

Company No.

738090

M

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2017.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	147

DIVIDENDS

No dividends have been paid or declared by the Company since end of the previous financial year.

The Directors do not recommend the payment of any final dividend for the financial year ended 30 June 2017.

SHARE CAPITAL

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

The new Companies Act 2016 ("New Act"), which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

RESERVES AND PROVISIONS

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

DIRECTORS

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

YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Chairman, Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)
Mr Masakatsu Komaita	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)
Dr Aznan Bin Hasan <i>(Appointed with effect from 28 November 2016)</i>	(Independent Non-Executive Director)
Mr Tan Kong Khoon <i>(Resigned with effect from 1 January 2017)</i>	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz <i>(Resigned with effect from 18 November 2016)</i>	(Non-Independent Non-Executive Director)

HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

DIRECTORS' INTERESTS

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

	Shareholdings in which Directors have direct interests			
	Number of ordinary shares / shares issued or to be issued or acquired arising from the exercise of options*			
	As at 01/07/2016	Acquired	(Sold / exercised)	As at 30/06/2017
Interest of				
Ms Loh Guat Lan in:				
Hong Leong Financial Group Berhad	264,900	-	-	264,900
	5,081,823*	-	-	5,081,823*

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 21 to the financial statements) by reason of a contract made by the Company or its related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

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

On 4 November 2016, HLFG announced that HLFG and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations.

SIGNIFICANT EVENTS AFTER THE FINANCIAL YEAR

There were no material events subsequent to the end of the financial year under review that have not been reported in the Report.

HONG LEONG MSIG TAKAFUL BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

CORPORATE GOVERNANCE

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

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

A. Board of Directors ("Board")

I Roles and Responsibilities of the Board

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

In discharging its responsibilities, the Board established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which is reviewed periodically by the Board. The key roles and responsibilities of the Board broadly covers formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required of them by BNM as specified in guidelines and circulars issued by BNM from time to time.

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

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

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
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CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

I Roles and Responsibilities of the Board (continued)

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

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

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

II Board Composition

The Board comprises the Chairman who is an Independent Non-Executive Director, a Non-Independent Executive Director, a Non-Independent Non-Executive Director and two Independent Non-Executive Directors.

The Company is guided by BNM CG in determining its board composition. The Board shall determine the appropriate size of the Board to enable an efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

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

The Board is of view that the current size and composition of the Board are appropriate and effective for the control of the Company's business.

HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

II Board Composition (continued)

During the financial year ended 30 June 2017, nine (9) Board Meetings were held and the attendance of the Directors was as follows:

<u>Directors</u>	<u>Attendance</u>
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Chairman)	9/9
Ms Loh Guat Lan	9/9
Mr Masakatsu Komaita	9/9
Encik Mustapha bin Hamat	9/9
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	5/5
Mr Tan Kong Khoo (Resigned with effect from 1 January 2017)	4/4
YM Raja Teh Maimunah binti Raja Abdul Aziz (Resigned with effect from 18 November 2016)	3/3

At the Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any director who has an interest in the subject matter to be deliberated shall abstain from deliberating and voting on the same during the meetings.

Supply of Information

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

All Directors have access to the advice and services of the Company Secretary and Internal Auditors. All Directors also have access to independent professional advice at the Company's expense, in consultation with the Chairman or the CEO of the Company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

Directors' Profile

YM TUNKU DATO' MAHMOOD FAWZY BIN TUNKU MUHIYIDDIN
Chairman/Non-Executive/Independent
Age 59, Male, Malaysian

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

YM Tunku Dato' Mahmood Fawzy was appointed to the Board of Hong Leong MSIG Takaful Berhad ("HLMT") on 3 January 2012 and he is a member of the Board Audit and Risk Management Committee and Remuneration Committee of HLMT.

YM Tunku Dato' Mahmood Fawzy is currently the Chairman of Deutsche Bank (Malaysia) Berhad and a director of Hong Leong Assurance Berhad. He is the Senior Independent Director of Telekom Malaysia Berhad. He also sits as a board member of Webe Digital Sdn Berhad, and Hong Leong Asset Management Bhd.

He was previously a board member of Malaysia Airports Holdings Berhad, Hong Leong Islamic Bank Berhad, Pos Malaysia Berhad, SapuraKencana Petroleum Berhad/Kencana Petroleum Berhad, and Ethos Capital One Sdn Berhad, Federation of Investment Managers Malaysia, Energy Africa Limited, and Engen Limited in South Africa.

