premium/contribution income.

Premium/contribution liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR")/unearned contribution reserves ("UCR") respectively for all lines of business or the best estimate value of the unexpired risk reserves ("URR") and a provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the end of the financial year.

(i) Unexpired risk reserves

The URR is a prospective estimate of the expected future payments arising from future events insured or covered under policies or contracts in force as at the end of the financial year and also includes allowance for expenses, including overheads and costs of reinsurance/retakaful, expected to be incurred during the unexpired period in administering these policies or contracts and settling the relevant claims, and shall allow for expected future premium/contribution refunds.

URR is estimated via an actuarial valuation performed by qualified actuary, using a mathematical method of estimation similar to incurred but not reported ("IBNR") claims.

(ii) Unearned premium and contribution reserves

The UPR/UCR represents the portion of the net premiums/contributions of insurance/takaful contracts written that relate to the unexpired periods of the contracts at the end of the financial year. The UCR is computed on net contribution income with a further deduction for wakalah fee expenses to reflect the wakalah business principle. The methods of computation of UPR/UCR are as follows:

- For inwards proportional treaty reinsurance/retakaful business, UPR/UCR is computed on the $1/8^{th}$ method commencing from the quarter corresponding to the reporting quarter of the treaty statement;
- For inwards non-proportional treaty reinsurance/retakaful business, UPR/UCR is computed at 1/2 of the last quarter Minimum Deposit Premiums/Contributions received;
- For inwards facultative reinsurance/retakaful business, UPR/UCR is computed on the $1/8^{th}$ method commencing from the date of inception;
- Time apportionment method for all classes of general takaful business within Malaysia except Marine and Aviation Cargo; and
- 25% method for Marine and Aviation Cargo.

(c) Claim liabilities

The amount of outstanding claims is the best estimate value of claim liabilities, which include provision for claims reported, claims incurred but not enough reserved ("IBNER") and IBNR claims together with related expenses less recoveries to settle the present obligation as well as a PRAD calculated at 75% confidence level at the end of the financial year. Liabilities for outstanding claims are recognised when a claimable event occurs and/or as advised/notified. IBNER and IBNR claims are based on an actuarial valuation by qualified actuary, using a mathematical method of estimation based on, amongst others, actual claims development patterns.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 General reinsurance, takaful and retakaful underwriting results (Cont'd)

(d) Liability adequacy test

At each reporting date, the Group reviews all insurance/takaful contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Group, contractual or otherwise, with respect to insurance/takaful contracts issued. In performing this review, the Group compares all contractual cash flows against the carrying value of insurance/takaful contract liabilities. Any deficiency is recognised in the income statement.

The estimation of claim liabilities and premium/contribution liabilities performed at the reporting date is part of the liability adequacy tests performed by the Group.

(e) Acquisition costs and commission expenses

The acquisition costs and commission expenses, which are costs directly incurred in acquiring and renewing reinsurance/takaful/retakaful business, are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

2.5 Family takaful and retakaful underwriting results

The family takaful and retakaful underwriting results are determined after taking into account contributions, retakaful/retrotakaful costs, commissions, net benefits incurred and wakalah fees.

The family takaful and retakaful funds are maintained in accordance with the requirements of the IFSA 2013 and consist of the accumulated surplus/deficit in the funds, AFS reserves and revaluation surplus. The family takaful and retakaful funds surplus/deficit is determined by an annual actuarial valuation of the funds. Any actuarial deficit in the family takaful and retakaful funds will be made good by the shareholder's fund via a loan or Qard.

In the family takaful and retakaful funds, the surplus distributable to the participants is determined after deducting retakaful/retrotakaful costs, net benefits incurred, wakalah fees, expenses, taxation and surplus administration charges. The surplus may be distributed to the shareholder and participants in accordance with the terms and conditions of the respective contracts or as prescribed by the Group Shariah Committee.

(a) Contribution recognition

Takaful contribution is recognised as soon as the amount of contribution can be reliably measured in accordance with the principles of Shariah. First year contribution is recognised on the assumption of risks and subsequent takaful contributions are recognised on due dates. Takaful contributions outstanding at the reporting date are recognised as income for the period provided they are within the grace period allowed for payment and there are sufficient funds available in the participants' accounts to cover such contributions due.

Retakaful contributions are recognised in respect of risks assumed during a particular financial period. Inward treaty retakaful contributions are recognised on the basis of statements received from ceding companies.

(b) Contract liabilities

Family takaful contract liabilities are recognised when contracts are in-force and contributions are charged. Liabilities of benefits payable of the family retakaful fund are recognised as advised by ceding companies.

For a one year family contract or a one year extension to a family contract covering contingencies other than life or survival, the liabilities for such family takaful contracts comprise contribution and claim liabilities with an appropriate allowance for PRAD from the expected experience.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Family takaful and retakaful underwriting results (Cont'd)

(b) Contract liabilities (Cont'd)

Liabilities of family takaful business are determined in accordance with valuation guidelines for takaful operators issued by Bank Negara Malaysia ("BNM"). All family takaful liabilities are valued using a prospective actuarial valuation based on the sum of the present value of future benefits and expenses less future gross considerations arising from the contracts, discounted at the appropriate risk discount rate. This method is known as the gross contribution valuation method. In the case of a family contract where a part of, or the whole of, the contributions are accumulated in a fund, the accumulated amounts as declared to the participants are set as the liabilities. Zerorisation is applied at contract level and no contract is treated as an asset under the valuation method adopted.

The family takaful contract liabilities are derecognised when the contracts expire, are discharged or are cancelled. At each reporting date, an assessment is made of whether the recognised family takaful contract liabilities are adequate by performing a liability adequacy test as disclosed in Note 2.5(d).

In respect of the family takaful and retakaful risk fund, the expected future cash flows of benefits are determined using best estimate assumptions with an appropriate allowance for PRAD from expected experience such that an overall level of sufficiency of contract reserves at a 75% confidence level is secured. For investment-linked business, the fund value is treated as liabilities.

The distribution of surplus, arising from the difference between the value of the family fund and its liabilities, including retained surplus, if declared, could only be distributed to the participants after deducting the surplus administration charge.

If the difference between the value of the family fund and the liabilities results in a deficit, the deficit is made good via a Qard from the shareholder's funds which will be repaid when the fund returns to a surplus position.

(c) Creation/cancellation of units of family takaful fund

Amounts received for units created represent contributions paid by participants or unitholders as payment for new contracts or subsequent payments to increase the amount of the contracts. Creation/cancellation of units are recognised in the financial statements at the next valuation date, after the request to purchase/sell units are received from the participants or unitholders.

(d) Liability adequacy test

At each reporting date, the Group reviews all takaful contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Group, contractual or otherwise, with respect to takaful contracts issued. In performing this review, the Group compares all contractual cash flows against the carrying value of takaful contract liabilities. Any deficiency is recognised in the income statement.

2.6 Shareholder's fund relating to takaful and retakaful business

(a) Commission expenses

Commission expenses, which are costs directly incurred in securing contributions on takaful contracts, are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income. Commission expenses are recognised in the income statement at an agreed percentage for each contract underwritten. This is in accordance with the principles of Wakalah as approved by the Group Shariah Committee and as agreed between the participants and TIB/MRRD.

NOTES TO THE **FINANCIAL STATEMENTS**

31 March 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Shareholder's fund relating to takaful and retakaful business (Cont'd)

(b) Expense liabilities

The expense liabilities of the shareholder's fund consist of expense liabilities relating to the management of the general takaful and retakaful funds and the family takaful and retakaful funds which are based on estimations performed by qualified actuaries. The movement in expense liabilities is released over the term of the takaful contracts and recognised in the income statement.

(i) Expense liabilities of general takaful and retakaful funds

The expense liabilities of the general takaful and retakaful funds are reported at the higher of the aggregate of the reserves for unearned wakalah fees ("UWF") and the best estimate value of the provision for unexpired expense reserves ("UER") and a PRAD at a 75% confidence level at the end of the financial year.

Unexpired expense reserves

The UER is determined based on the expected future expenses payable by the shareholder's funds in managing the general takaful and retakaful funds for the full contractual obligation of the takaful and retakaful contracts as at the end of the financial year, less any expected cash flows from future wakalah fee income, and any other income due to the shareholder's funds that can be determined with reasonable certainty, including a PRAD calculated at a 75% confidence level. The method used to value the UER is consistent with the method used in estimating the URR as disclosed in Note 2.4(b)(i).

Reserves for unearned wakalah fees

The UWF represent the portion of wakalah fee income that relate to the unexpired periods of contracts at the end of the financial year. The method used in computing UWF is consistent with the methods used in the calculation of the UCR as disclosed in Note 2.4(b)(ii).

(ii) Expense liabilities of family takaful and retakaful funds

The valuation of expense liabilities in relation to contracts of the family takaful and retakaful funds is conducted separately by the Appointed Actuaries. The method used to value expense liabilities is consistent with the method used to value takaful and retakaful liabilities of the corresponding family takaful and retakaful contracts. In valuing the expense liabilities, the present value of expected future expenses payable by the shareholder's funds in managing the takaful and retakaful funds for the full contractual obligation of the takaful and retakaful contracts less any expected cash flows from future wakalah fee income, and any other income due to the shareholder's funds that can be determined with reasonable certainty, are taken into consideration. The estimation includes a PRAD at a 75% confidence level.

(iii) Liability adequacy test

At each reporting date, the Group reviews the expense liabilities to ensure that the carrying amount is sufficient or adequate to cover the obligations of the Group for all managed takaful and retakaful contracts. In performing this review, the Group considers all contractual cash flows and compares this against the carrying value of expense liabilities. Any deficiency is recognised in the income statement.

2.7 Product classification

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Product classification (Cont'd)

An insurance/takaful contract is a contract under which the reinsurance, takaful and retakaful subsidiaries have accepted significant insurance/underwriting risk from another party by agreeing to compensate the party if a specified uncertain future event adversely affects the party. As a general guideline, the reinsurance, takaful and retakaful subsidiaries determine whether significant insurance/underwriting risk has been accepted by comparing claims/benefits payable on the occurrence of the event with claims/benefits payable if the event had not occurred.

Conversely, investment contracts are those contracts that transfer financial risk with no significant insurance/underwriting risk.

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

2.8 Reinsurance and retakaful

The reinsurance/retakaful and takaful subsidiaries cede insurance/underwriting risk in the normal course of business. Ceded reinsurance and retakaful arrangements do not relieve the reinsurance/retakaful and takaful subsidiaries from their obligations to cedants/participants. For both ceded and assumed reinsurance and retakaful, premiums/contributions and claims/benefits are presented on a gross basis.

Reinsurance and retakaful arrangements entered into by the reinsurance/retakaful and takaful subsidiaries that meet the classification requirements of insurance/takaful contracts as described in Note 2.7 are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets.

Reinsurance and retakaful assets represent amounts recoverable from reinsurers and retakaful operators for insurance and takaful contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers and retakaful operators are measured consistently with the amounts associated with the underlying insurance and takaful contracts and the terms of the relevant reinsurance and retakaful arrangement.

At each reporting date, the reinsurance/retakaful and takaful subsidiaries assess whether objective evidence exists that reinsurance and retakaful assets are impaired. Objective evidence of impairment for reinsurance and retakaful assets are similar to those noted for insurance and takaful receivables. If any such evidence exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest/profit rate. The impairment loss is recognised in the income statement. Reinsurance and retakaful assets are derecognised when the contractual rights expire or are extinguished or when the contract is transferred to another party.

2.9 Property, plant and equipment and depreciation

(a) Recognition and measurement

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, plant and equipment are stated at cost less accumulated depreciation and any impairment losses, whilst properties are stated at revalued amounts less subsequent accumulated depreciation and subsequent impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

In respect of freehold land and buildings, valuations are performed with sufficient frequency to ensure that the carrying amount does not differ materially from the fair value of the freehold land and buildings at the reporting date.

Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Property, plant and equipment and depreciation (Cont'd)

(a) Recognition and measurement (Cont'd)

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. On disposal of property, plant and equipment, the difference between net proceeds and the carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(b) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(c) Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated. Leased properties are depreciated over the shorter of the lease term and their useful lives.

Work in progress is also not depreciated as it is not available for use. When work in progress is completed and the asset is available for use, it is reclassified to the relevant category of property, plant and equipment and depreciation of the asset begins. During the period in which the asset is not yet available for use, it is tested for impairment annually.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life, at the following annual rates:

Buildings	2% to 3%
Computer equipment	10% to 33.3%
Office equipment	10% to 33.3%
Furniture and fittings	10% to 15%
Motor vehicles	20%

The residual values, useful lives and depreciation method are reviewed at the end of each financial year to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

2.10 Investment properties

Investment properties are properties which are held either to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are recognised in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from the disposals. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Investment properties (Cont'd)

Transfers are made to or from investment property only when there is a change in use. For a transfer from owner-occupied property to investment property, any excess of the property's carrying value over its fair value is accounted for as a revaluation surplus which is recognised in other comprehensive income. Any deficit between the property's carrying value and its fair value is recognised as an impairment loss in the income statement. Subsequent to the date of change in use, the property is measured similar to other investment properties. Any revaluation surplus previously recognised in other comprehensive income is transferred to the income statement only upon disposal of the property.

2.11 Intangible assets

All intangible assets are initially recorded at cost. Subsequent to recognition, intangible assets are stated at cost less any accumulated amortisation and any impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

On disposal of intangible assets, the difference between net proceeds and the carrying amount is recognised in the income statement.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed annually at the end of each reporting period. Amortisation is charged to the income statement.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

(a) Software development in progress

Software development in progress represent development expenditure on software. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. When development is complete and the asset is available for use, it is reclassified to computer software and amortisation of the asset begins. It is amortised over the period of expected future use. During the period in which the asset is not yet available for use, it is tested for impairment annually.

(b) Computer software and licences

The useful lives of computer software and licences are considered to be finite because computer software and licences are susceptible to technological obsolescence.

The acquired computer software and licences are amortised using the straight-line method over their estimated useful lives. Impairment is assessed whenever there is an indication of impairment and the amortisation period and method are also reviewed annually at the end of each financial year.

2.12 Financial assets

(a) Initial recognition and measurement

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the instrument.

A financial asset is recognised initially at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial assets (Cont'd)

(a) Initial recognition and measurement (Cont'd)

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 FVTPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

(b) Classification and subsequent measurement

The Group and the Company determine the classification of its financial assets at initial recognition and this depends on the purpose for which the investments were acquired or originated. The following classifications are used by the Group and the Company in categorising its financial assets:

(i) Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statement. Net gains or net losses on financial assets at FVTPL do not include exchange differences, interest/profit income and dividend income. Exchange differences, interest/profit income and dividend income on financial assets at FVTPL are recognised in the appropriate categories of income and expenses in the income statement.

(ii) HTM investments

Financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Group and the Company have the positive intention and ability to hold the investments to maturity.

Subsequent to initial recognition, HTM investments are measured at amortised cost using the effective interest/yield method less any accumulated impairment losses. Gains and losses are recognised in the income statement when the HTM investments are derecognised or impaired, and through the amortisation process.

(iii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest/yield method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial assets (Cont'd)

(b) Classification and subsequent measurement (Cont'd)

(iv) AFS financial assets

AFS financial assets are financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial recognition, AFS financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest/profit calculated using the effective interest/yield method are recognised in the income statement. The cumulative gain or loss previously recognised is reclassified from other comprehensive income to the income statement as a reclassification adjustment when the financial asset is derecognised. Interest/profit income calculated using the effective interest/yield method is recognised in the income statement.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses.

(c) Derecognition

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or the Group and the Company have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

(d) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.13 Fair value measurement

The Group and the Company measure financial instruments such as financial assets at FVTPL and non-financial assets such as investment properties and self-occupied properties at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Notes 19 and 39.

Fair value is 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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(a) In the principal market for the asset or liability; or

(b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group and the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 Fair value measurement (Cont'd)

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

Level 2 – Inputs that are based on observable market data, either directly or indirectly

Level 3 – Inputs that are not based on observable market data

An annual valuation is performed to reflect the fair value of the Group's self-occupied property and investment properties. At the end of each financial year, accredited independent valuers having appropriate recognised professional qualification are appointed to perform the annual valuation. The valuation techniques used by the accredited independent valuers are verified to ensure that they are in accordance with the requirements of MFRS 13 *Fair Value Measurement*.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group and the Company determine whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The fair value hierarchy of assets that are measured at fair value and/or for which fair value are disclosed is presented in Note 39.

2.14 Impairment of assets

(a) Financial assets

The Group and the Company assess at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(i) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest/yield rate. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Impairment of assets (Cont'd)

(a) Financial assets (Cont'd)

(ii) AFS financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

Impairment losses on AFS equity investments are not reversed in the income statement in subsequent periods. Increases in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in the income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

(b) Non-financial assets

The carrying amounts of non-financial 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 goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of the other assets in the unit (or groups of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the losses have decreased or no longer exist.

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 the income statement in the period in which the reversals are recognised.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.15 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition subject only to terms that are usual and customary.

Immediately before classification as held for sale, the non-current assets are measured in accordance with applicable MFRSs. On initial classification as held for sale, non-current assets are then measured at the lower of its carrying amount and fair value less costs to sell. Any difference is included in the income statement. Non-current assets classified as held for sale are not depreciated.

2.16 Measurement and impairment of Qard

Any deficits in the takaful/retakaful funds are made good via a loan or Qard, granted by the shareholder's funds to the takaful/retakaful funds. The Qard is stated at cost less any impairment losses in the shareholder's funds. In the takaful/retakaful funds, the Qard is stated at cost.

The Qard shall be repaid from future surpluses of the takaful/retakaful funds.

The Qard is tested for impairment on an annual basis via an assessment of the estimated surpluses or cash flows from the takaful/retakaful funds to determine whether there is any objective evidence of impairment. If the Qard is impaired, an amount comprising the difference between its cost and its recoverable amount, less any impairment loss previously recognised, is recognised in the income statement.

Impairment losses are subsequently reversed in the income statement if objective evidence exists that the Qard is no longer impaired.

2.17 Share capital and dividend expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks, excluding fixed and call deposits with licensed financial institutions, which have an insignificant risk of changes in value. The statement of cash flows has been prepared using the indirect method.

2.19 Insurance and takaful receivables

Insurance/takaful receivables are amounts receivable under the contractual terms of an insurance/takaful contract. On initial recognition, insurance/takaful receivables are measured at fair value based on the consideration receivable. Subsequent to initial recognition, insurance/takaful receivables are measured at amortised cost, using the effective interest/yield method.

Insurance/takaful receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance/takaful receivable's original effective interest/yield rate. The impairment loss is recognised in the income statement. The basis for recognition of such impairment loss is as described in Note 2.14(a)(i).

Insurance/takaful receivables are derecognised when the rights to receive cash flows from them have expired or when they have been transferred and the Group has also substantially transferred all risks and rewards of ownership.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 Borrowings

All borrowings are classified as other financial liabilities and are recognised initially at fair value plus directly attributable transaction costs. The profits payable are recognised as finance costs in the income statement in the period in which they are incurred.

After initial recognition, profit-bearing borrowings are subsequently measured at amortised cost using the effective profit rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective profit rate method.

2.21 Leases

(a) Classification

A lease is recognised as a finance lease if it substantially transfers to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not substantially transfer all risks and rewards are classified as operating leases, with the following exceptions:

(i) Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a case-by-case basis and, if classified as investment property, is accounted for as if held under a finance lease, as disclosed in Note 2.10; and

(ii) Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(b) Finance leases - the Group as lessee

Assets acquired by way of hire purchase or finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability is included in the statements of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest/profit rate implicit in the lease, when it is impracticable to determine; otherwise, the Group and the Company's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.9(c).

(c) Operating leases - the Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the upfront payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values of leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payments represent prepaid lease payments and are amortised on a straight-line basis over the lease term.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.21 Leases (Cont'd)

(d) Operating leases - the Group as lessor

Assets leased out under operating leases are presented in the statement of financial position according to the nature of the assets. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease, as disclosed in Note 2.27(b). Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2.22 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139 Financial Instruments: Recognition and Measurement, are recognised in the statements of financial position when, and only when, the Group and/or the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(a) Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities held for trading include derivatives entered into by the Group and the Company that do not meet the hedge accounting criteria. Derivative liabilities are initially measured at fair value and subsequently stated at fair value, with any resultant gains or losses recognised in the income statement. Net gains or losses on derivatives include exchange differences.

The Group and the Company had not designated any financial liabilities as at FVTPL nor were there any financial liabilities held for trading during and at the end of the financial year.

(b) Other financial liabilities

The Group's and the Company's other financial liabilities include borrowings, insurance/takaful payables and other payables.

Insurance/takaful and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest/yield method.

For other financial liabilities, gains and losses are recognised in the income statement when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

2.23 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 Income tax

Income tax on profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the end of the financial year.

Deferred tax is provided for, using the liability method, on temporary differences at the end of the financial year between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the financial year. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in other comprehensive income, in which case the deferred tax is also charged or credited directly in other comprehensive income.

2.25 Employee benefits

(a) Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated balances. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) Defined contribution plan

As required by law, the Group makes contributions to the national pension scheme, the Employees Provident Fund ("EPF"). The Group also makes additional contributions to the EPF for eligible employees by reference to their earnings. Such contributions are recognised as an expense in the income statement as incurred.

(c) Employees' terminal benefits

As required by law in the United Arab Emirates, the Group makes provision for terminal benefits for employees of its Dubai subsidiary, based on the employees' salaries and number of years of service. The terminal benefits are paid to the employees on termination or completion of their terms of employment.

2.26 Foreign currencies

(a) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

(b) Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency ("foreign currencies") are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Foreign currencies (Cont'd)

(b) Foreign currency transactions (Cont'd)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the income statements except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised intially in other comprehensive income and accumulated under the foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to the income statement of the Group on disposal of the foreign operation.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other comprehensive income.

(c) Foreign operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency of the consolidated financial statements are translated into RM as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate prevailing at the reporting date;

(ii) Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions;

(iii) All resulting exchange differences are taken to the foreign currency translation reserve within equity; and

(iv) The results of an associate, Labuan Reinsurance (L) Limited, are translated at the closing rate prevailing at the reporting date with respect to the carrying amount of the investment in associate, and at the exchange rate at the date of the transactions with respect to the share of profits or losses. All resulting translation differences are included in the foreign exchange translation reserve in shareholders' equity.

2.27 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits flow to the Group and the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(a) Interest and profit income

Interest and profit income are recognised using the effective interest/yield method.

(b) Rental income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(c) Dividend income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.27 Revenue recognition (Cont'd)

(d) Management fees

Management fees are recognised when services are rendered.

(e) Wakalah fees

Wakalah fees are recognised as soon as the amount of contribution can be reliably measured in accordance with the principles of Shariah.

(f) Premiums and contributions income

Premiums/contributions are recognised in accordance with the policies stated in Notes 2.4(a) and 2.5(a).

2.28 Zakat

Zakat represents an obligatory amount payable by the takaful subsidiary and retakaful division to comply with the principles of Shariah. Zakat is computed using a method as recommended by the Group Shariah Committee ("GSC") and approved by the Board. Only the zakat that is attributable to the individual and corporate Muslim shareholders of the holding company was provided for in the financial statements. The zakat computation is reviewed by the GSC. The Board has the discretion to pay additional quantum above the obligatory amount payable.

2.29 Changes in Accounting Policies

The accounting policies adopted by the Group and the Company are consistent with those of the previous financial year except for the following:

Adoption of MFRS and amendments/improvements to MFRSs

At the beginning of the current financial year, the Group and the Company adopted the following amendments/improvements to MFRSs mandatory for annual periods beginning on or after 1 January 2017 as follows:

Description	**Effective for annual periods beginning on or after**
MFRS 107 *Statement of Cash Flows - Disclosures Initiatives* (Amendments to MFRS 107)	1 January 2017
MFRS 112 *Income Taxes - Recognition of Deferred Tax for Unrealised Losses* (Amendments to MFRS 112)	1 January 2017
Amendment to MFRS 12 *Disclosure of Interests in Other Entities* (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2017

The adoption of the above amendments/improvements to MFRSs did not have any significant effect on the disclosures or amounts recognised in the Group's and the Company's financial statements.

NOTES TO THE **FINANCIAL STATEMENTS**

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective

The standards and amendments/improvements to published standards and interpretation that are issued but not yet effective up to the date of issuance of the Group's and the Company's financial statements are disclosed below. The Group and the Company intends to adopt these standards and amendments/improvements to standards and interpretation, if applicable, when they become effective:

Description	**Effective for annual periods beginning on or after**
Amendment to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2018
Amendments to MFRS 2 *Classification and Measurement Payment Transactions*	1 January 2018
MFRS 9 *Financial Instruments*	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to MFRS 140 *Transfers of Investment Property*	1 January 2018
Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*	1 January 2018
Amendments to MFRS 128 *Investments in Associates and Joint Ventures* (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
IC Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019
Annual improvements to MFRS Standards 2015 - 2017 Cycle	1 January 2019
MFRS 16 *Leases*	1 January 2019
Amendments to MFRS 119 *(Plan Amendment, Curtailment or Settlement)*	1 January 2019
Amendments to MFRS 128 *(Long-term Interests in Associates and Joint Ventures)*	1 January 2019
Amendments to MFRS 9 *Prepayment Features with Negative Compensations*	1 January 2019
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
MFRS 17 *Insurance Contracts*	1 January 2021
Amendments to MFRS 10 *Consolidated Financial Statements* and MFRS 128 *Investment in Associates and Joint Ventures*	To be announced by MASB

The Directors are of the opinion that the adoption of the above standards and amendments/improvements to standards and interpretation are not expected to have a material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 *Financial Instruments* ("MFRS 9")

The International Accounting Standards Board ("IASB") issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not compulsory.

MFRS 9 was issued by the MASB in respect of its application in Malaysia. It is equivalent to IFRS 9 as issued by IASB, including the effective and issuance dates.

The Group and Company has adopted the new standard on the required effective date, being 1 April 2018. The Group and Company has performed a gap assessment on the three main aspects of MFRS 9.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective (Cont'd)

MFRS 9 *Financial Instruments* ("MFRS 9") (Cont'd)

The areas with expected impact from application of MFRS 9 are summarised below:

(i) Classification and measurement

The classification and measurement of financial assets is determined on the basis of the contractual cash flow characteristics and the objective of the business model associated with holding the asset. Key changes include:

- The held-to-maturity ("HTM") and available-for-sale ("AFS") asset categories will be removed;
- Financial assets will be measured at amortised cost ("AC") if the assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest;
- A new asset category measured at fair value through other comprehensive income ("FVOCI") is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;
- A new asset category for non-traded equity investments measured at FVOCI is introduced. Equity instruments where an election has not been made to measure those assets at FVOCI, will be measured at FVTPL;
- Financial assets will be measured at FVTPL if the assets are held for trading or financial assets do not qualify to be measured at AC or at FVOCI; and
- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in 'own credit risk' for financial liabilities designated and measured at FVTPL to be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

Under the business model test, the Company's debt instruments would be classified under FVOCI or FVTPL while all equities would be classified under FVTPL.

The total equity of the Group is expected to increase by approximately 2% by applying the classification and measurement requirements.

LAR are held to collect contractual cash flows and are representing solely payments of principal and interest. Thus, the Group and the Company expects that these will continue to be measured at amortised cost under MFRS 9. However, the Group and the Company will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under MFRS 9.

The total equity of the Group is expected to increase by 2% by applying the classification and measurement requirements.

(ii) Impairment of financial assets

The MFRS 9 impairment requirements are based on an expected credit loss ("ECL") model that replaces the Incurred Loss model under the current accounting standard. The ECL model applies to financial assets measured at AC or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Company. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 117 *Leases*.

NOTES TO THE **FINANCIAL STATEMENTS**

31 March 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective (Cont'd)

MFRS 9 *Financial Instruments* ("MFRS 9") (Cont'd)

(ii) Impairment of financial assets (Cont'd)

The measurement of expected loss will involve increased complexity and judgement that include:

- Determining a significant increase in credit risk ("SICR") since initial recognition.

  The Group and Company will recognise either a 12-month (Stage 1) or lifetime ECL (Stage 2 and 3), depending on whether there has been an SICR since initial recognition. When making the assessment of a SICR, the Group and Company uses the change in the risk of default occurring over the expected life of the financial instrument instead of the change in amount of expected credit losses. To make the assessment, the Group and Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

- Mapping of external credit rating models

  The Group and Company utilises its existing external credit rating models to assign credit ratings to the individual instruments in its investment portfolio. Based on the Group and Company's review and testing, the following key features of the models that are consistent with and therefore comply with MFRS 9 requirements for the assessment of credit risk are as follows:

  (a) The ratings represent individual assessment of the credit risk of the financial instrument in question (as opposed to collective assessment);

  (b) The models cover fixed income instruments regardless of whether or not they are externally rated;

  (c) A wide range of current and historical information is considered, including published financial statements, qualitative information about an obligor's industry characteristics, competitive positioning, management, financial policy and financial flexibility;

  (d) In addition, forward-looking information is incorporated into the credit rating process; and

- Derivation of probability of default

  The Group and Company's current definition of default for debt instruments is when the borrower is unlikely to fulfil its credit obligations to the Group and Company on the scheduled payment dates. The Group and Company assessed the definition of default by considering the MFRS 9 definition of "credit impaired" which includes:

  (a) Significant financial difficulty of the issuer or the borrower;

  (b) A breach of contract, such as a default or a past due event;

  (c) The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

  (d) It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

  (e) The disappearance of an active market for the financial asset because of financial difficulties; or

  (f) The purchase or orgination of a financial asset at a deep discount that reflects the incurred credit losses.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective (Cont'd)

MFRS 9 *Financial Instruments* ("MFRS 9") (Cont'd)

(ii) Impairment of financial assets (Cont'd)

- ECL measurement

  MFRS 9 does not distinguish between individual assessment and collective assessment. Therefore, the Group and Company decided to continue measuring the impairment on an individual transaction basis for financial assets that are deemed to be individually significant.

  There are three main components to measure ECL which are probability of default ("PD"), loss given default model ("LGD") and the exposure at default ("EAD").

The Group and Company relies on professional services provided by a credit rating agency to provide the default rate for all its debts instruments which incorporates all the requirements above.

Impairment of insurance/takaful receivables

The approach for impairment model for insurance/takaful receivables are more simplified as compared to the impairment model for financial assets. MFRS 9 includes the requirement or policy choice to apply the simplified approach that does not require entities to track changes in credit risk and the practical expedient to calculate ECLs on insurance/takaful receivables using a provision matrix with the usage of forward-looking information in determining of expected credit losses, including the use of macroeconomic information.

The total equity of the Group and Company is expected to increase by approximately 1% by applying the classification and measurement requirements.

(iii) Hedge accounting

The requirements for general hedge accounting have been simplified for hedge effectiveness testing and may result in more designations of hedged items for accounting purposes.

The Group and the Company does not expect a significant impact to the financial statements on applying the hedge accounting.

MFRS 15 *Revenue from Contracts with Customers* ("MFRS 15")

MFRS 15 was issued in 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under MFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under MFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group and the Company expects to apply MFRS 15 fully retrospective. Given that reinsurance, retakaful and takaful contracts are scoped out of MFRS 15, the Group and the Company expects the main impact of the new standard to be on the accounting for income from administrative and investment management services to related corporations. The Group and the Company does not expect the impact to be significant.

NOTES TO THE **FINANCIAL STATEMENTS**

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective (Cont'd)

MFRS 16 *Leases* ("MFRS 16")

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model, similar to the accounting for finance leases under MFRS 117. The standard will supersede MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Lessee

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Subsequently, lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(ii) Lessor

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

The standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group and the Company plans to assess the potential effect of MFRS 16 on its financial statement in the near future.

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

The amendments address the conflict between MFRS 10 and MFRS 128 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments require the full gain to be recognised when the assets are transferred to an associate or joint venture which meets the definition of a business as defined in MFRS 3 *Business Combinations*. Any gain or loss on assets transferred to an associate or joint venture that do not meet the definition of a business would be recognised only to the extent of the unrelated investors' interest in the associate or joint venture. The amendments are applied prospectively effective for periods beginning on or after 1 January 2016, with early application permitted.

On 31 December 2015, MASB announced to defer the effective date of the amendments, except for the amendments which clarify how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests, where early application still permitted. The deferment is in line with the IASB's recent decision which removed the requirement to apply Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128) by 2016. The IASB's reason for making the decision to defer the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. The Group and the Company does not anticipate significant impact to the financial statements upon adoption of the amendments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.30 Standards and amendments/improvements to published standards and interpretation that are issued but not yet effective (Cont'd)

Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts* (Amendments to MFRS 4)

In December 2016, the MASB issued amendments to MFRS 4 to address issues arising from the different effective dates of MFRS 9 and the upcoming new insurance contracts standard (IFRS 17) to be issued by the International Accounting Standards Board.

The amendments introduce two alternative options for entities issuing contracts within the scope of MFRS 4, notably a temporary exemption and an overlay approach. 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 whilst the overlay approach allows an entity applying MFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied MFRS 139 to these designated financial assets.

The Group and the Company has opted not to utilise the exemptions permitted under this Amendment and will fully adopt MFRS 9 effective on 1 January 2018.

MFRS 17 *Insurance Contracts*

MFRS 17 will replace MFRS 4 *Insurance Contracts* issued in 2005. MFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The main features of the new accounting model for insurance contracts are as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured at every reporting period (the fulfilment cash flows);
- A Contractual Service Margin ("CSM") that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profitability of the takaful certificates to be recognised in statement of comprehensive income over the service period (i.e., coverage period);
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in statement of comprehensive income over the remaining contractual service period;
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
- The presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period;
- Amounts that the participants will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the Income statements, but are recognised directly on the Statements of financial position;
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
- Extensive disclosures to provide information on the recognised amounts from insurance/takaful contracts and the nature and extent of risks arising from these contracts.

The Group and the Company has established a project team with assistance from consultants to plan and manage the implementation of MFRS 17 and is in the process of assessing the gaps and the financial implications for adopting the new standard.

NOTES TO THE **FINANCIAL STATEMENTS**

31 March 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of AFS financial assets

The Group reviews its debt securities classified as AFS financial assets at each reporting date to assess whether they are impaired. The Group also records impairment charges on AFS equity investments when there has been a significant or prolonged decline in the fair value below their cost.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) General reinsurance, takaful and retakaful businesses

The principal uncertainty in the general reinsurance, takaful and retakaful businesses arises from the technical provisions which include the estimation of premium/contribution and claim liabilities. Premium/contribution liabilities are recorded as the higher of UPR/UCR and URR while claim liabilities mainly comprise provision for claims reported and IBNER and IBNR claims.

Generally, claim liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future premium/contribution and claim liabilities will not exactly develop as projected and may vary from the projection.

The estimates of premium/contribution and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium/contribution and claim liabilities may vary from the initial estimates. The sensitivity of these assumptions and their impact to results and the equity position of the businesses are disclosed in Note 35(a)(iv), 35(b)(iv) and 35(d)(iv).

At each reporting date, the estimates of premium/contribution and claim liabilities are re-assessed for adequacy by the Appointed Actuaries and changes will be reflected as adjustments to these liabilities. The appointment of the actuaries is approved by BNM.

(b) Family takaful and retakaful businesses

The estimation of the ultimate liability arising from claims made under the family takaful and retakaful businesses is a critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liabilities that the family takaful and retakaful funds will ultimately be required to pay as claims/benefits.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

3.2 Key sources of estimation uncertainty (Cont'd)

(b) Family takaful and retakaful businesses (Cont'd)

For family takaful and retakaful contracts, estimates are made for future deaths, disabilities, maturities, investment returns, voluntary terminations and expenses in accordance with contractual and regulatory requirements. The family takaful and retakaful funds base the estimate of expected number of deaths on statutory mortality tables, adjusted where appropriate to reflect the funds' unique risk exposures. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future contributions.

For those contracts that cover risks related to disability, estimates are made based on recent past experience and emerging trends. However, epidemics as well as wide ranging changes to lifestyle, could result in significant changes to the expected future exposures. All of these will give rise to estimation uncertainties of the projected ultimate liabilities of the family takaful and retakaful funds. The sensitivity of the actuarial liabilities of the family takaful and retakaful funds to changes in assumptions are detailed in Note 35(c)(iii) and 35(e)(iii).

At each reporting date, these estimates are re-assessed for adequacy and changes will be reflected as adjustments to the liabilities by the Appointed Actuaries. The appoinment of the actuaries is approved by BNM.

(c) Expense Liabilities

The expense liabilities of the shareholder's fund consist of expense liabilities of the general takaful, general retakaful, family takaful and family retakaful fund which are based on estimations performed by qualified actuaries. The estimation methods are explained in Note 2.6. The qualified actuaries estimate the expected management expenses required to manage the contracts less any expected cash flows from future wakalah fee income based on the qualified actuaries' assumptions and observations of the actual experiences. The estimates of expense liabilities are therefore sensitive to various factors and uncertainties.

The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of expense liabilities may vary from the initial estimates. At each reporting date, the estimates of expense liabilities are re-assessed for adequacy by the appointed actuaries and changes will be reflected as adjustments to these liabilities. The appointment of the Appointed Actuaries is approved by BNM.

4. NET EARNED PREMIUMS/CONTRIBUTIONS

		Group	
		2018	**2017**
		RM'000	**RM'000**
(a)	**Gross earned premiums/contributions**		
	Insurance and takaful contracts	**2,216,703**	2,293,554
	Change in premium/contribution liabilities	**34,960**	33,782
		2,251,663	2,327,336
(b)	**Premiums/contributions ceded to reinsurers/retakaful operators**		
	Insurance and takaful contracts	**(317,868)**	(347,812)
	Change in premium/contribution liabilities	**(4,931)**	(1,020)
		(322,799)	(348,832)
	Net earned premiums/contributions	**1,928,864**	1,978,504

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5. INVESTMENT INCOME

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Financial assets at FVTPL				
Dividend income:				
- quoted shares in Malaysia	**61**	63	**–**	–
- Shariah approved unit trust funds	**1,702**	2,409	**–**	–
HTM investments				
Interest/profit income	**27,546**	27,722	**50**	50
AFS financial assets				
Interest/profit income	**148,623**	113,851	**–**	–
Dividend income:				
- quoted shares in Malaysia	**6,731**	9,255	**–**	–
- unquoted shares in Malaysia	**103**	123	**–**	–
- real estate investment trusts in Malaysia	**–**	8,188	**–**	–
Loans and receivables				
Interest/profit income	**62,333**	64,164	**2,772**	3,839
Dividend income from associate	**–**	–	**400**	–
Rental income	**3,954**	5,887	**–**	–
Net amortisation of premiums on investments	**(5,094)**	(4,470)	**–**	–
Investment expenses	**(28)**	(34)	**–**	–
	245,931	227,158	**3,222**	3,889

6. NET REALISED GAINS/(LOSSES)

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property, plant and equipment				
Net realised (losses)/gains	**–**	(9)	**–**	6
Investment properties				
Net realised gains	**100**	–	**–**	–
Financial assets at FVTPL				
Quoted shares in Malaysia	**–**	(269)	**–**	–
Shariah approved unit trust funds	**4,949**	2,574	**–**	–
Net realised gains	**4,949**	2,305	**–**	–
AFS financial assets				
Quoted shares in Malaysia	**(4,473)**	(5,327)	**–**	–
Real estate investment trusts in Malaysia	**–**	126	**–**	–
Unquoted corporate debt securities	**630**	3,173	**–**	–
Government investment issues	**751**	1,082	**–**	–
Net realised losses	**(3,092)**	(946)	**–**	–
	1,957	1,350	**–**	6

7. NET FAIR VALUE GAINS/(LOSSES)

	Group	
	2018	**2017**
	RM'000	**RM'000**
Net fair value (losses)/gains on financial assets at FVTPL	**(487)**	2,987
(Impairment losses)/writeback of impairment losses on properties	**(251)**	86
Writeback of impairment losses/(impairment losses) on AFS financial assets	**12,178**	(3,147)
	11,440	(74)

8. FEE AND COMMISSION INCOME/(EXPENSES)

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fee and commission income				
Management fees	**7,601**	7,501	**35,025**	31,728
Commission income	**32,541**	47,880	**–**	–
	40,142	55,381	**35,025**	31,728
Fee and commission expenses				
Commission expenses	**(427,469)**	(442,668)		
Brokerage	**(56)**	(639)		
	(427,525)	(443,307)		

9. MANAGEMENT EXPENSES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Salaries, bonus and other related costs	**99,376**	91,115	**23,746**	22,819
Short term accumulating compensated absences	**85**	–	**93**	–
Directors' remuneration and Group Shariah Committee ("GSC") members' remuneration (Note 10)	**9,048**	8,150	**3,720**	3,284
Pension costs - EPF	**12,027**	11,963	**2,630**	2,699
Social security costs	**1,239**	640	**130**	123
Retirement benefits	**335**	315	**139**	151
Auditors' remuneration:				
Statutory auditors of the Group				
- statutory audit	**1,400**	1,170	**115**	75
- audit-related	**80**	87	**8**	5
- other services	**501**	223	**5**	8
Component auditors of a foreign subsidiary	**48**	42	**–**	–
Depreciation of property, plant and equipment	**7,272**	8,069	**499**	644
Amortisation of intangible assets	**4,312**	3,260	**355**	290
Intangible asset written off	**613**	–	**38**	–
Agency expenses	**10,710**	6,843	**–**	–
Marketing and promotional costs	**10,981**	26,940	**399**	377
Electronic data processing costs	**13,276**	12,131	**–**	–
Office rental	**3,975**	4,208	**1,067**	1,392
Professional and legal fees	**18,650**	16,571	**1,589**	2,007
Contributions and donations	**1,220**	21	**10**	11
Tax on premium	**1,488**	–	**–**	–
Other management expenses	**41,353**	60,721	**1,002**	1,302
	237,989	252,469	**35,545**	35,187

10. DIRECTORS' AND GROUP SHARIAH COMMITTEE REMUNERATION

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Number of non-executive directors	**17**	17	**8**	10
Executive directors:				
Salaries and bonus	**3,717**	3,050	**1,328**	1,169
Pension costs - EPF and SOCSO	**736**	498	**341**	199
Benefits-in-kind	**178**	220	**68**	120
Fees	**292**	279	**–**	–
Others	**91**	95	**4**	6
	5,014	4,142	**1,741**	1,494
Non-executive directors:				
Fees	**2,329**	2,371	**844**	780
Others	**593**	562	**174**	146
Benefits-in-kind	**–**	38	**–**	38
	2,922	2,971	**1,018**	964
Group Shariah Committee members:				
Fees	**192**	232	**–**	–
Allowances	**69**	79	**–**	–
	261	311	**–**	–
Total executive directors' and GSC members' remuneration excluding benefits-in-kind	**5,097**	4,233	**1,673**	1,374
Total directors' and GSC members' remuneration excluding benefits-in-kind	**9,048**	8,150	**3,720**	3,284
Director of a subsidiary *:				
Salaries and bonus	**834**	837	**834**	837
Pension costs - EPF	**129**	126	**129**	126
Social security costs	**1**	1	**1**	1
Other allowances	**65**	20	**65**	20
Benefits-in-kind	**97**	55	**97**	55
	1,126	1,039	**1,126**	1,039

* Director of a subsidiary refers to management personnel who is employed by the holding company.

10. DIRECTORS' AND GROUP SHARIAH COMMITTEE REMUNERATION (CONT'D)

The number of directors of the Company whose total remuneration, borne by the Company and Group, during the financial year fell within the following bands is analysed below.