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

Directors' Profile (continued)

MS LOH GUAT LAN

Executive Director/Non-Independent
Age 52, Female, Malaysian

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

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

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

MR MASAKATSU KOMAITA

Non-Executive Director/Non-Independent
Age 55, Male, Japanese

Mr Masakatsu Komaita graduated from the Faculty of Literature and Sciences, the Department of Economics, Yamagata University, Japan. He has over 30 years of experience in the insurance industry, all of which were in MSIG, and his experience and expertise encompasses sales promotion, sales planning of insurance as well as governance and administration of international business operations.

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

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

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)**A. Board of Directors ("Board") (continued)****Directors' Profile (continued)****MUSTAPHA BIN HAMAT****Non-Executive Director/Independent****Age 69, Male, Malaysian**

Encik Mustapha bin Hamat graduated with a Bachelor of Economics (Honours) from University Malaya in 1974. He proceeded to obtain a Post-Graduate Diploma in Accounting, University Malaya in 1977 and a Master of Business Administration Henley-Brunel, United Kingdom in 1990. Encik Mustapha is a member of the Malaysian Institute of Accountants.

Encik Mustapha was the General Manager of Bank Islam Malaysia Berhad from 1983 to 2000. He was also the Chief Executive Officer of Islamic Banking and Finance Institute Sdn Bhd, a position he held since 2001 until 2006. He is currently attached to the International Islamic University, Malaysia as "Distinguished Academic Fellow" at the Institute of Islamic Banking and Finance (IIBF), and also as Islamic Development Bank (IDB) and United States Agency for International Development (USAID) expert adviser advising the Government of Kyrgyzstan and Afghanistan, respectively, on the implementation of Islamic financial system.

Encik Mustapha was appointed to the Board of HLMT on 21 November 2006. He is the Chairman of the Board Audit and Risk Management Committee, Nomination Committee and Remuneration Committee of HLMT.

DR AZNAN BIN HASAN**Non-Executive Director/Independent****Age 46, Male, Malaysian**

Dr Aznan Bin Hasan obtained his first Degree in Shariah from University of al-Azhar in 1994. He has a Master's degree in Shariah from Cairo University with distinction (mumtaz), a Ph.D. from the University of Wales, Lampeter, United Kingdom.

Dr Aznan is an eminent authority on Shariah and a known Takaful expert. He is an advisor on a number of Shariah councils, regulatory bodies and institutions including Deputy Chairman of the Shariah Advisory Council, AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) and President of ASAS (Association of Shariah Advisors in Islamic Finance). He was a member of the Shariah Advisory Council of Bank Negara Malaysia ("BNM") for two terms (2006-2008, 2010-2013).

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

Directors' Profile (continued)

DR AZNAN BIN HASAN (continued)

Dr Aznan serves as the Chairman of the Shariah Advisory Board, Barclays Capital (DIFC, Dubai) and FNB Bank (South Africa), and is a member of the Shariah Advisory Board, ABSA Islamic Bank (South Africa), European International Islamic Bank (EIIB) (London), Yasaar Limited (London), Khaliq Islamic (UK) Limited (London), Cardoba Capital (Dubai), Amanah Raya Berhad, Amanah Raya Asset Management, Employee Provident Fund (EPF) as well as other financial institutions and corporate bodies locally and internationally. He is also the Chairman of the Shariah Committee of Maybank Islamic Berhad and Maybank Islamic Asset Management Sdn Bhd and Shariah consultant to Maybank Investment Bank Berhad and Hong Leong Islamic Bank Berhad. He is a registered Shariah Advisor for the Islamic Unit Trust Schemes and Islamic Securities (Sukuk), Securities Commission of Malaysia. He is also a member of Shariah Supervisory Board and Investment Committee, Waqaf Foundation, a corporate entity formed by the Government to oversee the application of Waqaf in Malaysia. He is also advising Zakat Centre of Selangor, a Zakat entity formed by the State of Selangor to oversee the application of zakat in the state of Selangor.

In addition, Dr Aznan is an Associate Professor in Islamic law and the former Head of Islamic Law Department, Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia.

Dr Aznan was appointed as a Director of HLMT on 28 November 2016. He is also a member of the Board Audit and Risk Management Committee, Nomination Committee and Remuneration Committee of HLMT.