	Number of Directors			
	Group		Company	
	2018	2017	2018	2017
Executive director:				
RM1,450,001 to RM1,500,000	**1**	1	**1**	1
Non-executive directors:				
RM1 to RM50,000	**1**	1	**1**	4
RM50,001 to RM100,000	**1**	1	**1**	–
RM100,001 to RM150,000	**2**	2	**5**	4
RM150,001 to RM200,000	**1**	1	**1**	2
RM200,001 to RM250,000	**1**	1	**–**	–
RM250,001 to RM300,000	**2**	2	**–**	–
RM300,001 to RM350,000	**2**	–	**–**	–
RM400,001 to RM450,000	**1**	1	**–**	–
RM450,001 to RM500,000	**1**	–	**–**	–
RM500,001 to RM550,000	**–**	1	**–**	–

10. DIRECTORS' AND GROUP SHARIAH COMMITTEE REMUNERATION (CONT'D)

	Salary and bonus RM'000	Fees RM'000	Pension costs RM'000	Benefits-in-kind RM'000	Others RM'000	Total RM'000
Company						
2018						
Executive director:						
Mohd Din bin Merican	**1,328**	**–**	**341**	**68**	**4**	**1,741**
	1,328	**–**	**341**	**68**	**4**	**1,741**
Non-executive directors:						
Dato Sharkawi bin Alis	**–**	**142**	**–**	**–**	**16**	**158**
Hijah Arifakh binti Othman	**–**	**104**	**–**	**–**	**20**	**124**
Mustaffa bin Ahmad	**–**	**120**	**–**	**–**	**30**	**150**
Rosinah binti Mohd Salleh	**–**	**108**	**–**	**–**	**23**	**131**
Arul Sothy A/L Mylvaganam	**–**	**114**	**–**	**–**	**25**	**139**
Noor Rida binti Hamzah	**–**	**110**	**–**	**–**	**23**	**133**
Datuk Johar bin Che Mat (Appointed with effect from 1 October 2017)	**–**	**50**	**–**	**–**	**13**	**63**
George Oommen (Appointed with effect from 1 January 2018)	**–**	**21**	**–**	**–**	**5**	**26**
Megat Dziauddin bin Megat Mahmud (Resigned with effect from 30 June 2017)	**–**	**33**	**–**	**–**	**9**	**42**
Paisol bin Ahmad (Retired with effect from 24 August 2017)	**–**	**42**	**–**	**–**	**10**	**52**
	–	**844**	**–**	**–**	**174**	**1,018**
Total Directors' remuneration	**1,328**	**844**	**341**	**68**	**178**	**2,759**
Company						
2017						
Executive director:						
Mohd Din bin Merican	1,169	–	199	120	6	1,494
	1,169	–	199	120	6	1,494
Non-executive directors:						
Dato Sharkawi bin Alis	–	142	–	38	13	193
Megat Dziauddin bin Megat Mahmud	–	133	–	–	30	163
Paisol bin Ahmad	–	104	–	–	23	127
Hijah Arifakh binti Othman	–	99	–	–	18	117
Mustaffa bin Ahmad (Appointed with effect from 1 April 2016)	–	105	–	–	20	125
Rosinah binti Mohd Salleh (Appointed with effect from 1 January 2017)	–	24	–	–	4	28
Arul Sothy A/L Mylvaganam (Appointed with effect from 1 January 2017)	–	24	–	–	5	29
Noor Rida binti Hamzah (Appointed with effect from 1 January 2017)	–	24	–	–	6	30
Yusoff bin Yaacob (Resigned with effect from 1 January 2017	–	100	–	–	21	121
P. Raveenderen(Resigned with effect from 1 July 2016)	–	25	–	–	6	31
	–	780	–	38	146	964
Total Directors' remuneration	1,169	780	199	158	152	2,458

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11. OTHER OPERATING REVENUE/(EXPENSES)

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Other operating revenue				
Gains on foreign exchange	**269**	15,392	**–**	–
Reversal of impairment loss on other receivables	**–**	62	**–**	–
Reversal of impairment losses on insurance/takaful receivables	**20,565**	–	**–**	–
Non-operating interest income	**675**	399	**8**	18
Miscellaneous income	**16,562**	48,764	**144**	166
Net reversal of impairment loss on subsidiary (Note 17(ii))	**–**	–	**20,771**	–
	38,071	64,617	**20,923**	184
Other operating expenses				
Losses on foreign exchange	**(21,750)**	–	**–**	(24)
Impairment losses on insurance/takaful receivables	**–**	(9,558)	**–**	–
Allowance for impairment of other receivables	**(254)**	–	**–**	–
Miscellaneous expenses	**(890)**	(1,312)	**(208)**	(271)
	(22,894)	(10,870)	**(208)**	(295)

12. TAXATION

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Malaysian income tax:				
Tax expense for the year	**47,596**	27,986	**564**	700
Under/(over) provision in prior years	**2,261**	1,908	**(382)**	–
	49,857	29,894	**182**	700
Deferred tax:				
Relating to origination and reversal of temporary differences (Note 16)	**1,239**	(2,136)	**522**	(295)
	1,239	(2,136)	**522**	(295)
	51,096	27,758	**704**	405

12. TAXATION (CONT'D)

Domestic income tax for general business and shareholders' fund is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year. Income tax on the Group's family takaful business is calculated at a preferential tax rate of 8% (2017: 8%). Income tax on the Group's offshore insurance/takaful business is calculated at a tax rate of 5% (2017: 5%) of the estimated assessable profit on the Group's offshore insurance/takaful business for the year. A reconciliation of income tax expenses applicable to profit/(loss) before zakat and tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Company and of the Group is as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit/(loss) before zakat and tax	**192,524**	98,928	**7,576**	(17,795)
Taxation at Malaysian statutory tax rate of 24%	**46,206**	23,743	**1,818**	(4,271)
Effects of different tax rate in respect of offshore insurance	**(70)**	(932)	**–**	–
Income not subject to tax	**(51,942)**	(60,091)	**–**	–
Expenses not deductible for tax purposes	**56,972**	64,413	**(732)**	4,676
Utilisation of prior years losses of the general and family retakaful funds	**–**	(283)	**–**	–
Over provision of deferred tax in prior year	**–**	(224)	**–**	–
Deferred tax assets not recognised	**–**	575	**–**	–
Under/(over) provision of tax in prior years	**2,261**	1,908	**(382)**	–
Share of results of associates	**(2,331)**	(1,351)	**–**	–
Tax expense/(income) for the year	**51,096**	27,758	**704**	405

Tax borne by participants

	Group	
	2018	**2017**
	RM'000	**RM'000**
Current year's provision	**13,459**	17,168
Under provision of tax expense in prior years	**(1,531)**	74
Deferred tax relating to origination and reversal of temporary differences	**745**	(1,831)
Tax expense for the year	**12,673**	15,411

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13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Buildings RM'000	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Valuation/Cost						
At 1 April 2016	36,000	203,151	11,477	39,108	2,680	292,416
Additions	–	683	366	121	27	1,197
Disposals	–	–	(492)	(96)	(19)	(607)
Adjustments	–	(488)	(382)	–	–	(870)
Net revaluation surplus	800	3,195	–	–	–	3,995
Elimination of accumulated depreciation on revaluation	–	(5,122)	–	–	–	(5,122)
At 31 March 2017	36,800	201,419	10,969	39,133	2,688	291,009
Additions	–	91	347	445	372	1,255
Disposals	–	–	(22)	–	–	(22)
Net revaluation surplus	–	3,285	11	(11)	(5)	3,280
Elimination of accumulated depreciation on revaluation	–	(5,110)	–	–	–	(5,110)
Write-offs	–	–	–	(13)	–	(13)
At 31 March 2018	**36,800**	**199,685**	**11,305**	**39,554**	**3,055**	**290,399**
Accumulated depreciation and impairment loss						
At 1 April 2016	–	–	10,517	32,242	2,160	44,919
Depreciation charge for the year	–	5,122	279	2,341	327	8,069
Disposals	–	–	(492)	(79)	(18)	(589)
Elimination of accumulated depreciation on revaluation	–	(5,122)	–	–	–	(5,122)
At 31 March 2017	–	–	10,304	34,504	2,469	47,277
Depreciation charge for the year	–	5,269	535	1,241	227	7,272
Disposals	–	–	(20)	–	–	(20)
Write-offs	–	–	–	(13)	–	(13)
Elimination of accumulated depreciation on revaluation	–	(5,110)	–	–	–	(5,110)
Impairment loss during the year	–	249	–	–	–	249
At 31 March 2018	**–**	**408**	**10,819**	**35,732**	**2,696**	**49,655**
Net carrying amount						
At 31 March 2018	**36,800**	**199,277**	**486**	**3,822**	**359**	**240,744**
At 31 March 2017	36,800	201,419	665	4,629	219	243,732

13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Revaluation of freehold land and buildings

Freehold land and buildings in Malaysia have been revalued based on valuations performed by accredited independent valuers having appropriate recognised professional qualification. The valuations are based on the income and comparison approaches and are effective on 31 March 2018.

The income approach entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income.

The comparison approach entails critical analyses of recent sales and listing of comparable properties registered within the vicinity. The technique of the approach requires the establishment of a comparable property by reducing reasonable comparative sales and listing to a common denominator. This is done by adjusting the differences between the subject property and those regarded as comparable.

Description of the fair value hierarchy for freehold land and buildings and the significant inputs used in the valuation are provided in Note 38.

Freehold buildings outside Malaysia have been revalued based on their value-in-use and a discount rate of 7% (2017: 7%) is applied, being the prevailing rental yield in the country where the buildings are located.

If the freehold land and buildings were measured using the cost model, the carrying amounts would be as follows:

	Freehold land RM'000	Buildings RM'000	Total RM'000
Group			
Cost			
At 1 April 2016	15,596	175,289	190,885
Additions	–	225	225
Adjustments	–	(488)	(488)
At 31 March 2017	15,596	175,026	190,622
Additions	–	87	87
At 31 March 2018	**15,596**	**175,113**	**190,709**
Accumulated depreciation			
At 1 April 2016	–	39,192	39,192
Depreciation charge for the year	–	5,122	5,122
Reversal of impairment losses during the year	–	(86)	(86)
At 31 March 2017	–	44,228	44,228
Depreciation charge for the year	–	5,183	5,183
Disposals	–	–	–
Impairment losses during the year	–	247	247
At 31 March 2018	**–**	**49,658**	**49,658**
Net carrying amount			
At 31 March 2018	**15,596**	**125,455**	**141,051**
At 31 March 2017	15,596	130,798	146,394

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13. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Revaluation of freehold land and buildings (Cont'd)

	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Company				
Cost				
At 1 April 2016	3,307	3,129	1,222	7,658
Additions	94	–	–	94
Disposals	(294)	–	(11)	(305)
At 31 March 2017	3,107	3,129	1,211	7,447
Additions	279	4	–	283
At 31 March 2018	**3,386**	**3,133**	**1,211**	**7,730**
Accumulated depreciation				
At 1 April 2016	2,769	1,816	1,056	5,641
Charge for the year	318	189	137	644
Disposals	(294)	–	(11)	(305)
At 31 March 2017	2,793	2,005	1,182	5,980
Charge for the year	291	183	25	499
At 31 March 2018	**3,084**	**2,188**	**1,207**	**6,479**
Net carrying amount				
At 31 March 2018	**302**	**945**	**4**	**1,251**
At 31 March 2017	314	1,124	29	1,467

14. INVESTMENT PROPERTY

	Group	
	2018 RM'000	2017 RM'000
At beginning of the year	**7,400**	7,400
Disposal during the year	**(7,400)**	–
At end of the year	**–**	7,400

The rental income and operating expenses in relation to the investment property are as disclosed below:

	2018 RM'000	2017 RM'000
Rental income	**277**	280
Operating expenses	**(70)**	(31)
	207	249

15. INTANGIBLE ASSETS

	Software development in progress RM'000	Computer software and licences RM'000	Total RM'000
Group			
Cost			
At 1 April 2016	3,358	45,460	48,818
Additions	3,562	7,914	11,476
Disposal	–	(204)	(204)
Reclassification	(601)	601	–
At 31 March 2017	6,319	53,771	60,090
Additions	5,093	8,923	14,016
Write off	(137)	(476)	(613)
Reclassification	(1,301)	1,301	–
At 31 March 2018	**9,974**	**63,519**	**73,493**
Accumulated amortisation			
At 1 April 2016	–	33,994	33,994
Amortisation for the year	–	3,260	3,260
Disposal	–	(204)	(204)
At 31 March 2017	–	37,050	37,050
Amortisation for the year	–	4,312	4,312
At 31 March 2018	**–**	**41,362**	**41,362**
Net carrying amount			
At 31 March 2018	**9,974**	**22,157**	**32,131**
At 31 March 2017	6,319	16,721	23,040
Company			
Cost			
At 1 April 2016	1,952	7,995	9,947
Additions	123	201	324
Disposal	–	(201)	(201)
Reclassification	(601)	601	–
Transfers to subsidiary	(1,351)	–	(1,351)
At 31 March 2017	123	8,596	8,719
Additions	36	63	99
Reclassification	(74)	74	–
Write-off	(38)	–	(38)
At 31 March 2018	**47**	**8,733**	**8,780**

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15. INTANGIBLE ASSETS (CONT'D)

	Software development in progress RM'000	Computer software and licences RM'000	Total RM'000
Company (Cont'd)			
Accumulated amortisation			
At 1 April 2016	–	6,706	6,706
Amortisation for the year	–	290	290
Disposal	–	(201)	(201)
At 31 March 2017	–	6,795	6,795
Amortisation for the year	–	355	355
At 31 March 2018	**–**	**7,150**	**7,150**
Net carrying amount			
At 31 March 2018	**47**	**1,583**	**1,630**
At 31 March 2017	123	1,801	1,924

16. DEFERRED TAXATION

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
At beginning of year	**8,738**	4,760	**3,333**	3,038
Recognised in:				
Income statement (Note 12)	**(1,239)**	2,136	**(522)**	295
Participants' funds	**(305)**	1,747	**–**	–
Recognised in other comprehensive income	**465**	95	**–**	–
At end of year	**7,659**	8,738	**2,811**	3,333
These comprise the following:				
Deferred tax assets	**18,343**	19,518	**2,811**	3,333
Deferred tax liabilities	**(10,684)**	(10,780)	**–**	–
	7,659	8,738	**2,811**	3,333

16. DEFERRED TAXATION (CONT'D.)

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

	Provisions and payables RM'000	Unabsorbed/ accelerated capital allowances RM'000	Impairment losses on loans and receivables RM'000	Premium contribution/ expense liabilities RM'000	Impairment losses on investments RM'000	AFS financial assets RM'000	Revaluation of land and buildings RM'000	Others RM'000	Total RM'000
Group									
2018									
At 1 April 2017	**979**	**467**	**2,402**	**5,135**	**3,755**	**(605)**	**(10,175)**	**6,780**	**8,738**
Recognised in:									
Income statement (Note 12)	**309**	**(242)**	**–**	**700**	**(1,686)**	**(4)**	**–**	**(316)**	**(1,239)**
Participants' fund	**–**	**–**	**(535)**	**(318)**	**–**	**555**	**(219)**	**212**	**(305)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**755**	**(290)**	**–**	**465**
At 31 March 2018	**1,288**	**225**	**1,867**	**5,517**	**2,069**	**701**	**(10,684)**	**6,676**	**7,659**
2017									
At 1 April 2016	472	437	3,157	2,631	3,467	(921)	(9,870)	5,387	4,760
Recognised in:									
Income statement (Note 12)	507	30	–	648	288	–	–	663	2,136
Participants' fund	–	–	(755)	1,856	–	137	(221)	730	1,747
Other comprehensive income	–	–	–	–	–	179	(84)	–	95
At 31 March 2017	979	467	2,402	5,135	3,755	(605)	(10,175)	6,780	8,738

	Unabsorbed capital allowances RM'000	Accelerated capital allowances RM'000	Impairment losses on loans and receivables RM'000	Others RM'000	Total RM'000
Company					
2018					
At 1 April 2017	**967**	**536**	**4**	**1,826**	**3,333**
Recognised in income statement (Note 12)	**(162)**	**(166)**	**–**	**(194)**	**(522)**
At 31 March 2018	**805**	**370**	**4**	**1,632**	**2,811**
2017					
At 1 April 2016	850	566	4	1,618	3,038
Recognised in income statement (Note 12)	117	(30)	–	208	295
At 31 March 2017	967	536	4	1,826	3,333

16. DEFERRED TAXATION (CONT'D.)

Deferred tax assets have not been recognised in respect of the following items of the Company and SSB as the probability of recognition cannot be determined with certainty given the lack of assessable profits in current and prior years.

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Unutilised business losses	**14,290**	14,290	**6,168**	6,168
Other temporary differences:				
- net contribution and expense liabilities	**1,151**	1,151	**–**	–
- others	**298**	298	**–**	–
	15,739	15,739	**6,168**	6,168

17. INVESTMENTS IN SUBSIDIARIES

	Note	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares, at cost:			
In Malaysia			
At the beginning of the year		**907,000**	907,000
Additional investment during the year	40(c)	**93,106**	–
		1,000,106	907,000
Less:			
Redemption of investment in SSB	17(ii), 40(d)	**(102,000)**	–
Accumulated impairment losses		**–**	(69,665)
At the end of the year		**898,106**	837,335
Outside Malaysia			
At the beginning and end of the year		**6,370**	6,370
		904,476	843,705

17. INVESTMENTS IN SUBSIDIARIES (CONT'D.)

Details of the subsidiaries are as follows:

Name of subsidiaries	Country of incorporation	Principal activities	Effective ownership interest 2018 %	2017 %
Malaysian Reinsurance Berhad ("MRE")	Malaysia	Underwriting of all classes of general reinsurance business and management of family and general retakaful business	**100**	100
Takaful Ikhlas * Berhad ("TIB")	Malaysia	Management of family, general and investment-linked takaful business	**100**	100
Sinar Seroja Berhad** (previously known as MNRB Retakaful Berhad)	Malaysia	Dormant company	**100**	100
MMIP Services Sdn. Bhd.	Malaysia	Management of the Malaysian Motor Insurance Pool which provides motor insurance to vehicle owners who are unable to obtain insurance protection for their vehicles	**100**	100
Malaysian Re (Dubai) Ltd.	Dubai, United Arab Emirates	Marketing and promotional activities and servicing of clients on behalf of MRE	**100**	100

* The Company required to split its general takaful license as required by the Islamic Financial Service Act ("IFSA 2013") before 1 July 2018. A new company were incorporated on 5 June 2017 as a wholly-owned subsidiary of TIB with a paid-up capital of RM2. The subsidiary would be the transferee of TIB's general takaful business assets and liabilities as part of the business transfer.

** The Company was principally engaged in the managing of general and family retakaful business until 30 November 2017. On 1 December 2017, the Company completed the transfer of its general and family retakaful business to MRE and surrendered its license on the same date. Subsequently a capital redemption exercise was carried out, resulting in a net reversal of impairment losses of approximately RM21 million as disclosed in Note 11.

18. INVESTMENTS IN ASSOCIATES

	Group 2018 RM'000	2017 RM'000
Unquoted shares in Malaysia, at cost	**77,615**	77,615
Share of post-acquisition retained profits	**23,288**	12,095
Share of post-acquisition AFS reserve	**1,880**	155
Post-acquisition foreign exchange translation reserve*	**36,226**	55,555
	139,009	145,420
Represented by share of net assets	**139,009**	145,420

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18. INVESTMENTS IN ASSOCIATES (CONT'D)

	Company 2018 RM'000	Company 2017 RM'000
Unquoted shares in Malaysia, at cost	**1,957**	1,957

* This is in respect of retranslation of the cost of the investment in Labuan Re at the rate of exchange prevailing at the reporting date.

Details of the associates which are all incorporated in Malaysia are as follows:

Name of associates	Year end	Principal activities	Proportion of ownership interest and voting power 2018 %	2017 %
Held by the Company:				
Motordata Research Consortium Sdn. Bhd.	31 December	Development and provision of a centralised motor parts price database for the Malaysian insurance industry	**40**	40
Held by Malaysian Re:				
Labuan Reinsurance (L) Ltd ("Labuan Re")	31 December	Underwriting of all classes of general reinsurance business	**20**	20

The financial statements of the above associates are not co-terminous with those of the Group. For the purpose of applying the equity method of accounting, the audited financial statements of the associates for the year ended 31 December 2017 and management financial statements to the end of the accounting period of 31 March 2018 have been used.

The summarised financial information of the associates are as follows:

	2018 RM'000	2017 RM'000
Assets and liabilities:		
Current assets	**2,060,606**	2,279,708
Non-current assets	**63,284**	62,894
Total assets	**2,123,890**	2,342,602
Current liabilities	**282,421**	69,881
Non-current liabilities	**1,149,341**	1,541,411
Total liabilities	**1,431,762**	1,611,292
Equity	**692,128**	731,310
Results:		
Revenue	**588,241**	710,716
Profit for the year	**36,403**	39,877

19. FINANCIAL ASSETS

The following table summarises the carrying values of financial assets of the Group and the Company:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
At carrying value:				
Financial assets at FVTPL	**116,127**	123,467	**–**	–
HTM investments	**644,254**	695,426	**1,000**	1,000
AFS financial assets	**3,741,196**	3,384,744	**50**	50
Loans and receivables	**1,937,263**	1,934,933	**29,796**	105,388
	6,438,840	6,138,570	**30,846**	106,438
Malaysian government securities	**209,245**	206,314	**–**	–
Government investment issues	**1,673,892**	1,229,944	**–**	–
Debt securities	**2,317,789**	2,333,312	**1,000**	1,000
Equity securities	**126,501**	249,462	**–**	–
Unquoted shares	**44,796**	44,796	**50**	50
Shariah approved unit trust funds	**116,127**	119,592	**–**	–
Real estate investment trusts	**13,227**	20,217	**–**	–
Fixed and call deposits	**91,318**	79,648	**–**	–
Islamic investment accounts	**1,735,485**	1,727,724	**25,885**	97,633
Other loans and receivables	**110,460**	127,561	**3,911**	7,755
	6,438,840	6,138,570	**30,846**	106,438

	Group	
	2018 RM'000	**2017 RM'000**
(a) Financial assets at FVTPL		
At fair value:		
Quoted shares in Malaysia		
Others	**–**	3,790
Warrants	**–**	85
Shariah approved unit trust funds	**116,127**	119,592
	116,127	123,467

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19. FINANCIAL ASSETS

		Group		Company	
		2018	**2017**	**2018**	**2017**
		RM'000	**RM'000**	**RM'000**	**RM'000**
(b)	**HTM investments**				
	At amortised cost/cost:				
	Malaysian government securities	**78,083**	78,308	**–**	–
	Unquoted corporate debt securities	**25,249**	75,274	**1,000**	1,000
	Government investment issues	**540,922**	541,844	**–**	–
		644,254	695,426	**1,000**	1,000
	At fair value:				
	Malaysian government securities	**77,404**	76,109	**–**	–
	Unquoted corporate debt securities	**25,723**	75,987	**1,009**	1,008
	Government investment issues	**539,508**	537,417	**–**	–
		642,635	689,513	**1,009**	1,008
(c)	**AFS financial assets**				
	At cost:				
	Unquoted shares in Malaysia (i)	**44,796**	44,796	**50**	50
	At fair value:				
	Malaysian government securities	**131,162**	128,006	**–**	–
	Unquoted corporate debt securities	**2,292,540**	2,258,038	**–**	–
	Quoted shares in Malaysia	**126,228**	245,241	**–**	–
	Warrants	**273**	346	**–**	–
	Real estate investment trusts	**13,227**	20,217	**–**	–
	Government investment issues	**1,132,970**	688,100	**–**	–
		3,741,196	3,384,744	**50**	50
(d)	**Loans and receivables**				
	At amortised cost/fair value:				
	Fixed and call deposits with licensed:				
	Commercial banks	**11,388**	79,648	**–**	–
	Foreign banks	**79,930**	–	**–**	–
	Islamic investment accounts with licensed:				
	Co-operative bank	**–**	129,611	**–**	–
	Islamic banks	**1,154,572**	1,266,063	**17,672**	25,207
	Investment banks	**114,090**	51,627	**–**	–
	Development bank	**466,823**	280,423	**8,213**	72,426
	Secured staff loans	**8,010**	9,684	**1,914**	1,838
	Amounts due from subsidiaries (ii)	**–**	–	**1,780**	5,494
	Income due and accrued	**68,821**	51,039	**41**	104
	Amount due from Insurance Pool accounts	**7,845**	4,406	**–**	–
	Other receivables and deposits	**25,784**	62,432	**176**	319
		1,937,263	1,934,933	**29,796**	105,388

The carrying amount disclosed above approximates fair value due to its relatively short term nature.

19. FINANCIAL ASSETS (CONT'D)

(d) Loans and receivables (Cont'd)

(i) The pertinent information of the investments in unquoted shares in Malaysia are as follows:

	Group 2018 RM'000	Group 2017 RM'000
- 27,500,000 ordinary shares of RM1.00 each of Financial Park (Labuan) Sdn. Bhd. ("FPL"), representing an equity shareholding of 9%.	**28,283**	28,283
Less: Impairment loss	**(4,759)**	(4,759)
	23,524	23,524
20,000,000 redeemable preference shares of RM1.00 each of FPL	**20,569**	20,569
	44,093	44,093
- 820,000 ordinary shares of Malaysian Rating Corporation Berhad ("MARC") of RM1.00 each, representing an equity shareholding of 4%.	**410**	410
- Others	**293**	293
	44,796	44,796

(ii) These amounts are non-trade in nature, unsecured, not subject to any interest/profit elements and repayable on demand.

20. INSURANCE/TAKAFUL CONTRACT LIABILITIES

	2018 Gross RM'000	2018 Reinsurance/ retakaful RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Reinsurance/ retakaful RM'000	2017 Net RM'000
General reinsurance/takaful/retakaful funds (Note (a))	**2,537,293**	**(427,090)**	**2,110,203**	2,527,853	(462,804)	2,065,049
Family takaful/retakaful funds (Note (b))	**2,723,297**	**(51,163)**	**2,672,134**	2,580,122	(51,426)	2,528,696
Shareholder's funds (Note (c))	**59,355**	**–**	**59,355**	63,203	–	63,203
Total	**5,319,945**	**(478,253)**	**4,841,692**	5,171,178	(514,230)	4,656,948
(a) General reinsurance/takaful/retakaful funds						
Claim liabilities (Note (i))	**2,181,919**	**(371,072)**	**1,810,847**	2,137,519	(401,855)	1,735,664
Premium/contribution liabilities (Note (ii))	**355,374**	**(56,018)**	**299,356**	390,334	(60,949)	329,385
	2,537,293	**(427,090)**	**2,110,203**	2,527,853	(462,804)	2,065,049
(i) Claim liabilities						
At beginning of the year	**2,137,519**	**(401,855)**	**1,735,664**	2,078,963	(395,315)	1,683,648
Claims incurred in the current underwriting/accident year	**315,400**	**(94,787)**	**220,613**	318,535	(92,267)	226,268
Adjustment to claims incurred in prior underwriting/accident years due to changes in IBNR and PRAD	**54,845**	**21,908**	**76,753**	(25,381)	22,759	(2,622)
Movements in claims incurred in prior underwriting/accident years	**590,427**	**(3,115)**	**587,312**	750,488	(43,060)	707,428
Claims paid during the year	**(916,272)**	**106,777**	**(809,495)**	(985,086)	106,028	(879,058)
At end of the year	**2,181,919**	**(371,072)**	**1,810,847**	2,137,519	(401,855)	1,735,664

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20. INSURANCE/TAKAFUL CONTRACT LIABILITIES (CONT'D)

	2018 Gross RM'000	2018 Reinsurance/ retakaful RM'000	2018 Net RM'000	2017 Gross RM'000	2017 Reinsurance/ retakaful RM'000	2017 Net RM'000
(a) General reinsurance/takaful/retakaful funds (Cont'd)						
(ii) Premium/contribution liabilities						
At beginning of the year	**390,334**	**(60,949)**	**329,385**	424,116	(61,969)	362,147
Premiums/contributions written in the year	**1,560,267**	**(236,025)**	**1,324,242**	1,611,081	(266,909)	1,344,172
Premiums/contributions earned during the year	**(1,595,227)**	**240,956**	**(1,354,271)**	(1,644,863)	267,929	(1,376,934)
At end of the year	**355,374**	**(56,018)**	**299,356**	390,334	(60,949)	329,385
(b) Family takaful/retakaful funds						
Provision for claims reported by contract holders	**91,177**	**(14,516)**	**76,661**	97,193	(12,161)	85,032
Participants' Investment Fund ("PIF")	**2,366,126**	**–**	**2,366,126**	2,203,749	–	2,203,749
Participants' Risk Fund ("PRF")	**152,609**	**(36,647)**	**115,962**	182,473	(39,265)	143,208
Net asset value attributable to unitholders	**113,385**	**–**	**113,385**	96,707	–	96,707
	2,723,297	**(51,163)**	**2,672,134**	2,580,122	(51,426)	2,528,696
At beginning of the year	**2,580,122**	**(51,426)**	**2,528,696**	2,265,713	(39,896)	2,225,817
Net earned contributions	**611,303**	**(74,328)**	**536,975**	665,707	(74,735)	590,972
Net creation of units	**36,473**	**–**	**36,473**	11,526	–	11,526
Liabilities paid for death, maturities, surrenders, benefits and claims	**(285,547)**	**5,418**	**(280,129)**	(271,029)	1,699	(269,330)
Net cancellation of units	**(23,120)**	**–**	**(23,120)**	(27,183)	–	(27,183)
Benefits and claims experience variation	**(6,016)**	**(2,355)**	**(8,371)**	34,044	(8,693)	25,351
Fees deducted	**(214,541)**	**–**	**(214,541)**	(188,311)	–	(188,311)
Other revenue and expenses	**3,325**	**–**	**3,325**	1,357	–	1,357
Transfer to shareholder's fund	**(16,850)**	**–**	**(16,850)**	(13,405)	–	(13,405)
Increase in reserve	**38,148**	**71,528**	**109,676**	101,703	70,199	171,902
At end of the year	**2,723,297**	**(51,163)**	**2,672,134**	2,580,122	(51,426)	2,528,696

	2018 Gross/net RM'000	2017 Gross/net RM'000
(c) Shareholder's funds		
At beginning of the year	**63,203**	60,319
General takaful and retakaful funds:		
- Wakalah fee received during the year	**97,700**	98,456
- Wakalah fee earned during the year	**(103,815)**	(94,972)
- Movement in unearned wakalah fees	**(6,115)**	3,484
- Movement in provision for expense deficiency	**1,912**	1,912
Family takaful and retakaful funds:		
- Movement in provision for UER	**(2,926)**	(2,512)
Novation of SSB	**3,281**	–
At end of the year	**59,355**	63,203

21. INSURANCE/TAKAFUL RECEIVABLES

	Group	
	2018 RM'000	2017 RM'000
Due contributions including agents' balances	**76,182**	106,450
Amounts due from brokers and ceding companies	**355,875**	264,058
Less: Allowance for impairment	**(13,753)**	(34,318)
	418,304	336,190

Offsetting insurance/takaful receivables and insurance/takaful payables

	2018 RM'000	2017 RM'000
Gross amounts of recognised insurance/takaful receivables	**690,299**	502,549
Less: Gross amounts of recognised insurance/takaful payables set off in the statements of financial position	**(258,242)**	(132,041)
Net amounts of insurance/takaful receivables presented in the statements of financial position	**432,057**	370,508

Included in amounts due from brokers and ceding companies is an amount of RM533,027 (2017: RM221,660) due from an associate, Labuan Reinsurance (L) Ltd. The amount receivable is subject to settlement terms stipulated in the reinsurance contracts.

The carrying amount disclosed above approximates fair value due to its relatively short term nature.

22. TAX RECOVERABLE

	Company	
	2018 RM'000	2017 RM'000
Tax recoverable	**19,685**	–
Tax payable	**(2,055)**	(2,592)
	17,630	(2,592)

The Inland Revenue Board ("IRB") had, on 8 September 2017, issued to MNRB Holdings Berhad ("the Company") notices of additional assessment (i.e. Form JA) for the years of assessment ("YA") 2008 to 2014, disallowing the interest expense that the Company had deducted as part of its business expense in arriving at the taxable profit.

The additional tax payable by the Company under the above-mentioned notices is RM13,575,720. IRB had also treated the tax returns made by the Company for the above years of assessment as incorrect, and imposed a penalty of RM6,109,074 to the Company. This brings the total amount payable to IRB to RM19,684,794.

The Company disagrees with the additional assessment imposed by IRB for the above years of assessment and had submitted a notice of appeal by filing Form Q with the Special Commissioner of Income Tax on 6 October 2017.

Notwithstanding the appeal, the Company has paid the total amount payable of RM19,684,794.

Based on legal advice, the Company is of the view that there are strong justifications for its appeal and have treated the additional tax payment as tax recoverable.

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23. PARTICIPANTS' FUNDS

	Group 2018 RM'000	Group 2017 RM'000
Participants' funds comprise the following:		
Accumulated surplus (Note (a))	**209,939**	162,486
AFS reserves (Note (b))	**(3,412)**	(106)
Revaluation surplus (Note (c))	**41,335**	38,816
	247,862	201,196
(a) Accumulated surplus		
At beginning of the year	**162,486**	180,678
Net surplus/(deficit) of the general and family takaful and retakaful funds	**62,274**	(12,708)
Hibah paid and payable to participants during the year	**(14,821)**	(5,484)
At end of the year	**209,939**	162,486
(b) AFS reserves		
At beginning of the year	**(106)**	2,635
Net (loss)/gain on fair value changes	**(5,075)**	(3,101)
Realised loss transferred to income statements	**1,201**	223
Deferred tax on fair value changes	**568**	137
Net change in AFS reserves attributable to participants	**(3,306)**	(2,741)
At end of the year	**(3,412)**	(106)
(c) Revaluation surplus		
At beginning of the year	**38,816**	36,280
Recognised in other comprehensive income	**2,738**	2,757
Deferred tax on revaluation surplus	**(219)**	(221)
Net change in revaluation surplus attributable to participants	**2,519**	2,536
At end of the year	**41,335**	38,816

24. BORROWINGS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revolving Credit Facility	**320,000**	200,000	**320,000**	200,000
Sukuk Mudharabah Programme	**–**	120,000	**–**	120,000
	320,000	320,000	**320,000**	320,000

The salient terms and conditions of the borrowings of the Group and the Company are as follows:

(a) Revolving Credit Facility

On 17 March 2017, the Company entered into a RM320 million revolving credit facility ("said facility") agreement with AmBank (M) Berhad ("AmBank"). On 22 March 2017, the Company made a drawdown of RM200 million from the said facility. The facility carries a floating interest rate that is reviewed quarterly and has a tenure of 18 months, with the option of 6 months' extension at the discretion of the bank. The interest rate for the financial year ended 31 March 2018 was 4.82% (2017: 4.52%) per annum.

The proceeds from the drawdown were utilised towards redeeming the Islamic Commodity Murabahah Facility of the same amount from Standard Chartered Saadiq Berhad.

(b) Sukuk Mudharabah Programme

MNRB Holdings Berhad issued RM120 million of Sukuk to MIDF Amanah Investment Bank Berhad on 10 December 2012. It carries a fixed profit rate of 5.4% per annum, with final redemption date on 11 December 2017. This facility has been repaid off on 9 June 2017 by utilising the remaining RM120 million RC facilities entered into with AmBank Berhad.

25. INSURANCE/TAKAFUL PAYABLES

	Group	
	2018	**2017**
	RM'000	**RM'000**
Due to agents, brokers, retrocessionaires and retakaful operators	**270,444**	210,174

Offsetting insurance/takaful receivables and insurance/takaful payables

	Group	
	2018	**2017**
	RM'000	**RM'000**
Gross amounts of recognised insurance/takaful payables	**683,928**	379,361
Less: Gross amounts of recognised insurance/takaful receivables set off in the statements of financial position	**(413,484)**	(169,187)
Net amounts of insurance/takaful payables presented in the statements of financial position	**270,444**	210,174

Included in amounts due to brokers and retrocessionaires is an amount of RM231,382 (2017: RM216,664) due to an associate, Labuan Reinsurance (L) Ltd. The amount payable is subject to settlement terms stipulated in the reinsurance contracts.

The carrying amounts disclosed above approximate fair values due to their relatively short term nature.

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26. OTHER PAYABLES

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Deposit contributions	**42,283**	53,399	**–**	–
Outstanding commissions	**2,921**	5,173	**–**	–
Provisions	**35,717**	36,483	**6,791**	7,603
Amount due to subsidiaries [i]	**–**	–	**157**	4,616
Sundry payables and accruals	**144,824**	117,131	**2,027**	2,267
	225,745	212,186	**8,975**	14,486

[i] These amounts are non-trade in nature, unsecured, not subject to any interest/profit elements and repayable on demand.

The carrying amounts disclosed above approximate fair values due to their relatively short term nature.

27. SHARE CAPITAL

	Number of ordinary shares		Amount	
	2018 '000	2017 '000	2018 RM'000	2017 RM'000
Issued and fully paid:				
At beginning of the year	**319,605**	213,070	**319,605**	213,070
Issuance of bonus shares	**–**	106,535	**–**	106,535
At end of the year	**319,605**	319,605	**319,605**	319,605

28. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the current financial year.

29. EARNINGS/(LOSS) PER SHARE

The basic and diluted earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year by the number of ordinary shares in issue during the year.

	Group		Company	
	2018	2017	2018	2017
Net profit/(loss) for the year (RM'000)	**140,865**	71,170	**6,872**	(18,200)
Number/weighted average number of ordinary shares in issue ('000)	**319,605**	257,460	**319,605**	257,460
Basic and diluted earnings/(loss) per share (sen)	**44.1**	27.6	**2.2**	(7.1)

30. OPERATING LEASE ARRANGEMENTS

(a) The Group as lessee

The Group has entered into non-cancellable operating lease agreements for the use of office premises. This lease is for a period of 5 years and subject to review every 2 years. There are no restrictions placed upon the Group by entering into this lease.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities, are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Future minimum rental payments:				
Not later than 1 year	**1,151**	3,815	**1,248**	1,248
Later than 1 year and not later than 5 years	**929**	6,166	**1,248**	–
	2,080	9,981	**2,496**	1,248

(b) The Group as lessor

The Group has entered into non-cancellable operating lease agreements on its portfolio of self-occupied properties and investment property. These leases have remaining non-cancellable lease terms of between 5 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions and certain contracts include contingent rental arrangements computed based on sales achieved by tenants.

The future minimum lease payments receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	Group	
	2018 RM'000	**2017 RM'000**
Future minimum rental receipts:		
Not later than 1 year	**3,078**	3,895
Later than 1 year and not later than 5 years	**1,407**	1,658
	4,485	5,553

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31. COMMITMENTS

The commitments of the Company and of the Group as at the financial year end are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Authorised and contracted for:				
- Intangible assets*	**11,869**	22,409	2	–
	11,869	22,409	2	–
Authorised but not contracted for:				
- Property, plant and equipment	**787**	1,850		
- Intangible assets*	**12,775**	–		
	13,562	1,850		

* Relating to purchases and enhancement of the computer system of the Company and the reinsurance/retakaful and takaful subsidiaries.

32. RELATED PARTY DISCLOSURES

For the purposes of these financial statements, parties are considered to be related to the Group and the Company if the Group and the Company have 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 Group and the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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

(a) The significant transactions with related parties are as follows:

	Group		Company	
	2018 RM'000	**2017 RM'000**	**2018 RM'000**	**2017 RM'000**
Income/(expenses):				
Transactions with subsidiaries:				
Management fees received	**–**	–	**35,025**	31,728
Rental paid	**–**	–	**(1,067)**	(1,392)
Interest income	**–**	–	**50**	50
Transactions with takaful funds of a subsidiary:				
Takaful contributions paid	**–**	–	**–**	(320)
Transactions with an associate, Labuan Reinsurance (L) Ltd:				
Net reinsurance inwards	**391**	361	**–**	–
Gross contributions	**6**	10	**–**	–
Retakaful outward contributions	**(3,139)**	(5,983)	**–**	–
Retakaful commission	**232**	87	**–**	–
Net dividend received	**–**	2,692	**–**	–
Claims recoveries	**3,400**	2,092	**–**	–

32. RELATED PARTY DISCLOSURES (CONT'D)

(a) The significant transactions with related parties are as follows: (Cont'd)

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

Outstanding balances arising from the transactions above as at the reporting date have been disclosed in Notes 19(d), 21, 25 and 26 of the financial statements as well as on the face of the statements of financial position.

(b) The key management personnel compensations are as follows:

	Group		Company	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Non-executive directors:				
Fees	**2,506**	2,650	**844**	780
Others	**601**	644	**174**	146
Benefits-in-kind	**–**	38	**–**	38
Executive directors:				
Salaries and bonus	**3,717**	3,050	**1,328**	1,169
Pension costs - EPF	**747**	498	**341**	199
Social security costs	**–**	–	**–**	–
Allowances	**110**	–	**–**	–
Retirement benefits	**–**	–	**–**	–
Benefits-in-kind	**178**	220	**68**	120
Others	**77**	13	**4**	6
Director of a subsidiary:				
Salaries and bonus	**834**	837	**834**	837
Pension costs - EPF	**129**	126	**129**	126
Social security costs	**1**	1	**1**	1
Other allowances	**65**	20	**65**	20
Benefits-in-kind	**97**	55	**97**	55
Shariah Committee members:				
Fees	**192**	232	**–**	–
Meeting allowances	**69**	79	**–**	–
Other key management personnel's remuneration:				
Salaries and bonus	**11,978**	12,176	**4,140**	4,779
Pension costs - EPF	**2,366**	1,799	**668**	717
Social security costs	**15**	14	**8**	7
Allowances	**672**	511	**275**	51
Benefits-in-kind	**815**	509	**376**	442
	25,169	23,472	**9,352**	9,493

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33. SEGMENT INFORMATION

Group	Investment holding RM'000	Reinsurance business RM'000	Takaful operator RM'000	Retakaful operator RM'000	Adjustments and eliminations RM'000	Consolidated RM'000
2018						
Results						
Net earned premiums/contributions	**–**	**1,168,951**	**735,490**	**24,423**	**–**	**1,928,864**
Interest/profit income	**3,675**	**98,827**	**130,974**	**5,076**	**(50)**	**238,502**
Other revenue	**57,959**	**32,343**	**69,644**	**163**	**(61,070)**	**99,039**
Net claims	**–**	**(760,720)**	**(514,684)**	**(32,841)**	**–**	**(1,308,245)**
Other expenses (i)	**(36,780)**	**(418,406)**	**(287,773)**	**(3,305)**	**60,615**	**(685,649)**
Depreciation	**(499)**	**(3,022)**	**(3,751)**	**–**	**–**	**(7,272)**
Amortisation	**(439)**	**(1,018)**	**(2,855)**	**–**	**–**	**(4,312)**
Finance costs	**(15,841)**	**(50)**	**–**	**–**	**50**	**(15,841)**
Share of results of associates	**592**	**9,120**	**–**	**–**	**–**	**9,712**
Operating (loss)/profit before deficit attributable to takaful participants, taxation	**8,667**	**126,025**	**127,045**	**(6,484)**	**(455)**	**254,798**
Deficit attributable to takaful participants	**–**	**–**	**(77,662)**	**15,388**	**–**	**(62,274)**
Operating (loss)/profit before taxation	**8,667**	**126,025**	**49,383**	**8,904**	**(455)**	**192,524**
Zakat	**–**	**–**	**(563)**	**–**	**–**	**(563)**
Taxation	**(704)**	**(39,908)**	**(11,056)**	**572**	**–**	**(51,096)**
Net (loss)/profit for the year	**7,963**	**86,117**	**37,764**	**9,476**	**(455)**	**140,865**
2017						
Results						
Net earned premiums/contributions	–	1,188,736	779,581	10,910	(723)	1,978,504
Interest/profit income	3,889	86,811	110,023	5,064	(50)	205,737
Other revenue	31,892	60,720	81,304	1,637	(32,597)	142,956
Net claims	–	(832,318)	(658,512)	(11,019)	(1,434)	(1,503,283)
Other expenses (i)	(34,522)	(397,707)	(301,400)	(12,306)	32,062	(713,873)
Depreciation	(644)	(3,070)	(4,352)	(3)	–	(8,069)
Amortisation	(290)	(830)	(2,019)	(121)	–	(3,260)
Finance costs	(18,120)	(50)	–	–	50	(18,120)
Share of results of associates	369	5,259	–	–	–	5,628
Operating profit/(loss) before surplus attributable to takaful participants, zakat and taxation	(17,426)	107,551	4,625	(5,838)	(2,692)	86,220
Surplus attributable to takaful participants	–	–	(4,064)	16,772	–	12,708
Operating profit/(loss) before zakat and taxation	(17,426)	107,551	561	10,934	(2,692)	98,928
Taxation	(405)	(18,241)	(9,148)	36	–	(27,758)
Net profit/(loss) for the year	(17,831)	89,310	(8,587)	10,970	(2,692)	71,170

33. SEGMENT INFORMATION (CONT'D)

Group	Investment holding RM'000	Reinsurance business RM'000	Takaful operator RM'000	Retakaful operator RM'000	Adjustments and eliminations RM'000	Consolidated RM'000
2018						
Assets						
Segment assets (i)	**961,225**	**3,599,570**	**4,030,584**	**120,729**	**(916,116)**	**7,795,992**
Investments in associates	**1,957**	**129,876**	**–**	**–**	**7,176**	**139,009**
	963,182	**3,729,446**	**4,030,584**	**120,729**	**(908,940)**	**7,935,001**
Liabilities and Participants' funds						
Segment liabilities						
Participants' funds	**–**	**–**	**260,866**	**(13,004)**	**–**	**247,862**
Borrowings	**320,000**	**1,000**	**–**	**–**	**(1,000)**	**320,000**
Insurance and takaful contract liabilities	**–**	**2,037,525**	**3,168,225**	**114,195**	**–**	**5,319,945**
Other liabilities	**10,641**	**237,330**	**244,559**	**26,944**	**(10,281)**	**509,193**
	330,641	**2,275,855**	**3,673,650**	**128,135**	**(11,281)**	**6,397,000**
Equities						
Segment equities (i)	**632,541**	**1,453,591**	**356,934**	**(7,406)**	**(897,659)**	**1,538,001**
Total liabilities, participants' funds and equity	**963,182**	**3,729,446**	**4,030,584**	**120,729**	**(908,940)**	**7,935,001**
2017						
Assets						
Segment assets (i)	960,283	3,368,223	3,769,156	165,013	(851,515)	7,411,160
Investments in associates	1,957	75,968	–	–	67,495	145,420
	962,240	3,444,191	3,769,156	165,013	(784,020)	7,556,580
Liabilities and Participants' funds						
Segment liabilities						
Participants' funds	–	–	199,561	–	–	199,561
Borrowings	320,000	1,000	–	–	(1,000)	320,000
Insurance and takaful contract liabilities	–	2,041,209	3,028,299	103,305	–	5,172,813
Other liabilities	17,078	154,738	261,429	19,064	(7,569)	444,740
	337,078	2,196,947	3,489,289	122,369	(8,569)	6,137,114
Equities						
Segment equities (i)	625,162	1,247,244	279,867	42,644	(775,451)	1,419,466
Total liabilities, participants' funds and equity	962,240	3,444,191	3,769,156	165,013	(784,020)	7,556,580

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33. SEGMENT INFORMATION (CONT'D)

(i) Included in segment assets is a Qard granted to the general and family retakaful funds by the shareholder's fund of the retakaful division of reinsurance subsidiary, amounting to RM84.6 million (2017: RM84.6 million). Qard represents a loan to the general and family retakaful funds to make good any underwriting deficit experienced during a financial period. These balances, including the impairment losses recognised thereon amounting to RM72.1 million (2017: RM72.1 million), have been eliminated in full upon consolidation.

34. RISK MANAGEMENT FRAMEWORK

The Group Enterprise Risk Management ("ERM") Framework was established to determine the level of risk acceptable to the Group relating to its core operations by setting the appropriate Board approved limits for adherence by management, after taking into account the risk parameters, the nature, the size and the mix and complexity of business and operations. An enterprise risk management process is adopted to identify and evaluate key business risks that may affect the organisation and to establish and implement an appropriate system of internal controls to manage these risks while ensuring full and effective control over significant strategic, financial, organisational and compliance matters.

The Group ERM Framework aims to serve as a guide for the effective management of risk throughout the Group. The Framework is intended to provide guidance to the Group in performing its risk management roles and responsibilities and ultimately aims to support the achievement of the Group's strategic and financial objectives.

The primary objectives of the Group ERM Framework are as follows:

(i) Provides a single point of reference for managing risk of the Group in a systematic and structured way;

(ii) Embeds the Risk Management process and ensures it is an integral part of the Group's planning process at a strategic and operational level;

(iii) Facilitates effective risk oversight through a clear internal risk governance structure and responsibilities;

(iv) Helps create a risk awareness culture from a strategic, operational and individual perspective; and

(v) Standardises risk terminologies across the Group to facilitate a consistent and uniform approach in managing risk.

In pursuit of the above objectives, it is the Group's policy to adhere to good governance standards and implement best practices with regards to risk management principles. The Group also aims to uphold high standards of business practices in all its activities.

(a) Risk management governance

The Risk Management Governance structure is as follows:

(i) The Board had established a dedicated Board Committee known as the Risk Management Committee of the Board ("RMCB") to oversee the implementation of an enterprise-wide risk management framework. This is replicated at each of the main operating subsidiaries;

(ii) The Board had also established a dedicated Investment Committee to further oversee risks associated with investments and assets allocation. This is also replicated at each of the main operating subsidiaries;

(iii) The Operational Risk Management Committee ("ORMC"), which comprises the President & Group Chief Executive Officer and Senior Management, implements the risk management processes, provides assurance to the Board that the processes have been carried out effectively and inculcates a risk management culture on an enterprise-wide basis. The ORMC is also established at each of the main operating subsidiaries;

(iv) The Group Chief Risk Officer ("GCRO") and Risk Management Department established the infrastructure and facilitate the risk management processes in the Company and across the subsidiaries through the adoption of the Group ERM Framework;

(v) At the operational level, the implementation of risk management processes in the day to day operations of the Group is consistent with the Group ERM Framework;

(vi) The Line Managers of each department within the Group are responsible for using the various components of the Group ERM Framework as an integral part of the business processes and procedures.

34. RISK MANAGEMENT FRAMEWORK (CONT'D)

(a) Risk management governance (Cont'd)

In addition to the above, the Group has established Investment Policies at each main operating subsidiary to ensure proper risk management by investing in low-risk assets, deposits with licensed financial institutions, debt securities and other marketable securities. The Group investment strategy is towards capital preservation, return maximization and liquidity management.

Further, each main operating subsidiary had put in place the following policies to ensure proper risk management:

(i) Underwriting Policy where each subsidiary's underwriting strategy is to have an acceptable mix and spread of business portfolio by:

- observing underwriting guidelines and limits; and
- applying prudential standards in the assessment of security of its key retrocessionaires/retrotakaful/retakaful providers ("counterparties").

In this respect, each main operating subsidiary complies with the relevant regulatory guidelines in the underwriting of risks.

(ii) Claims Reserving Policy where claim liabilities are determined based on historical claims trends, existing knowledge of events, terms and conditions of policies/certificates and assessment of circumstances. Past experience with similar events, historical claims development trends, legislative changes, judicial decisions and economic conditions are particularly relevant in claims reserving.

(b) Capital management objectives, policies and approach

The Capital Management Plan ("CMP") is designed and implemented at the main operating subsidiaries to ensure an effective management of their respective capital and maximise the Group's value by optimising capital structure and enhancing capital efficiency.

Under the CMP, the main operating subsidiaries measure and monitor their respective capital position mainly via the Capital Adequacy Ratio ("CAR").

The CMP identifies certain trigger points of the CAR position and further describes a set of corrective action plans that will be implemented towards maintaining an adequate level of capital. It is intended that capital will be utilised more efficiently in a controlled manner so that the main operating subsidiaries will be able to manage their capital position above the respective internal target.

Capital management objectives

The main objective of capital management is to monitor and maintain, at all times, an appropriate level of capital to commensurate with the main operating subsidiaries' business operations and the resultant risk profile. The key objective of the CMP is to trigger appropriate action plans to be taken by the Board and the management of the main operating subsidiaries in the event of internal capital levels falling below the internal target requirement. This includes remedial actions that must be undertaken by the main operating subsidiaries' Board and management to improve the capital position.

Capital management policies

The key capital management policies are as follows:

(i) Ensure the Group has adequate capital to support its business objectives; and

(ii) Establish responsibility of the main operating subsidiaries' Board and management in developing an internal capital adequacy assessment process and setting capital targets which commensurate with its business operations and the resultant risk profile and control environment.

Approach to capital management

The main operating subsidiaries conduct stress tests in compliance with BNM's Policy Document on Stress Testing. The impact of the adverse scenarios on the capital position of the main operating subsidiaries is assessed on a quarterly basis, focusing on short to medium term views.

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34. RISK MANAGEMENT FRAMEWORK (CONT'D)

(c) Regulatory framework

The Company and its main operating subsidiaries are required to comply with the Financial Services Act ("FSA") 2013 and Islamic Financial Services Act ("IFSA") 2013.

In line with the RBC Framework and RBCT Framework requirements on capital adequacy, the main operating subsidiaries actively manage their capital by taking into account the potential impact of business exposure on their business strategies, risk profiles and overall resilience.

In addition, the Company is required to comply with the Listing Requirements of Bursa Malaysia Securities Berhad's ("Bursa"), Capital Markets and Services Act 2007, Companies Act 2016 and other relevant Acts.

35. UNDERWRITING RISK

(a) General reinsurance/retakaful

(i) Nature of risk

The reinsurance/retakaful subsidiary principally underwrites all classes of general reinsurance/retakaful business. Risks under these contracts usually cover a twelve-month duration other than some long term contracts which may cover up to 3 years or more. The most significant risk arises from adverse claims development and occurrence of new catastrophe losses. These risks vary significantly in relation to economic conditions and territories from which the risks are underwritten.

The above risks are mitigated by diversification across a large portfolio of business to ensure a balanced mix and spread of business. Diversification through the implementation of underwriting strategies and claim management policies reduces the volatility of risks and improves the overall portfolio experience, and also ensures that its insurance contract liabilities are adequate.

The reinsurance/retakaful subsidiary also manages its risk exposure through the use of retrocession programmes which are reviewed annually by the ORMC and RMCB, and subsequently approved by the Board. Prudent standards are applied in placement of the reinsurance subsidiary's key retrocessionaires.

Stress Testing is performed on a quarterly basis. The purpose of the Stress Testing is to test the solvency of the general reinsurance/retakaful business under the various scenarios according to regulatory guidelines, simulating drastic changes in major parameters such as new business volume and investment environment.

35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(ii) Concentration of risk by type of business

The table below measures the concentration of insurance/takaful contract liabilities by the main classes of business and by local and overseas risks:

	Gross RM'000	Retro-cession RM'000	Net RM'000
2018			
Fire	**916,854**	**(112,884)**	**803,970**
Motor	**371,547**	**(5,207)**	**366,340**
Marine	**319,134**	**(74,869)**	**244,265**
Miscellaneous	**526,092**	**(84,505)**	**441,587**
	2,133,627	**(277,465)**	**1,856,162**
Local	**1,205,811**	**(241,041)**	**964,770**
Overseas	**927,816**	**(36,424)**	**891,392**
	2,133,627	**(277,465)**	**1,856,162**
2017			
Fire	866,098	(72,905)	793,193
Motor	337,655	(4,679)	332,976
Marine	434,137	(176,269)	257,868
Miscellaneous	403,319	(38,116)	365,203
	2,041,209	(291,969)	1,749,240
Local	1,107,680	(229,377)	878,303
Overseas	933,529	(62,592)	870,937
	2,041,209	(291,969)	1,749,240

(iii) Reserving risk

The reinsurance/retakaful subsidiary's claim liabilities, and consequently some of the inputs used in determining its premium/contribution liabilities, are based upon previous claims experience, existing knowledge of events, the terms and conditions of relevant policies and interpretation of circumstances. Upon notification of a claim by its cedants or receipt of market loss event, the reinsurance subsidiary sets aside reserves to meet the expected ultimate loss arising from this claim. These claim reserves are updated periodically for further developments via advice from cedants.

At each reporting date, the reinsurance/retakaful subsidiary performs a test on the adequacy of its liabilities that is certified by the Appointed Actuary, for the purpose of ensuring that claim and premium liabilities are objectively assessed and adequately provided for. Any deficiency is recognised in the income statement.

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35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(iv) Impact on liabilities, profit and equity

Key assumptions

Liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant contracts and interpretation of circumstances. Particularly relevant are past experiences with similar cases, historical claims development trends legislative changes, judicial decisions and economic conditions.

The inherent uncertainties in estimating liabilities arise from a variety of factors such as the range and quality of data available, underlying assumptions made and random volatility in future experience.

Sensitivity analysis

The insurance/takaful contract liabilities are sensitive to various key factors which are both internal and external. External factors to which the reinsurance/retakaful subsidiary is sensitive to include:

(i) Claims practices of ceding companies;

(ii) Frequency and severity of claims incurred by cedants;

(iii) Changes in premium/contribution rates in insurance/retakaful and reinsurance/retakaful markets; and

(iv) Legislative and regulatory changes.

The sensitivity analysis was applied to the ultimate loss ratio of the reinsurance/retakaful subsidiary by increasing the said ratio of the two most recent underwriting years by 5%. The table below shows the impact on the reinsurance/retakaful subsidiary's gross and net claim liabilities, profit before tax and equity should the ultimate loss ratio be increased by 5%:

	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
	Increase/(decrease)			
2018				
Fire	**15,795**	**16,517**	**16,517**	**13,512**
Marine	**3,732**	**2,913**	**2,913**	**2,564**
Motor	**9,044**	**9,930**	**9,930**	**7,641**
Miscellaneous	**8,147**	**8,351**	**8,351**	**6,663**
	36,718	**37,711**	**37,711**	**30,380**
2017				
Fire	16,082	16,082	(16,082)	(13,401)
Marine	4,054	3,130	(3,130)	(2,790)
Motor	8,273	8,273	(8,273)	(6,367)
Miscellaneous	9,308	9,308	(9,308)	(7,613)
	37,717	36,793	(36,793)	(30,171)

* The impact on equity reflects the after tax impact.

This analysis assumes that other factors relevant, but not significant, to the valuation of claim liabilities remain constant.

35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(v) Claims development table

The following tables show the estimate of cumulative ultimate incurred claims, including both claims provisions and IBNR for each successive underwriting year at each financial year end, along with cumulative claim payments to-date.

In setting provisions for claims, the reinsurance subsidiary relies on advice by its cedants and exercises discretion where the claim may develop more adversely than advised. An estimate will be made in the absence of a reported figure or in the event the loss is still preliminary and has not been fully assessed.

The estimates of the ultimate incurred claims are subject to a great deal of uncertainty in the early stages as claims are still being intimated and developed, particularly so for large and catastrophic claims. These uncertainties reduce over time as the claims develop and progress towards the ultimate cost.

The methodology used in the valuation of general reinsurance liabilities involves a more granular segregation of the business of the reinsurance subsidiary into specific portfolios with the intention of achieving greater accuracy in the estimation processs. For overseas business, the valuation of general reinsurance liabilities is performed based on territorial grouping of risks to better reflect the underwriting performance.

Gross general reinsurance/retakaful contract liabilities for 2018:

Underwriting year	Before 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	Sub Total RM'000
At the end of underwriting year		640,777	653,195	678,781	755,249	709,990	736,158	695,227	790,114	
One year later		631,766	755,795	699,168	778,872	738,302	776,819	841,257	–	
Two years later		706,692	831,359	703,132	810,844	744,827	823,354	–	–	
Three years later		716,067	884,511	741,350	923,036	736,881	–	–	–	
Four years later		716,766	918,231	755,438	959,450	–	–	–	–	
Five years later		727,701	924,282	823,726	–	–	–	–	–	
Six years later		723,129	1,039,513	–	–	–	–	–	–	
Seven years later		756,466	–	–	–	–	—	–	–	
Current estimate of booked ultimate claims incurred (a)	**3,253,028**	**760,526**	**1,045,029**	**819,445**	**960,491**	**732,987**	**807,785**	**789,977**	**546,986**	
At the end of underwriting year		78,371	74,108	48,231	66,414	50,464	48,141	50,779	47,943	
One year later		318,276	468,913	336,973	450,853	394,640	467,078	371,055	–	
Two years later		514,735	672,090	485,266	611,454	525,476	593,676	–	–	
Three years later		600,229	786,901	582,071	682,220	581,640	–	–	–	
Four years later		656,500	842,952	636,596	803,350	–	–	–	–	
Five years later		676,846	873,567	698,341	–	–	–	–	–	
Six years later		688,755	983,399	–	–	–	–	–	–	
Seven years later		724,966	–	–	–	–	–	–	–	
Cumulative payments to-date (b)	**3,191,895**	**724,966**	**983,399**	**698,341**	**803,350**	**581,640**	**593,676**	**371,055**	**47,943**	
Expected claim liabilities (a) - (b)	61,133	35,560	61,630	121,104	157,141	151,347	214,109	418,922	499,043	1,719,989

	RM'000
Other portfolios	65,442
Best estimate of claim liabilities	1,785,431
Claim handling expenses	8,236
Fund PRAD at 75% confidence interval	123,056
Gross general reinsurance/retakaful claim liabilities	1,916,723

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35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(v) Claims development table (Cont'd)

Net general reinsurance/retakaful contract liabilities for 2018:

Underwriting year	Before 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	Sub Total RM'000
At the end of underwriting year		579,366	565,450	646,500	745,438	705,370	703,964	863,017	783,471	
One year later		585,767	740,800	679,991	763,552	712,346	877,687	823,576	–	
Two years later		661,334	816,057	674,963	794,351	763,018	817,079	–	–	
Three years later		669,267	870,177	709,217	844,810	734,168	–	–	–	
Four years later		676,120	901,715	753,532	883,610	–	–	–	–	
Five years later		686,321	925,335	773,005	–	–	–	–	–	
Six years later		684,243	1,027,115	–	–	–	–	–	–	
Seven years later		715,326	–	–	–	–	–	–	–	
Current estimate of booked ultimate claims incurred (a)	**3,097,138**	**714,927**	**1,025,341**	**769,759**	**876,743**	**724,006**	**801,080**	**776,024**	**542,731**	
At the end of underwriting year		67,655	73,515	47,742	66,414	50,464	48,141	50,779	47,943	
One year later		304,533	462,589	333,140	446,728	394,520	467,060	369,591	–	
Two years later		497,147	663,963	478,500	607,074	521,806	593,458	–	–	
Three years later		576,347	776,430	574,004	689,440	577,362	–	–	–	
Four years later		617,684	831,445	618,991	761,309	–	–	–	–	
Five years later		637,379	862,696	671,610	–	–	–	–	–	
Six years later		651,082	970,672	–	–	–	–	–	–	
Seven years later		683,814	–	–	–	–	–	–	–	
Cumulative payments to-date (b)	**3,043,414**	**683,814**	**970,672**	**671,610**	**761,309**	**577,362**	**593,458**	**369,591**	**47,943**	
Expected claim liabilities (a) - (b)	53,724	31,113	54,669	98,149	115,434	146,644	207,622	406,433	494,788	1,608,576

Other portfolios	(47,402)
Best estimate of claim liabilities	1,561,174
Claim handling expenses	8,236
Fund PRAD at 75% confidence interval	105,756
Less: Retrocession recoveries	(23,159)
Net general reinsurance/retakaful claim liabilities	1,652,007

35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(v) Claims development table (Cont'd)

Gross general reinsurance/retakaful contract liabilities for 2017:

Underwriting year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Sub Total
At the end of underwriting year		573,070	640,777	653,195	678,781	755,249	709,990	736,158	695,227	
One year later		570,029	631,766	755,795	699,168	778,872	738,302	776,819	–	
Two years later		594,903	706,692	831,359	703,132	810,844	744,827	–	–	
Three years later		652,329	716,067	884,511	741,350	923,036	–	–	–	
Four years later		652,493	716,766	918,231	755,438	–	–	–	–	
Five years later		646,338	727,701	924,282	–	–	–	–	–	
Six years later		650,358	723,129	–	–	–	–	–	–	
Seven years later		645,001	–	–	–	–	–	–	–	
Current estimate of booked ultimate claims incurred (a)	**2,599,226**	**644,541**	**721,966**	**920,226**	**748,781**	**867,554**	**722,921**	**711,208**	**410,483**	
At the end of underwriting year		92,156	78,371	74,108	48,231	66,414	50,464	48,141	50,779	
One year later		309,913	318,276	468,913	336,973	450,853	394,640	467,078	–	
Two years later		443,235	514,735	672,090	485,266	611,454	525,476	–	–	
Three years later		559,089	600,229	786,901	582,071	682,220	–	–	–	
Four years later		588,998	656,500	842,952	636,596	–	–	–	–	
Five years later		611,245	676,846	873,568	–	–	–	–	–	
Six years later		625,138	688,755	–	–	–	–	–	–	
Seven years later		627,433	–	–	–	–	–	–	–	
Cumulative payments to-date (b)	**2,572,668**	**627,433**	**688,755**	**873,568**	**636,596**	**682,220**	**525,476**	**467,078**	**50,779**	
Expected claim liabilities (a) - (b)	26,558	17,108	33,211	46,658	112,185	185,334	197,445	244,130	359,704	1,222,333

Other portfolios	516,095
Best estimate of claim liabilities	1,738428
Claim handling expenses	7,923
Fund PRAD at 75% confidence interval	131,298
Gross general reinsurance/retakaful claim liabilities	1,877,649

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35. UNDERWRITING RISK (CONT'D)

(a) General reinsurance/retakaful (Cont'd)

(v) Claims development table (Cont'd)

Net general reinsurance/retakaful contract liabilities for 2017:

Underwriting year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Sub Total
At the end of underwriting year		537,097	579,366	565,450	646,500	745,438	705,370	703,964	863,017	
One year later		546,681	585,767	740,800	679,991	763,552	712,346	877,687	–	
Two years later		571,196	661,334	816,057	674,963	794,351	763,018	–	–	
Three years later		612,397	669,267	870,177	709,217	844,810	–	–	–	
Four years later		616,692	676,120	901,715	753,532	–	–	–	–	
Five years later		618,874	686,321	925,335	–	–	–	–	–	
Six years later		627,928	684,243	–	–	–	–	–	–	
Seven years later		627,529	–	–	–	–	–	–	–	
Current estimate of booked ultimate claims incurred (a)	**2,462,471**	**627,031**	**682,022**	**907,762**	**717,403**	**806,576**	**690,916**	**698,038**	**405,295**	
At the end of underwriting year		90,646	67,655	73,515	47,742	66,414	50,464	48,141	50,779	
One year later		304,865	304,533	462,589	333,140	446,728	394,520	467,060	–	
Two years later		428,388	497,147	663,963	478,500	607,074	521,806	–	–	
Three years later		540,244	576,347	776,430	574,004	689,440	–	–	–	
Four years later		569,110	617,684	831,445	618,991	–	–	–	–	
Five years later		590,930	637,379	862,696	–	–	–	–	–	
Six years later		604,618	651,082	–	–	–	–	–	–	
Seven years later		611,042	–	–	–	–	–	–	–	
Cumulative payments to-date (b)	**2,441,365**	**611,042**	**651,082**	**862,696**	**618,991**	**689,440**	**521,806**	**467,060**	**50,779**	
Expected claim liabilities (a) - (b)	21,106	15,989	30,940	45,066	98,412	117,136	169,110	230,978	354,516	1,083,253

Other portfolios	426,799
Best estimate of claim liabilities	1,510,052
Claim handling expenses	7,923
Fund PRAD at 75% confidence interval	108,895
Less: Retrocession recoveries	(46,390)
Net general reinsurance/retakaful claim liabilities	1,580,480

35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund

(i) Nature of risk

The takaful subsidiary principally issues the following types of general takaful contracts: Motor, Fire, Personal Accident, and other Miscellaneous classes. The contracts are all pooled under the same Participants' Risk Fund ("PRF"). All participants pay a portion of contributions on the basis of tabarru' ("donation") into the PRF for the purpose of meeting claims for events or risks covered under the takaful contracts.

The risks are mitigated by diversification across a large portfolio of business and careful selection of risks. The variability of risks is designed to improve the portfolio experience by implementation of underwriting strategies and claim management policies which attempt to minimise losses.

The takaful subsidiary also manages its risk exposure by the use of retakaful arrangements. The retakaful treaty arrangements are reviewed annually by ORMC and RMCB, and approved by the Board.

Stress Testing is performed on a quarterly basis. The purpose of the Stress Testing is to test the solvency of the general takaful fund under the various scenarios according to regulatory guidelines, simulating drastic changes in major parameters such as new business volume and investment environment.

(ii) Reserving risk

The general takaful fund's claim liabilities, and consequently some of the inputs used in determining its contribution liabilities and expense liabilities, are based upon claims experience, existing knowledge of the events, the terms and conditions of relevant contracts and interpretation of prevailing circumstances. Upon notification of a claim, the takaful subsidiary sets aside case and technical reserves to meet the expected ultimate loss arising from this claim. These claim reserves are updated periodically taking into account the development of the claims.

At each reporting date, the takaful subsidiary performs a valuation of liabilities that is certified by the Appointed Actuary for the purpose of ensuring that claim and contribution liabilities are objectively assessed and adequately provided for. Any deficiency is recognised in the income statement.

(iii) Concentration of risk by type of contracts

The table below sets out the concentration of takaful contracts liabilities by classes of business:

	Gross RM'000	Retakaful RM'000	Net RM'000
2018			
Fire	**68,489**	**(13,642)**	**54,847**
Motor	**263,453**	**(117,780)**	**145,673**
Personal Accident	**18,068**	**(31)**	**18,037**
Miscellaneous	**53,656**	**(18,172)**	**35,484**
	403,666	**(149,625)**	**254,041**
2017			
Fire	69,598	(15,623)	53,975
Motor	259,227	(109,304)	149,923
Personal Accident	15,122	39	15,161
Miscellaneous	57,065	(24,980)	32,085
	401,012	(149,868)	251,144

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35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund (Cont'd)

(iv) Impact on liabilities, profit and equity (Cont'd)

Key assumptions

The principal assumption underlying the estimation of liabilities is that the general takaful future claims development will follow a pattern similar to the historical trend experience.

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

Other key circumstances affecting the reliability of assumptions include delays in settlement.

Sensitivity analysis

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

The analysis below is performed on possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and the general takaful fund. The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, however, to demonstrate the impact due to changes in assumptions, only one individual factor is changed, while other assumptions are held constant. It should be noted that movements in these assumptions are non-linear.

The sensitivity analysis has been performed for the main classes of business which are Motor Act, Motor Others and Fire. Motor Act is analysed using changes in claim severity while Motor Others and Fire are analysed using changes in the expected ultimate loss ratio.

	Change in assumption of ultimate claims ratio	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on general takaful fund* RM'000
		Increase/(decrease)			
2018					
Motor Act Average Severity	**+10%**	**39,194**	**27,051**	**(27,051)**	**(20,559)**
Motor Others Expected Loss Ratio	**+10%**	**31,231**	**18,770**	**(18,770)**	**(14,265)**
Fire Expected Loss Ratio	**+10%**	**3,757**	**1,653**	**(1,653)**	**(1,256)**
2017					
Motor Act Average Severity	+10%	38,230	27,442	(27,442)	(20,856)
Motor Others Expected Loss Ratio	+10%	40,952	25,662	(25,662)	(19,503)
Fire Expected Loss Ratio	+10%	4,659	1,748	(1,748)	(1,328)

* The impact on general takaful fund reflects the after-tax impact.

The method used in performing the sensitivity analysis is consistent with the prior year.

35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund (Cont'd)

(v) Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims reported and IBNR (including IBNER) for each successive accident year at each reporting date, together with cumulative payments to-date.

In setting provisions for claims, the takaful subsidiary gives consideration to the probability and magnitude of future experience at best estimate level with a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience for an accident year is greatest when the claim is at an early stage of development.

Gross general takaful contract liabilities for 2018:

Accident year	Prior 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At the end of accident year	488,391	146,833	108,384	141,258	176,571	174,218	190,776	195,415	
One year later	491,305	137,705	106,221	125,098	176,737	163,828	192,331	–	
Two years later	471,810	129,564	97,322	122,664	172,414	157,286	–	–	
Three years later	452,356	126,080	96,354	116,932	168,315	–	–	–	
Four years later	442,223	128,074	94,383	114,368	–	–	–	–	
Five years later	440,113	125,116	91,299	–	–	–	–	–	
Six years later	436,064	118,554	–	–	–	–	–	–	
Seven years later	439,591	–	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**439,591**	**118,554**	**91,299**	**114,368**	**168,315**	**157,286**	**192,331**	**195,415**	
At the end of accident year	281,268	48,586	41,992	52,965	72,433	70,093	80,611	82,190	
One year later	362,064	88,561	70,413	89,811	121,645	112,184	132,501	–	
Two years later	399,660	106,494	81,651	102,861	141,980	130,725	–	–	
Three years later	415,367	112,812	85,797	106,947	154,662	–	–	–	
Four years later	421,996	114,962	86,573	108,544	–	–	–	–	
Five years later	424,400	115,766	87,856	–	–	–	–	–	
Six years later	427,207	116,945	–	–	–	–	–	–	
Seven years later	427,518	–	–	–	–	–	–	–	
Cumulative payments to-date	**427,518**	**116,945**	**87,856**	**108,544**	**154,662**	**130,725**	**132,501**	**82,190**	
Gross general takaful contract Best Estimate of Claims Liabilities (incl. Allocated Loss Adjustment Expenses "ALAE")	**12,073**	**1,609**	**3,443**	**5,824**	**13,653**	**26,561**	**59,830**	**113,225**	**236,218**
Fund PRAD at 75%									**28,978**
Total									**265,196**

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35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund (Cont'd)

(v) Claims development table (Cont'd)

Net general takaful contract liabilities for 2018:

Accident year	Prior 2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At the end of accident year	535,362	139,773	77,046	89,101	104,071	110,041	113,257	113,775	
One year later	529,210	126,239	74,561	80,459	102,643	100,341	113,434	–	
Two years later	511,605	119,387	66,794	77,240	97,354	96,034	–	–	
Three years later	486,268	111,481	65,723	73,895	94,702	–	–	–	
Four years later	477,899	108,094	64,087	73,044	–	–	–	–	
Five years later	481,396	107,016	61,523	–	–	–	–	–	
Six years later	404,527	103,742	–	–	–	–	–	–	
Seven years later	400,982	–	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**400,982**	**103,742**	**61,523**	**73,044**	**94,702**	**96,034**	**113,434**	**113,775**	
At the end of accident year	263,575	46,100	30,126	33,647	45,169	43,970	50,502	49,290	
One year later	338,047	81,315	50,073	56,856	71,475	69,156	79,164	–	
Two years later	371,266	96,004	57,352	64,848	82,078	80,147	–	–	
Three years later	379,463	100,812	59,537	68,204	86,274	–	–	–	
Four years later	388,271	102,091	58,440	69,343	–	–	–	–	
Five years later	390,340	102,298	59,117	–	–	–	–	–	
Six years later	389,265	102,716	–	–	–	–	–	–	
Seven years later	389,570	–	–	–	–	–	–	–	
Cumulative payments to-date	**389,570**	**102,716**	**59,117**	**69,343**	**86,274**	**80,147**	**79,164**	**49,290**	
Net general takaful contract liabilities:									
Best Estimate of Claims Liabilities (incl. ALAE)	**11,412**	**1,026**	**2,406**	**3,701**	**8,428**	**15,887**	**34,270**	**64,485**	**141,615**
Fund PRAD at 75%									**17,225**
Total									**158,840**

35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund (Cont'd)

(v) Claims development table (Cont'd)

Gross general takaful contract liabilities for 2017:

Accident year	Prior 2011 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	355,039	144,938	150,396	108,384	141,258	176,571	174,218	190,776	
One year later	362,919	146,833	140,864	106,221	125,098	176,737	163,828	–	
Two years later	348,678	137,705	132,409	97,322	122,664	172,414	–	–	
Three years later	337,187	129,564	125,201	96,354	116,932	–	–	–	
Four years later	323,668	126,080	122,030	94,383	–	–	–	–	
Five years later	319,933	128,074	121,553	–	–	–	–	–	
Six years later	317,966	125,116	–	–	–	–	–	–	
Seven years later	314,323	–	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**314,323**	**125,116**	**121,553**	**94,383**	**116,932**	**172,414**	**163,828**	**190,776**	
At the end of accident year	115,751	50,420	48,586	41,992	52,965	72,433	70,092	80,603	
One year later	230,848	95,957	88,561	70,413	89,811	121,645	114,362	–	
Two years later	266,108	113,767	106,494	81,651	102,861	142,406	–	–	
Three years later	285,893	120,230	112,812	85,797	106,856	–	–	–	
Four years later	295,136	121,948	114,962	86,897	–	–	–	–	
Five years later	300,048	122,917	115,530	–	–	–	–	–	
Six years later	301,483	123,250	–	–	–	–	–	–	
Seven years later	302,473	–	–	–	–	–	–	–	
Cumulative payments to-date	**302,473**	**123,250**	**115,530**	**86,897**	**106,856**	**142,406**	**114,362**	**80,603**	
Gross general takaful contract Best Estimate of Claims Liabilities (incl. Allocated Loss Adjustment Expenses "ALAE")	**11,850**	**1,866**	**6,023**	**7,486**	**10,076**	**30,008**	**49,466**	**110,173**	**226,948**
Fund PRAD at 75%									**32,922**
Total									**259,870**

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35. UNDERWRITING RISK (CONT'D)

(b) General takaful fund (Cont'd)

(v) Claims development table (Cont'd)

Net general takaful contract liabilities for 2017:

Accident year	Prior 2011 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	401,996	134,955	139,773	77,046	89,101	104,071	110,041	113,257	
One year later	400,407	131,893	126,239	74,561	80,459	102,643	100,341	–	
Two years later	397,317	125,246	119,387	66,794	77,240	97,354	–	–	
Three years later	386,359	117,605	111,481	65,723	73,895	–	–	–	
Four years later	368,664	114,721	108,094	64,087	–	–	–	–	
Five years later	363,178	119,321	107,016	–	–	–	–	–	
Six years later	362,074	116,615	–	–	–	–	–	–	
Seven years later	287,912	–	–	–	–	–	–	–	
Current estimate of cumulative claims incurred	**287,912**	**116,615**	**107,016**	**64,087**	**73,895**	**97,354**	**100,341**	**113,257**	
At the end of accident year	111,487	48,334	46,100	30,126	33,647	45,169	43,970	50,232	
One year later	215,241	91,364	81,315	50,073	56,856	71,475	71,142	–	
Two years later	246,684	106,958	96,004	57,352	64,848	82,060	–	–	
Three years later	264,308	112,300	100,812	59,537	67,602	–	–	–	
Four years later	267,163	113,938	102,091	60,280	–	–	–	–	
Five years later	274,333	114,787	102,534	–	–	–	–	–	
Six years later	275,553	115,050	–	–	–	–	–	–	
Seven years later	276,415	–	–	–	–	–	–	–	
Cumulative payments to-date	**276,415**	**115,050**	**102,534**	**60,280**	**67,602**	**82,060**	**71,142**	**50,232**	
Net general takaful contract liabilities:									
Best Estimate of Claims Liabilities (incl. ALAE)	**11,497**	**1,565**	**4,482**	**3,807**	**6,293**	**15,294**	**29,199**	**63,025**	**135,162**
Fund PRAD at 75%									**20,022**
Total									**155,184**

35. UNDERWRITING RISK (CONT'D)

(c) Family takaful fund

(i) Nature of risk

The takaful subsidiary principally issues the following types of family takaful certificates: Ordinary Takaful Plans, Mortgage Takaful Plans, Group Takaful Plans and Investment-linked Takaful Plans. The certificates are segregated into 2 separate funds: Participants' Risk Fund ("PRF") and Participants' Investment Fund ("PIF").

The PRF is compulsory for all certificates and refers to the fund used to pool the portion of contributions paid by participants on the basis of tabarru' (donation) for the purpose of meeting claims on events/risks covered under the takaful certificates. Under the tabarru' contract, the fund is collectively owned by the pool of participants. In managing the PRF, the takaful subsidiary adopts an appropriate set of policies and procedures to ensure the availability of funds to meet takaful benefits when due.

The PIF refers to the fund in which a portion of the contributions paid by takaful participants for a takaful certificate is allocated for the purpose of savings and/or investment. The PIF is individually owned by participants. In managing the PIF, the takaful subsidiary adopts appropriate investment and management strategies to achieve returns that are in line with the participants' reasonable expectations and where relevant, to ensure the availability of funds for future tabarru' apportionment into the PRF. The investment risk exposure for the PIF is borne by the participants. For investment-linked takaful, the PIF refers to the unit fund(s).

Family takaful underwriting risk exists from the anti-selection process and inadequacy of PRF to meet future claims arising from family takaful certificates. The risks arise when actual claims experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Other sources of risks include certificate lapses and certificate claims such as mortality and morbidity experience.

The takaful subsidiary utilises retakaful arrangements to manage the mortality and morbidity risks. Retakaful structures are set based on the risk appetite of the takaful subsidiary. The retakaful treaty arrangements are reviewed by the ORMC and RMCB, and approved by the Board.

The takaful subsidiary reviews the actual experience of mortality, morbidity, lapses and surrenders, as well as expenses to ensure that appropriate policies, guidelines and limits are put in place to manage these risks.

The PIF is supported by the investment profit from the fund and the distribution surplus from PRF, if any. In the event of volatile investment climate and/or unusual claims experience, the investment profit and surplus distribution to the participants may reduce.

Stress Testing is performed on a quarterly basis. The purpose of the Stress Testing is to test the solvency of the family takaful fund under the various scenarios according to regulatory guidelines, simulating drastic changes in major parameters such as new business volume, investment environment, mortality/morbidity patterns.

35. UNDERWRITING RISK (CONT'D)

(c) Family takaful fund (Cont'd)

(ii) Concentration of risk by type of contracts

The table below shows the concentration of actuarial liabilities by type of contract:

	Gross RM'000	Retakaful RM'000	Net RM'000
2018			
Family takaful plans	**1,027,495**	**(6,453)**	**1,021,042**
Investment-linked takaful plans	**71,527**	**(6,654)**	**64,873**
Mortgage takaful plans	**1,136,960**	**–**	**1,136,960**
Group credit takaful plans	**187,928**	**(8,343)**	**179,585**
Others	**78,963**	**(7,161)**	**71,802**
	2,502,873	**(28,611)**	**2,474,262**
2017			
Family takaful plans	936,971	(7,023)	929,948
Investment-linked takaful plans	157,678	(8,339)	149,339
Mortgage takaful plans	986,984	–	986,984
Group credit takaful plans	199,774	(8,072)	191,702
Others	93,543	(9,477)	84,066
	2,374,950	(32,911)	2,342,039

(iii) Impact on liabilities, profit and equity

Key assumptions

Material judgement is required in determining the liabilities of the family takaful fund and in the selection of assumptions. Assumptions used 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:

<u>Mortality and morbidity rates</u>

Assumptions are based on mortality rates as set out in the Product Documentation submitted to BNM. They reflect the historical experience and are adjusted, when appropriate, to reflect the participants' own experience. Assumptions are differentiated by gender, occupational class and product group.

An increase in mortality/morbidity will lead to a larger number of claims (as claims could occur sooner than anticipated), which will reduce the surplus from the PRF and subsequently reduce profits for the shareholders in terms of lower surplus administration charge income. To the extent that the actual mortality/morbidity incidence rate is worse than that priced for the expected surplus arising in the PRF would be lower, leading to lower surplus administration charge income. If the poor experience persists, the PRF may go into deficit, requiring the shareholders to provide qard. This is mitigated with adequate retakaful arrangements as well as contract design (in some circumstances) that builds in repricing mechanisms.

35. UNDERWRITING RISK (CONT'D)

(c) Family takaful fund (Cont'd)

(iii) Impact on liabilities, profit and equity (Cont'd)

Key assumptions (Cont'd)

Discount rates

Family takaful liabilities of credit-related products, for examples, Mortgage Reducing Term Takaful ("MRTT") and Group Credit Takaful ("GCT") are determined as the sum of the discounted value of the expected benefits less the discounted value of the expected tabarru' (risk charge) that would be required to meet these future cash outflows. The valuation of liabilities will be discounted to valuation date using the government investment issues zero coupon spot yields which are obtained from the Bond Pricing Agency Malaysia as prescribed in the valuation guidelines.

The assumptions that have significant effects on the financial position and financial performance of the family takaful fund are listed below:

Type of business	Mortality and morbidity rates	2018 Discount rates	2017 Discount rates
Credit related products and individual regular contribution plans	Base mortality [1], adjusted for retakaful rates [2]	GII discount rate	GII discount rate
Others	Base mortality [1]	N/A	N/A

[1] These rates are obtained from the various industry mortality and morbidity experience tables that were used to determine the contribution rates.

[2] Retakaful rates are derived from the fund's retakaful arrangements with respect to the MRTT and GCT business.

Sensitivity analysis

The analysis below is performed on possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and financial results of the family takaful fund. Correlations of assumptions will have significant effects in determining the ultimate family takaful liabilities. However, to demonstrate the impact due to changes in assumptions, only individual assumptions are changed, while other assumptions are held constant. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

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35. UNDERWRITING RISK (CONT'D)

(c) Family takaful fund (Cont'd)

(iii) Impact on liabilities, profit and equity (Cont'd)

Sensitivity analysis (Cont'd)

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on (loss)/profit before tax RM'000	Impact on family takaful fund* RM'000
		Increase/(decrease)			
2018					
Mortality/morbidity	**+ 10%**	**54,662**	**21,126**	**(21,126)**	**(21,126)**
Discount rates	**+ 1%**	**(10,876)**	**(11,675)**	**11,675**	**11,675**
2017					
Mortality/morbidity	+ 10%	44,687	13,007	(13,007)	(13,007)
Discount rates	+ 1%	(13,433)	(11,998)	11,998	11,998

* The impact on the family takaful fund reflects the after tax position which is presumed to be nil as the family takaful fund is taxed only on investment income.

The method used and significant assumptions made in deriving sensitivity information did not change from those used in the previous year.

(d) Family retakaful fund

(i) Nature of risk

The family retakaful business principally consists of Individual Family Retakaful Plans, Group Family Retakaful Plans and Retakaful Individual Facultative.

The actual experience of mortality and morbidity is reviewed to ensure that appropriate policies, guidelines and limits put in place to manage these risks remain adequate and appropriate.

Family retakaful underwriting risk relates to the pricing and loss ratios arising from family retakaful products. The risks arise when actual claims experience is different from the assumptions used in setting the yearly renewable rates for retakaful products. Deviations in actual claims experience compared to the assumptions used may be due to deviations in actual mortality and morbidity experience.

Mortality and morbidity risks are further managed through retrotakaful arrangement.

Stress testing is performed on a quarterly basis. The purpose of the stress testing is to test the solvency of the family retakaful fund under various scenarios. These scenarios are based on regulatory guidelines and simulate drastic changes in major parameters such as new business volume, investment environment and mortality/morbidity patterns.

35. UNDERWRITING RISK (CONT'D)

(d) Family retakaful fund (Cont'd)

(ii) Concentration of takaful contract liabilities

The business of the family retakaful fund is derived from Malaysian and overseas risks. Liabilities of the family retakaful are mainly spread within Malaysia, Brunei and Indonesia.

The table below sets out the concentration of takaful contract liabilities by local and overseas exposures:

	Gross RM'000	Retakaful RM'000	Net RM'000
2018			
Local	**11,280**	**(8,036)**	**3,244**
Overseas	**4,582**	**–**	**4,582**
	15,862	**(8,036)**	**7,826**
2017			
Local	8,932	(5,564)	3,368
Overseas	2,340	(790)	1,550
	11,272	(6,354)	4,918

(iii) Impact on liabilities, profit and equity key assumptions

Material judgement is required in determining the liabilities and the choice of assumptions. Assumptions used 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.

Sensitivity analysis

The family retakaful fund's claim liabilities are sensitive to changes in loss ratios.

The sensitivity analysis was applied to the ultimate loss ratio of the family retakaful fund by increasing the said ratio by 20%. The table below shows the impact on the family retakaful fund's gross and net liabilities, profit/(loss) before tax and family retakaful fund should the ultimate loss ratio be increased by 20%:

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on (loss)/profit before tax RM'000	Impact on family takaful fund* RM'000
		Increase/(decrease)			
2018					
Loss ratio	**-20%**	**6,805**	**1,947**	**1,947**	**1,667**
Loss ratio	**+20%**	**(41,609)**	**(26,791)**	**(26,791)**	**(20,746)**
2017					
Loss ratio	-20%	(4,415)	(2,603)	2,603	2,603
Loss ratio	+20%	18,710	13,017	(13,017)	(13,017)

* The impact on the family retakaful fund reflects the after tax impact which is presumed to be nil based on the current tax position of the fund.

The method used in performing the sensitivity analysis is consistent with that of the prior year's.

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36. FINANCIAL RISK

Transactions in financial instruments may result in the Group and the Company assuming financial risks. These include credit risk, liquidity risk and market risk. This note presents information about the Group's and the Company's exposure to each of the above risks and the Group's and the Company's objectives, policies and processes for measuring and managing such risks.

The following tables summarise the financial assets and financial liabilities of the Group and the Company by their classification, including their carrying values and fair values, which are considered by management in monitoring and managing of its financial risks:

Group	2018 Carrying value RM'000	2018 Fair value RM'000	2017 Carrying value RM'000	2017 Fair value RM'000
Financial and insurance/takaful assets				
Financial assets at FVTPL (Note 19)	**116,127**	**116,127**	123,467	123,467
HTM investments (Note 19)	**644,254**	**642,635**	695,426	689,513
AFS financial assets (Note 19)	**3,741,196**	**3,741,196**	3,384,744	3,384,744
Loans and receivables:				
Loans and receivables * (Note 19)	**1,937,263**	**1,937,263**	1,934,933	1,934,933
Insurance/takaful receivables *	**418,304**	**418,304**	336,190	336,190
Reinsurance/retakaful assets	**478,253**	**478,253**	514,230	514,230
Cash and bank balances	**142,099**	**142,099**	99,905	99,905
	7,477,496	**7,475,877**	7,088,895	7,082,982
Financial and insurance/takaful liabilities				
Insurance/takaful contract liabilities	**5,319,945**	**5,319,945**	5,171,178	5,171,178
Other liabilities:				
Borrowings *	**320,000**	**320,000**	320,000	320,000
Insurance/takaful payables *	**270,444**	**270,444**	210,174	210,174
Other payables *	**190,028**	**190,028**	175,703	175,703
	6,100,417	**6,100,417**	5,877,055	5,877,055

* The carrying values of these loans and receivables, insurance/takaful receivables and other liabilities approximate their fair values due to their short term nature.

36. FINANCIAL RISK (CONT'D)

Company	2018 Carrying value RM'000	2018 Fair value RM'000	2017 Carrying value RM'000	2017 Fair value RM'000
Financial assets				
HTM investments (Note 19)	**1,000**	**1,009**	1,000	1,008
AFS financial assets (Note 19)	**50**	**50**	50	50
Loans and receivables * (Note 19)	**29,796**	**29,796**	105,388	105,388
Cash and bank balances	**408**	**408**	3,416	3,416
	31,254	**31,263**	109,854	109,862
Financial liabilities				
Borrowings *	**320,000**	**320,000**	320,000	320,000
Other payables * (Note 26)	**2,184**	**2,184**	6,883	6,883
	322,184	**322,184**	326,883	326,883

* The carrying values of these loans and receivables, insurance/takaful receivables and other liabilities approximate their fair values due to their short term nature.

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36. FINANCIAL RISK (CONT'D)

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of counterparties to meet their contractual obligations.

Credit risk includes the following major elements:

(i) An investment credit risk which is the risk of financial loss arising from a change in the value of an investment due to a rating downgrade, default, or widening of credit spreads. Changes in credit spreads are largely driven by the different economic cycles and operating cycles while the less liquid securities tend to be priced at a wider spread. The liquidity of the securities is directly determined by its bid-to-ask spread.

(ii) A derivative counterparty risk which is the risk of financial loss arising from a derivative counterparty's default, or the deterioration of the derivative counterparty's financial position. As at the reporting date, the Group did not transact in derivatives and was not exposed to this risk; and

(iii) Reinsurance/retakaful/takaful counterparty risk which is the risk of financial loss arising from the default or deterioration of the solvency position of the counterparties.

The Group is exposed to investment credit risk on its investment portfolio, primarily from investments in corporate bonds. A creditworthiness assessment for new and existing investments is undertaken by the Group in accordance with the Investment Policy as approved by the Investment Committee. In addition, the credit ratings of the bond portfolio are regularly monitored and any downgrade in credit ratings will be evaluated to determine the required actions. As at the reporting date, the Group's bond portfolio has no material exposure below investment grade.

The Group is exposed to reinsurance/retakaful/takaful counterparty risks of three different types:

(i) as a result of recoveries owing from the counterparties for claims/benefits;

(ii) from amounts due from ceding companies; and

(iii) as a result of reserves held by the counterparties which would have to be met by the reinsurance/retakaful and takaful subsidiaries in the event of default.

Management of credit risk

In order to manage and mitigate credit risk, the following policies and procedures were set in place:

(i) Investment policies prescribe the minimum credit rating for bonds that may be held. In addition, the policies are further aimed at investing in a diverse portfolio of bonds in order to reduce the potential impact that may arise from individual companies defaulting;

(ii) Counterparty limits are set for investments and cash deposits to ensure that there is no concentration of credit risk;

(iii) The Group's investment portfolio is managed to ensure diversification and focuses on high quality investment grade bonds with good fundamentals. For the financial year ended 31 March 2018, the credit rating of the Group's fixed income portfolio was dominated by securities rated AAA as determined by Rating Agency Malaysia ("RAM") and/or Malaysian Rating Corporation Berhad ("MARC"); and

(iv) To mitigate reinsurance/retakaful/takaful counterparty risk, the Group will give due consideration to the credit quality of the counterparties. To facilitate this process, a list of acceptable counterparties based on their rating is maintained within the Group. The Group regularly reviews the financial security of its counterparties.

The table below provides information regarding the credit risk exposures of the Group and the Company by classifying assets according to the credit ratings of counterparties. Unearned premium and contribution reserves and reserves for unearned wakalah fees have been excluded from the analysis as they are not contractual obligations.

36. FINANCIAL RISK (CONT'D)

(a) Credit Risk (Cont'd)

The table below provides information regarding the credit risk exposures of the Company and of the Group by classifying assets according to the credit ratings of counterparties. Unearned premium and contribution reserves and reserves for unearned wakalah fees have been excluded from the analysis as they are not contractual obligations.

Credit exposure by credit rating for 2018

Group	Government guaranteed RM'000	AAA to BBB RM'000	BB to C RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Financial assets at FVTPL						
Shariah approved equities	–	–	–	116,127	–	116,127
HTM investments						
Malaysian government securities	78,083	–	–	–	–	78,083
Unquoted corporate debt securities	25,003	–	246	–	–	25,249
Government investment issues	540,922	–	–	–	–	540,922
AFS financial assets						
Unquoted shares in Malaysia	–	–	–	44,796	–	44,796
Malaysian government securities	131,162	–	–	–	–	131,162
Unquoted corporate debt securities	967,535	1,325,005	–	–	–	2,292,540
Quoted shares in Malaysia	–	–	–	126,501	–	126,501
Real estate investment trusts	–	–	–	13,227	–	13,227
Government investment issues	1,132,970	–	–	–	–	1,132,970
Loans and receivables						
Fixed and call deposits with licensed:						
Commercial banks	–	91,318	–	–	–	91,318
Islamic investment accounts with licensed:						
Islamic banks	17,672	1,126,128	–	–	10,772	1,154,572
Investment banks	–	114,090	–	–	–	114,090
Development bank	8,213	321,319	–	–	137,291	466,823
Secured staff loans	–	–	–	–	8,010	8,010
Income due and accrued	–	–	–	–	68,821	68,821
Amount due from Insurance Pool accounts	–	–	–	–	7,845	7,845
Other receivables and deposits	–	–	–	–	25,784	25,784
Reinsurance/retakaful assets	–	183,603	–	–	238,633	422,236
Insurance/takaful receivables	–	47,679	–	–	370,625	418,304
Cash and bank balances	–	130,331	–	–	11,767	142,098
	2,901,560	3,339,473	246	300,651	879,548	7,421,478

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36. FINANCIAL RISK (CONT'D)

(a) Credit Risk (Cont'd)

Credit exposure by credit rating for 2018 (Cont'd)

Company	Government guaranteed RM'000	AAA to BBB RM'000	BB to C RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
HTM investments						
Unquoted corporate debt securities	**–**	**1,000**	**–**	**–**	**–**	**1,000**
AFS financial assets						
Unquoted shares in Malaysia	**–**	**–**	**–**	**50**	**–**	**50**
Loans and receivables						
Islamic investment accounts with licensed:						
Islamic banks	**17,672**	**–**	**–**	**–**	**–**	**17,672**
Development banks	**8,213**	**–**	**–**	**–**	**–**	**8,213**
Secured staff loans	**–**	**–**	**–**	**–**	**1,914**	**1,914**
Amounts due from subsidiaries	**–**	**–**	**–**	**–**	**1,780**	**1,780**
Income due and accrued	**–**	**–**	**–**	**–**	**41**	**41**
Other receivables and deposits	**–**	**–**	**–**	**–**	**176**	**176**
Cash and bank balances	**–**	**408**	**–**	**–**	**–**	**408**
	25,885	**1,408**	**–**	**50**	**3,911**	**31,254**

Credit exposure by credit rating for 2017

Group	Government guaranteed RM'000	AAA to BBB RM'000	BB to C RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Financial assets at FVTPL						
Quoted shares in Malaysia	–	–	–	3,790	–	3,790
Warrants	–	–	–	85	–	85
Shariah approved unit trust funds	–	–	–	119,592	–	119,592
HTM investments						
Malaysian government securities	78,308	–	–	–	–	78,308
Unquoted corporate debt securities	75,028	–	246	–	–	75,274
Government investment issues	541,844	–	–	–	–	541,844
AFS financial assets						
Unquoted shares in Malaysia	–	–	–	44,796	–	44,796
Malaysian government securities	128,006	–	–	–	–	128,006
Unquoted corporate debt securities	824,238	1,433,800	–	–	–	2,258,038
Quoted shares in Malaysia	–	–	–	245,241	–	245,241
Warrants	–	–	–	346	–	346
Real estate investment trusts	–	–	–	20,217	–	20,217
Government investment issues	688,100	–	–	–	–	688,100

36. FINANCIAL RISK (CONT'D)

(a) Credit Risk (Cont'd)

Credit exposure by credit rating for 2017 (Cont'd)

Group (Cont'd)	Government guaranteed RM'000	AAA to BBB RM'000	BB to C RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Loans and receivables						
Fixed and call deposits with licensed:						
Commercial banks	–	79,648	–	–	–	79,648
Islamic investment accounts with licensed:						
Co-operative bank	–	129,611	–	–	–	129,611
Islamic banks	–	1,189,835	–	–	76,228	1,266,063
Investment banks	–	51,627	–	–	–	51,627
Development bank	–	162,497	–	–	117,926	280,423
Secured staff loans	–	–	–	–	9,684	9,684
Income due and accrued	–	–	–	–	51,039	51,039
Amount due from Insurance Pool accounts	–	–	–	–	4,406	4,406
Other receivables and deposits	–	–	–	–	62,432	62,432
Reinsurance/retakaful assets	–	240,768	3,989	–	208,524	453,281
Insurance/takaful receivables	–	81,269	3,486	–	251,435	336,190
Cash and bank balances	–	94,965	–	–	4,940	99,905
	2,335,524	3,464,020	7,721	434,067	786,614	7,027,946

Company	Government guaranteed RM'000	AAA to BBB RM'000	BB to C RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
HTM investments						
Unquoted corporate debt securities	–	1,000	–	–	–	1,000
AFS financial assets						
Unquoted shares in Malaysia	–	–	–	50	–	50
Loans and receivables						
Islamic investment accounts with licensed:						
Islamic banks	–	25,207	–	–	–	25,207
Investment banks	–	72,426	–	–	–	72,426
Secured staff loans	–	–	–	–	1,838	1,838
Amounts due from subsidiaries	–	–	–	–	5,494	5,494
Income due and accrued	–	–	–	–	104	104
Other receivables and deposits	–	–	–	–	319	319
Cash and bank balances	–	3,416	–	–	–	3,416
	–	102,049	–	50	7,755	109,854

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36. FINANCIAL RISK (CONT'D)

(a) Credit Risk (Cont'd)

Movement of allowance for impairment losses on receivables

	Group Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
2018			
At beginning of the year	**8,222**	**26,096**	**34,318**
(Reversal of impairment losses)/impairment losses for the year	**(1,009)**	**(19,556)**	**(20,565)**
At end of the year	**7,213**	**6,540**	**13,753**
2017			
At beginning of the year	14,525	10,235	24,760
(Reversal of impairment losses)/impairment losses for the year	(6,303)	15,861	9,558
At end of the year	8,222	26,096	34,318

(b) Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient cash resources available to meet its payment obligations without incurring material additional costs.

As part of its liquidity management strategy, the Group has in place a framework capable of measuring and reporting on:

(i) daily cash flows;

(ii) minimum liquidity holdings;

(iii) the composition and market values of investment portfolios, including liquid holdings; and

(iv) the holding of liquid assets in the respective reinsurance, retakaful and takaful funds.

In order to manage the liquidity of the reinsurance/retakaful/takaful funds, the investment mandate requires that a certain proportion of the fund is maintained as liquid assets. Accordingly, the Group is required to maintain a minimum holding of low risk assets between 10% and 15% and no maximum limit on its placements in fixed and call deposits.

Maturity Profiles

The table below summarises the maturity profile of the assets and liabilities of the Group and of the Company based on remaining undiscounted contractual obligations, including interest/profit payable and receivable. For insurance and takaful contract liabilities and reinsurance and retakaful assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance/takaful liabilities. Unearned premium and contribution reserves and reserves for unearned wakalah fees have been excluded from the analysis as they are not contractual obligations.

36. FINANCIAL RISK (CONT'D)

(b) Liquidity Risk (Cont'd)

Maturity profiles for 2018

Group	Carrying value RM'000	Up to 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
Financial assets at FVTPL						
Shariah approved unit trust funds	116,127	–	–	–	116,127	116,127
HTM investments						
Malaysian government securities	78,083	3,277	13,115	93,014	–	109,406
Unquoted corporate debt securities	25,249	6,070	3,744	22,914	–	32,728
Government investment issues	540,922	21,248	515,990	81,656	–	618,894
AFS financial assets						
Unquoted shares in Malaysia	44,796	–	–	–	44,796	44,796
Malaysian government securities	131,162	5,202	29,816	138,337	–	173,355
Unquoted corporate debt securities	2,292,540	278,746	1,128,124	1,806,760	–	3,213,630
Quoted shares in Malaysia	126,501	–	–	–	110,826	110,826
Real estate investment trusts	13,227	–	–	–	13,227	13,227
Government investment issues	1,132,970	49,773	261,969	1,446,444	–	1,758,186
Loans and receivables						
Fixed and call deposits with licensed commercial banks	91,318	35,951	43,446	–	–	79,397
Islamic investment accounts with licensed:						
Islamic banks	1,154,572	1,201,808	–	–	–	1,201,808
Investment banks	114,090	114,198	–	–	–	114,198
Development bank	466,823	474,867	–	–	–	474,867
Secured staff loans	8,010	3,548	4,462	–	–	8,010
Income due and accrued	68,821	68,821	–	–	–	68,821
Amount due from Insurance Pool accounts	7,845	7,845	–	–	–	7,845
Other receivables and deposits	25,784	25,784	–	–	–	25,784
Reinsurance/retakaful assets	422,236	141,188	190,457	67,042	23,549	422,236
Insurance/takaful receivables	418,304	417,880	424	–	–	418,304
Cash and bank balances	142,098	141,842	–	–	–	141,842
Total financial and insurance assets	7,421,478	2,998,048	2,191,547	3,656,167	308,525	9,154,287
Borrowings	(320,000)	(329,881)	–	–	–	(329,881)
Insurance/takaful contract liabilities	(4,905,216)	(824,466)	(1,303,117)	(2,664,579)	(123,056)	(4,915,218)
Insurance/takaful payables	(270,444)	(244,710)	(10,629)	(1,944)	(3,283)	(260,566)
Other payables	(190,282)	(190,282)	–	–	–	(190,282)
Total financial and insurance liabilities	(5,685,942)	(1,589,339)	(1,313,746)	(2,666,523)	(126,339)	(5,695,947)
Surplus/(deficit)	1,735,536	1,408,709	877,801	989,644	182,186	3,458,340

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36. FINANCIAL RISK (CONT'D)

(b) Liquidity Risk (Cont'd)

Maturity profiles for 2018 (Cont'd)

Company	Carrying value RM'000	Up to 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
HTM investments						
Unquoted corporate debt securities	1,000	50	198	1,120	–	1,367
AFS financial assets						
Unquoted shares in Malaysia	50	–	–	–	50	50
Loans and receivables						
Islamic investment accounts with licensed:						
Islamic banks	17,672	17,708	–	–	–	17,708
Development banks	8,213	8,220	–	–	–	8,220
Secured staff loans	1,914	1,914	–	–	–	1,914
Amounts due from subsidiaries	1,780	1,780	–	–	–	1,780
Income due and accrued	41	41	–	–	–	41
Other receivables and deposits	176	176	–	–	–	176
Cash and bank balances	408	408	–	–	–	408
Total financial assets	31,254	30,297	198	1,120	50	31,664
Borrowings	(320,000)	(329,880)	–	–	–	(329,880)
Other payables	(8,975)	(8,975)	–	–	–	(8,975)
Total financial liabilities	(328,975)	(338,855)	–	–	–	(338,855)
(Deficit)/surplus	(297,721)	(308,558)	198	1,120	50	(307,192)

Maturity profiles for 2017

Group	Carrying value RM'000	Up to 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
Financial assets at FVTPL						
Quoted shares in Malaysia	3,790	–	–	–	3,790	3,790
Warrants	85	–	–	–	85	85
Shariah approved unit trust funds	119,592	–	–	–	119,592	119,592
HTM investments						
Malaysian government securities	78,308	3,277	13,115	96,516	–	112,908
Unquoted corporate debt securities	75,274	47,979	8,865	28,785	–	85,629
Government investment issues	541,844	21,246	290,406	329,392	–	641,044
AFS financial assets						
Unquoted shares in Malaysia	44,796	–	–	–	44,796	44,796
Malaysian government securities	128,006	5,142	19,885	151,808	–	176,835
Unquoted corporate debt securities	2,258,038	117,497	586,122	2,416,767	–	3,120,386
Quoted shares in Malaysia	245,241	–	–	–	245,241	245,241
Warrants	346	–	–	–	346	346
Real estate investment trusts	20,217	–	–	–	20,217	20,217
Government investment issues	688,100	29,296	198,135	781,579	–	1,009,010

36. FINANCIAL RISK (CONT'D)

(b) Liquidity Risk (Cont'd)

Maturity profiles for 2017 (Cont'd)

Group (Cont'd)	Carrying value RM'000	Up to 1 year RM'000	1 - 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
Loans and receivables						
Fixed and call deposits with licensed:						
Commercial banks	79,648	79,886	–	–	–	79,886
Islamic investment accounts with licensed:						
Co-operative bank	129,611	130,261	–	–	–	130,261
Islamic banks	1,266,063	1,272,229	–	–	–	1,272,229
Investment banks	51,627	51,701	–	–	–	51,701
Development bank	280,423	284,395	–	–	–	284,395
Secured staff loans	9,684	3,650	6,034	–	–	9,684
Income due and accrued	51,039	51,039	–	–	–	51,039
Amount due from Insurance Pool accounts	4,406	4,406	–	–	–	4,406
Other receivables and deposits	62,432	62,432	–	–	–	62,432
Reinsurance/retakaful assets	453,281	173,368	197,703	61,727	20,483	453,281
Insurance/takaful receivables	336,190	329,136	7,054	–	–	336,190
Cash and bank balances	99,905	99,905	–	–	–	99,905
Total financial and insurance assets	7,027,946	2,766,845	1,327,319	3,866,574	454,550	8,415,288
Borrowings	(320,000)	(133,572)	(204,557)	–	–	(338,129)
Insurance/takaful contract liabilities	(4,719,276)	(897,078)	(1,202,595)	(2,488,304)	(131,299)	(4,719,276)
Insurance/takaful payables	(210,174)	(182,766)	(25,382)	(2,026)	–	(210,174)
Other payables	(175,703)	(175,703)	–	–	–	(175,703)
Total financial and insurance liabilities	(5,425,153)	(1,389,119)	(1,432,534)	(2,490,330)	(131,299)	(5,443,282)
Surplus	1,602,793	1,377,726	(105,215)	1,376,244	323,251	2,972,006
HTM investments						
Unquoted corporate debt securities	1,000	50	198	1,169	–	1,417
AFS financial assets						
Unquoted shares in Malaysia	50	–	–	–	50	50
Loans and receivables						
Islamic investment accounts with licensed:						
Islamic banks	25,207	25,334	–	–	–	25,334
Investment banks	72,426	72,657	–	–	–	72,657
Secured staff loans	1,838	1,838	–	–	–	1,838
Amounts due from subsidiaries	5,494	5,494	–	–	–	5,494
Income due and accrued	104	104	–	–	–	104
Other receivables and deposits	319	319	–	–	–	319
Cash and bank balances	3,416	3,416	–	–	–	3,416
Total financial assets	109,854	109,212	198	1,169	50	110,629
Borrowings	(320,000)	(133,572)	(204,557)	–	–	(338,129)
Other payables	(6,883)	(6,883)	–	–	–	(6,883)
Total financial liabilities	(326,883)	(140,455)	(204,557)	–	–	(345,012)
(Deficit)/surplus	(217,029)	(31,243)	(204,359)	1,169	50	(234,383)

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36. FINANCIAL RISK (CONT'D)

(c) Market Risk

Market risk is the risk of loss arising from a change in the values of, or the income from, financial assets. A risk of loss also arises from volatility in asset prices, interest/profit rates, or exchange rates. Market risk includes the following elements:

(i) Equity price risk which is the risk of fluctuations in the fair value or future cash flows of a financial instrument arising from stock market dynamics impacting equity prices;

(ii) Foreign exchange risk which is the risk of fluctuations in the fair value or future cash flows of a financial instrument arising from a movement of or volatility in exchange rates; and

(iii) Interest/profit rate risk which is the risk of fluctuations in the fair value or future cash flows of a financial instrument arising from variability in interest/profit rates.

Equity price risk

Equity price risk is the risk that the fair value or future cash flow of a financial instrument fluctuates because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Group's equity risk exposures relate to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The equity price risk policy requires the Group and its main operating subsidiaries to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector, market and issuer, having regard also to such limits as stipulated by BNM. The Group complied with such limits as stipulated by BNM during the financial year and had no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity (inclusive of the impact on other comprehensive income). The correlation of variables have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, changes in variables are considered individually. It should be noted that movements in these variables are non-linear.

The equities under the investment-linked fund were excluded from the sensitivity analysis as the risks associated with the fluctuations in market prices of the equities are borne by the participants.

Sensitivity analysis

	Changes in market indices	Impact on profit before tax RM'000	Impact on equity* RM'000
2018			
Group			
Price	**+ 5%**	**–**	**5,993**
Price	**- 5%**	**(7,494)**	**(9,352)**
2017			
Group			
Price	+ 5%	194	11,410
Price	- 5%	(2,789)	(11,410)

* The impact on equity reflects the after tax impact.

Management is of the opinion that the Company is not subject to significant equity price risk and, hence, a sensitivity analysis has not been performed.

36. FINANCIAL RISK (CONT'D)

(c) Market Risk (Cont'd)

Sensitivity analysis (Cont'd)

Foreign exchange risk/currency risk

Currency risk is the risk that the fair value or future cash flows of a financial asset and/or liability will fluctuate because of movements in foreign exchange rates.

The Group's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to foreign exchange risk arises principally because of its foreign currency denominated underwriting revenues (such as premiums/contributions) and expenses (such as claims/benefits and commission expenses).

The Group has a foreign exchange risk management plan in place and is continuously enhancing its risk mitigation measures.

Sensitivity analysis

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on gross and net claims liabilities, profit before tax and equity. The sensitivity analysis was applied to the Company's gross and net claim liabilities and assets denominated in foreign currencies.

	Change in variable	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
		← Increase/(decrease) →			
2018					
Foreign currency	**+5%**	**30,482**	**30,482**	**(13,902)**	**(13,207)**
2017					
Foreign currency	+5%	44,969	44,969	(33,207)	(31,659)

The method used in performing the sensitivity analysis is consistent with the prior year.

Interest/profit rate risk

The Group is exposed to interest/profit rate risk as follows:

(i) fair values of fixed interest/profit-bearing assets would move inversely to changes in interest/profit rates; and

(ii) future cash flows of variable interest/profit-bearing assets would move in direct proportion to changes in rates.

The earnings of the Group are affected by changes in market interest/profit rates due to the impact such changes have on interest/profit income from cash and cash equivalents, including investments in fixed/Islamic deposits. The fixed income portfolio is inversely related to interest/profit rates and, hence, it is the source of portfolio volatility.

The Group manages its interest/profit rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from interest/profit rate movements.

The nature of the Group's exposure to interest/profit rate risk and its objectives, policies and processes for managing interest/profit rate risk have not changed significantly from the previous financial year.

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36. FINANCIAL RISK (CONT'D)

(c) Market Risk (Cont'd)

Interest/profit rate risk (Cont'd)

Sensitivity analysis

A change of 25 basis points ("bp") in interest/profit rates at the reporting date would have increased/(decreased) the value of the portfolio of fixed-income investment by the amounts shown below.

	Changes in variable	Impact on equity * RM'000
2018		
Group		
Interest/profit rates	**+25 bp**	**(42,962)**
Interest/profit rates	**-25 bp**	**42,962**
2017		
Group		
Interest/profit rates	+25 bp	(43,881)
Interest/profit rates	-25 bp	43,881

* The impact on equity reflects the after tax impact.

37. OTHER RISKS

(a) Property Investment Risk

Property investment risk is the risk associated with the Group's investment in property or real estate for own occupancy, investment or rental purpose. Operational manuals are put in place to describe the responsibilities in relation to the management of properties.

The financial risk arising from a delinquent or loss of tenants are managed at the outset through careful selection of properties with high tenancy including tenants with long term tenancies and a continuous maintenance and upgrade of facilities.

(b) Operational Risk

Operational risk is the risk of loss resulting from inadequate or ineffective or failed internal resources (people, processes and systems), or from external events. Operational risk is inherent in all activities of the Group, and can encompass transverse multiple activities. It includes a wide spectrum of heterogeneous risks such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches, as well as employee health and safety hazards. Operational risk may result in direct financial losses and indirect financial losses due to reputational damage. The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework, and by monitoring and responding to potential risks, the Group is able to minimise risks to an acceptable level. Controls include effective segregation of duties, effective access controls, authorisation and reconciliation procedures, continuous staff education and appropriate assessment processes, including the use of internal audit.

(c) Shariah Risk

Shariah risk is defined as potential Shariah non-compliance that contributes to adverse reputation, financial losses and opportunity costs resulting from ineffective governance, incompetent employees and improper transactional and operational execution. The Group mitigates such risk by initiating, monitoring and responding to a robust Shariah Risk Management Framework.

The Framework is guided by the Shariah Governance Framework issued by BNM.

37. OTHER RISKS (CONT'D)

(d) Compliance Risk

Compliance risk is the risk of legal and regulatory sanctions, which the Group may suffer as a result of its failure to comply with legal and regulatory requirements applicable to its activities.

The Group monitors all compliance aspects in observing regulatory requirements. In this respect, it has developed a Group Compliance Management Framework and other relevant internal policies and procedures to ensure compliance with all applicable laws and guidelines issued by the regulatory authorities.

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS

(a) Consolidated income statement by fund for the year ended 31 March 2018

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Gross earned premiums/ contributions	1,288,445	281,073	647,776	25,709	9,896	(1,236)	2,251,663
Premiums/contributions ceded to reinsurers/ retakaful operators	(119,494)	(118,031)	(74,328)	(3,431)	(7,751)	236	(322,799)
Net earned premiums/ contributions	1,168,951	163,042	573,448	22,278	2,145	(1,000)	1,928,864
Investment income	119,735	16,609	112,903	2,629	885	(6,830)	245,931
Net realised (losses)/gains	(51,651)	(317)	5,031	–	–	48,894	1,957
Net fair value (losses)/gains	10,003	905	204	–	–	328	11,440
Fee and commission income	384,137	27,778	114	3	–	(371,890)	40,142
Other operating revenue	76,302	2,517	28,914	181	22	(69,865)	38,071
Other revenue	538,526	47,492	147,166	2,813	907	(399,363)	337,541
Gross claims and benefit paid	(737,182)	(169,673)	(274,242)	(13,203)	(11,305)	3,786	(1,201,819)
Claims ceded to reinsurers/ retakaful operators	37,193	73,995	(578)	(625)	5,996	(3,786)	112,195
Gross change in contract liabilities	(29,203)	(5,326)	(138,585)	(19,769)	(10,079)	15,387	(187,575)
Change in contract liabilities ceded to reinsurers/ retakaful operators	(31,527)	1,670	(1,945)	(926)	1,682	–	(31,046)
Net claims and benefits	(760,719)	(99,334)	(415,350)	(34,523)	(13,706)	15,387	(1,308,245)

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38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(a) Consolidated income statement by fund for the year ended 31 March 2018 (Cont'd)

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Fee and commission expenses	(427,358)	(91,683)	(231,391)	(10,026)	(322)	333,255	(427,525)
Management expenses	(281,507)	–	–	–	–	43,518	(237,989)
Finance costs	(15,891)	–	–	–	–	50	(15,841)
Other operating expenses	(42,586)	–	(253)	(412)	7	20,350	(22,894)
Changes in expense liabilities	3,848	–	–	–	–	–	3,848
Tax borne by participants	–	(2,826)	(9,914)	75	(11)	3	(12,673)
Other expenses	(763,494)	(94,509)	(241,558)	(10,363)	(326)	397,176	(713,074)
Share of results of associates	–	–	–	–	–	9,712	9,712
Operating profit/(loss) before (surplus)/deficit attributable to takaful participants and taxation	183,264	16,691	63,706	(19,795)	(10,980)	21,912	254,798
(Surplus)/deficit attributable to takaful participants	–	(16,691)	(63,706)	19,795	10,980	(12,652)	(62,274)
Operating profit before taxation	183,264	–	–	–	–	9,260	192,524
Zakat	(563)	–	–	–	–	–	(563)
Taxation	(51,096)	–	–	–	–	–	(51,096)
Net profit for the year attributable to equity holders of the Parent	131,605	–	–	–	–	9,260	140,865

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(a) Consolidated income statement by fund for the year ended 31 March 2017

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Gross earned premiums/ contributions	1,322,565	311,870	677,233	10,428	11,102	(5,862)	2,327,336
Premiums/contributions ceded to reinsurers/ retakaful operators	(133,829)	(131,354)	(74,735)	(2,746)	(7,874)	1,706	(348,832)
Net earned premiums/ contributions	1,188,736	180,516	602,498	7,682	3,228	(4,156)	1,978,504
Investment income	120,133	14,739	97,665	2,908	1,165	(9,452)	227,158
Net realised gains	(740)	(171)	2,522	(217)	(44)	–	1,350
Net fair value (losses)/gains	(260)	(200)	73	322	111	(120)	(74)
Fee and commission income	365,960	28,541	3,735	485	–	(343,340)	55,381
Other operating revenue	36,049	–	36,666	615	4	(8,717)	64,617
Other revenue	521,142	42,909	140,661	4,113	1,236	(361,629)	348,432
Gross claims and benefit paid	(826,405)	(149,197)	(259,980)	(9,923)	(11,049)	439	(1,256,115)
Claims ceded to reinsurers/ retakaful operators	46,946	59,707	(5,938)	1,248	7,637	(1,873)	107,727
Gross change in contract liabilities	(42,693)	(19,613)	(315,536)	(13,022)	1,127	16,772	(372,965)
Change in contract liabilities ceded to reinsurers/ retakaful operators	(10,166)	20,071	11,974	(3,365)	(444)	–	18,070
Net claims and benefits	(832,318)	(89,032)	(569,480)	(25,062)	(2,729)	15,338	(1,503,283)

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(a) Consolidated income statement by fund for the year ended 31 March 2017 (Cont'd)

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Fee and commission expenses	(442,282)	(102,694)	(201,716)	(3,512)	(459)	307,356	(443,307)
Management expenses	(315,518)	6,905	11,930	–	–	44,214	(252,469)
Finance costs	(18,170)	–	–	–	–	50	(18,120)
Other operating expenses	(2,715)	(250)	–	(615)	(1,434)	(5,856)	(10,870)
Changes in expense liabilities	(2,884)	–	–	–	–	–	(2,884)
Tax borne by participants	–	(8,055)	(7,381)	15	–	10	(15,411)
Other expenses	(781,569)	(104,094)	(197,167)	(4,112)	(1,893)	345,774	(743,061)
Share of results of associates	–	–	–	–	–	5,628	5,628
Operating profit/(loss) before (surplus)/deficit attributable to takaful participants, zakat and taxation	95,991	30,299	(23,488)	(17,379)	(158)	955	86,220
(Surplus)/deficit attributable to takaful participants	–	(30,299)	23,488	17,379	158	1,982	12,708
Operating profit/(loss) before zakat and taxation	95,991	–	–	–	–	2,937	98,928
Taxation	(27,758)	–	–	–	–	–	(27,758)
Net profit/(loss) for the year attributable to equity holders of the Parent	68,233	–	–	–	–	2,937	71,170

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(b) Consolidated statement of financial position by fund as at 31 March 2018

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Assets							
Property, plant and equipment	124,926	–	–	–	–	115,818	240,744
Investment properties	–	–	115,818	–	–	(115,818)	–
Intangible assets	32,131	–	–	–	–	–	32,131
Deferred tax assets	20,822	2,426	–	66	–	(4,971)	18,343
Investments in subsidiaries	904,477	–	–	–	–	(904,477)	–
Investments in associates	131,833	–	–	–	–	7,176	139,009
Financial assets at FVTPL	–	–	116,127	–	–	–	116,127
HTM investments	240,757	57,342	316,283	19,108	11,764	(1,000)	644,254
AFS financial assets	1,539,454	209,299	1,986,079	15,779	4,174	(13,589)	3,741,196
LAR	1,599,316	154,905	350,281	43,610	(1,550)	(209,299)	1,937,263
Reinsurance/retakaful assets	257,559	149,625	43,127	19,906	8,036	–	478,253
Insurance/takaful receivables	331,267	30,407	44,206	13,995	2,080	(3,651)	418,304
Tax recoverable	27,291	–	–	(21)	7	–	27,277
Cash and bank balances	43,132	27,589	70,175	203	1,000	–	142,099
Total assets	5,252,965	631,593	3,042,096	112,646	25,511	(1,129,811)	7,935,000

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38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(b) Consolidated statement of financial position by fund as at 31 March 2018 (Cont'd)

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Liabilities and Participants' funds							
Participants' funds	–	120,253	129,131	–	–	(1,522)	247,862
Borrowings	321,000	–	–	–	–	(1,000)	320,000
Insurance/takaful contract liabilities	2,096,878	403,666	2,730,440	95,828	15,919	(22,786)	5,319,945
Insurance/takaful payables	207,529	18,105	33,287	10,971	4,203	(3,651)	270,444
Other payables	164,961	89,138	146,947	5,847	5,389	(186,537)	225,745
Deferred tax liabilities	13,981	–	1,013	–	–	(4,310)	10,684
Provision for taxation	–	431	1,278	–	–	–	1,709
Provision for zakat	610	–	–	–	–	–	610
Total liabilities and participants' funds	2,804,959	631,593	3,042,096	112,646	25,511	(219,806)	6,396,999
Equity							
Share capital	1,224,211	–	–	–	–	(904,606)	319,605
Reserves	1,223,795	–	–	–	–	(5,399)	1,218,396
Total equity attributable to equity holders of the Parent	2,448,006	–	–	–	–	(910,005)	1,538,001
Total liabilities, participants' funds and equity	5,252,965	631,593	3,042,096	112,646	25,511	(1,129,811)	7,935,000

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(b) Consolidated statement of financial position by fund as at 31 March 2017

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Assets							
Property, plant and equipment	127,954	–	–	–	–	115,778	243,732
Investment properties	7,400	–	115,778	–	–	(115,778)	7,400
Intangible assets	23,040	–	–	–	–	–	23,040
Deferred tax assets	9,742	3,098	–	–	–	6,678	19,518
Investments in subsidiaries	843,705	–	–	–	–	(843,705)	–
Investments in associates	77,924	–	–	–	–	67,496	145,420
Financial assets at FVTPL	761	898	121,808	–	–	–	123,467
HTM investments	261,384	71,746	331,689	19,143	12,464	(1,000)	695,426
AFS financial assets	1,654,482	226,761	1,493,788	17,749	5,171	(13,207)	3,384,744
LAR	1,297,622	118,383	607,278	45,585	7,890	(141,825)	1,934,933
Reinsurance/retakaful assets	291,969	149,868	45,072	20,967	6,354	–	514,230
Insurance/takaful receivables	224,824	37,422	60,865	7,597	7,594	(2,112)	336,190
Tax recoverable	28,575	–	–	8	5	(13)	28,575
Cash and bank balances	39,837	10,519	49,364	146	39	–	99,905
Total assets	4,889,219	618,695	2,825,642	111,195	39,517	(927,688)	7,556,580

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31 March 2018

38. SHAREHOLDERS', REINSURANCE, TAKAFUL AND RETAKAFUL FUNDS (CONT'D)

(b) Consolidated statement of financial position by fund as at 31 March 2017 (Cont'd)

	General reinsurance and shareholders' fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	General retakaful fund RM'000	Family retakaful fund RM'000	Eliminations and adjustments RM'000	Consolidated RM'000
Liabilities and Participants' funds							
Participants' funds	–	119,327	81,541	3,900	3,008	(6,580)	201,196
Borrowings	321,000	–	–	–	–	(1,000)	320,000
Insurance/takaful contract liabilities	2,104,412	401,012	2,578,850	85,632	9,637	(8,365)	5,171,178
Insurance/takaful payables	124,969	30,710	42,780	8,203	5,624	(2,112)	210,174
Other payables	127,467	60,965	119,124	13,475	21,248	(130,093)	212,186
Deferred tax liabilities	2,169	–	1,412	(15)	–	7,214	10,780
Provision for taxation	2,933	6,681	1,935	–	–	(13)	11,536
Provision for zakat	64	–	–	–	–	–	64
Total liabilities and participants' funds	2,683,014	618,695	2,825,642	111,195	39,517	(140,949)	6,137,114
Equity							
Share capital	1,233,105	–	–	–	–	(913,500)	319,605
Reserves	973,100	–	–	–	–	126,761	1,099,861
Total equity attributable to equity holders of the Parent	2,206,205	–	–	–	–	(786,739)	1,419,466
Total liabilities, participants' funds and equity	4,889,219	618,695	2,825,642	111,195	39,517	(927,688)	7,556,580

39. FAIR VALUES OF ASSETS

MFRS 7 Financial Instruments: Disclosures ("MFRS 7") requires the classification of financial instruments measured at fair value according to a hierarchy that reflects the significance of inputs used in making the measurements, in particular, whether the inputs used are observable or unobservable. MFRS 13 Fair Value Measurement requires similar disclosure requirements as MFRS 7, but extends to include all assets and liabilities measured at fair value and/or for which fair values are disclosed. The following levels of hierarchy are used for determining and disclosing the fair value of the Group and the Company's assets:

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

Level 2 - Inputs that are based on observable market data, either directly or indirectly

Level 3 - Inputs that are not based on observable market data

The fair values of the Group and Company's assets are determined as follows:

(i) The carrying amounts of financial assets, such as loans and receivables, insurance/takaful receivables and cash and bank balances, are reasonable approximation of their fair values due to the relatively short term maturity of these balances;

(ii) The fair values of quoted equities are based on quoted market prices as at the reporting date;

(iii) The fair values of Malaysian government securities, government investment issues and unquoted corporate debt securities are based on indicative market prices from the Bond Pricing Agency of Malaysia ("BPAM");

(iv) The fair values of investments in mutual funds, unit trust funds and real estate investment trusts are valued based on the net asset values of the underlying funds as at the reporting date; and

(v) Freehold land and buildings and investment property have been revalued based on valuations performed by accredited independent valuers having appropriate recognised professional qualification. The valuations are based on the income and comparison approaches. In arriving at the fair value of the assets, the valuers had also taken into consideration the future developments in terms of infrastructure in the vicinity of the properties.

39. FAIR VALUES OF ASSETS (CONT'D)

Description of significant unobservable inputs:

	Valuation technique	**Significant unobservable inputs**	**Range**
2018			
Property, plant and equipment			
Office building	Income approach	Yield	6.0% to 6.25%
		Rental per square foot	RM4.30 to RM4.96
	Comparison approach	Sales price per square foot for similar properties	RM512 to RM1,175
2017			
Property, plant and equipment			
Office building	Income approach	Yield	6.0% to 6.25%
		Rental per square foot	RM4.60
	Comparison approach	Sales price per square foot for similar properties	RM641 to RM1,150
Investment property			
Shoplots	Income approach	Rental per square metre	RM2.00

A significant increase or decrease in the unobservable inputs used in the valuation would result in a correspondingly higher or lower fair value.

There have been no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year.

39. FAIR VALUES OF ASSETS (CONT'D)

As at the reporting date, the Group and the Company held the following assets that are measured at fair value and/or for which fair values are disclosed under Levels 1, 2 and 3 of the fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Group				
2018				
Assets measured at fair value:				
(a) Property, plant and equipment				
Freehold land	–	–	36,800	36,800
Buildings	–	–	199,277	199,277
	–	–	236,077	236,077
(b) Investment property	–	–	–	–
(c) Financial assets at FVTPL				
Quoted shares in Malaysia	–	–	–	–
Warrants	–	–	–	–
Shariah approved unit trust funds	116,127	–	–	116,127
	116,127	–	–	116,127
(d) AFS financial assets				
Malaysian government securities	–	131,162	–	131,162
Unquoted corporate debt securities	–	2,292,540	–	2,292,540
Quoted shares in Malaysia	126,228	–	–	126,228
Warrants	273	–	–	273
Real estate investment trusts	13,227	–	–	13,227
Government investment issues	–	1,132,970	–	1,132,970
	139,728	3,556,672	–	3,696,400
Assets for which fair values are disclosed:				
HTM investments				
Malaysian government securities	–	77,404	–	77,404
Unquoted corporate debt securities	–	25,723	–	25,723
Government investment issues	–	539,508	–	539,508
	–	642,635	–	642,635

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39. FAIR VALUES OF ASSETS (CONT'D)

		Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017					
Assets measured at fair value:					
(a)	**Property, plant and equipment**				
	Freehold land	–	–	36,800	36,800
	Buildings	–	–	201,419	201,419
				238,219	238,219
(b)	**Investment property**	–	–	7,400	7,400
(c)	**Financial assets at FVTPL**				
	Quoted shares in Malaysia	3,790	–	–	3,790
	Warrants	85	–	–	85
	Shariah approved unit trust funds	119,592	–	–	119,592
		123,467	–	–	123,467
(d)	**AFS financial assets**				
	Malaysian government securities	–	128,006	–	128,006
	Unquoted corporate debt securities	–	2,258,038	–	2,258,038
	Quoted shares in Malaysia	245,241	–	–	245,241
	Warrants	346	–	–	346
	Real estate investment trusts	20,217	–	–	20,217
	Government investment issues	–	688,100	–	688,100
		265,804	3,074,144	–	3,339,948
	Assets for which fair values are disclosed:				
	HTM investments				
	Malaysian government securities	–	76,109	–	76,109
	Unquoted corporate debt securities	–	75,987	–	75,987
	Government investment issues	–	537,417	–	537,417
		–	689,513	–	689,513
	Company				
	2018				
	Assets for which fair values are disclosed:				
	HTM investments				
	Unquoted corporate debt securities	**–**	**1,009**	**–**	**1,009**
	2017				
	Assets for which fair values are disclosed:				
	HTM investments				
	Unquoted corporate debt securities	–	1,008	–	1,008

40. SIGNIFICANT EVENTS

a) Transfer of general and family retakaful business

On 1 December 2017, the business transfer of the general and family retakaful businesses between 2 subsidiaries, Malaysian Reinsurance Berhad and Sinar Seroja Berhad (formerly known as MNRB Retakaful Berhad) was completed.

b) Splitting of family and general takaful business licences

In accordance with the requirements of the Islamic Financial Service Act 2013 ("IFSA 2013") a takaful operator that carries on both classes of family and general takaful businesses must take steps to split the businesses under separate legal entities before 1 July 2018.

A new company was incorporated on 5 June 2017 as a wholly-owned subsidiary of TIB to take over its general takaful business once the necessary approval has been obtained from BNM.

c) Subscription of additional shares in subsidiaries

On 25 January and 12 February 2018, the Company subscribed for 40,000,000 and 53,106,421 additional ordinary shares in TIB and MRE respectively Cash consideration of RM40,000,000 and RM53,106,421 was paid for the additional shares in TIB and MRE respectively.

d) Redemption of investment in Sinar Seroja Berhad

On 5 February 2018, MNRB received a capital repayment from SSB amounting to RM102 million as further described in Note 17(ii). The reduction of share capital of SSB was confirmed by the Registrar of Companies on the same date.