Directors' Training

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

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as Director of the Company.

The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
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CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

Directors' Training (continued)

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

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

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

During the financial year ended 2017, the Directors received regular briefings and updates on the Company's businesses, operations, risk management, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals. The Company also organised an in-house programme for its Directors and senior management.

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

During the FYE 2017, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- Grand Challenges Facing The Internet
- Northgate Capital Investment Management
- Qualified Risk Director Program: Series 4 – Strategic Enterprise Risk Management: A Primer for Directors
- Anti-Money Laundering and Counter Terrorism Financing 2016 Seminar
- Khazanah Megatrends
- Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 : The Law & Compliance
- Directors' Induction Programme of HLMT
- Invest ASEAN 2017
- Mobile World Congress Barcelona Spain – FinTech, Blockchain in Finance, Financial Services and Various modules related to Technology and Finance
- Financial Institutions Directors' Education (FIDE) Core Programme : Module A
- Digital Free Trade Zone

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
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CORPORATE GOVERNANCE (CONTINUED)

A. Board of Directors ("Board") (continued)

Directors' Training (continued)

- Bank Negara Malaysia Annual Report
- FIDE Core Programme: Module B
- Update on Companies Act 2016
- Bank Negara Malaysia Compliance Conference
- 4th Industrial Revolution: Impact and Opportunities for Manufacturing and Financial Service

B. Board Committee

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

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

The members of the BARMC are as follows:

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Independent Non-Executive Director)
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	(Independent Non-Executive Director)

Terms of Reference

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

External Audit

- To nominate and recommend for the approval of the Board, a person or persons as external auditor(s).
- To review the external audit fees.
- To review, with the external auditors, the audit scope and plan.
- To review, with the external auditors, the audit report and audit findings and the management's response thereto.
- To review the assistance given by the officers of the Company to the external auditors.
- To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
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CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

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

External Audit (continued)

- To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors.
- To ensure the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts.

Financial Reporting

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

Related Party/Connected Party Transactions

- To review and update the Board on any related party transactions involving the Company.
- To monitor compliance with the Board's conflict of interest policy.

Internal Audit

- To review and approve the adequacy of the internal audit scope, procedures, plan, and assess the performance and effectiveness of the internal audit function.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by internal audit function, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- To review reports and findings issued by regulatory authorities, and to check that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

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

Internal Audit (continued)

- To support the Board in meeting the expectations on internal audit management as set out in BNM's policy document, "Guidelines on Internal Audit Function of Licensed Institutions".
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Insurance Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors. This includes a regular review to determine whether the internal audit function has appropriate standing within the Company to undertake its activities independently and objectively.
- To engage privately with the Head of Insurance Audit on a regular basis (and in any case at least twice annually) to provide the opportunity for the Head of Insurance Audit to discuss issues faced by the internal audit function.
- To review the Audit Charter and recommend for Board approval.
- Other audit functions as may be agreed to by the BARMC and the Board.

Risk Management

- To review management's activities in managing principal risks such as credit, market, liquidity, operational, compliance, insurance and IT risks, and the risk management process.
- To review management's reporting to the Board on measures taken to:
 - a. Identify and examine principal risks faced by the Company.
 - b. Implement appropriate systems and internal controls to manage these risks.
- To review management's major risk management strategies, policies and risk tolerance for Board's approval.
- To review management's overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), annual risk appetite, Individual Target Capital Level ("ITCL") and Capital Management Plan for Board's approval.
- To review management's development and effective implementation of the ICAAP.
- To review management's stress testing governance including the evaluation on the capital stress test scenarios, parameters, key assumptions and results.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
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CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

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

Risk Management (continued)

- To review management's periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities.
- To review the adequacy and effectiveness of management's internal controls and risk management process.
- To review the adequacy of risk management policies and frameworks in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively.
- To receive reports from pertinent management committee.
- To review management's implementation of risk management as set out in BNM's policy document on Risk Governance and Corporate Governance.
- To review and advise on the appointment, remuneration, removal and redeployment of the Head of Risk Management.
- To engage privately with the Chief Risk Officer on a regular basis (and in any case at least twice annually) to provide the opportunity for the Chief Risk Officer to discuss issues faced by the risk management function.
- To review management's implementation of the remuneration system on whether incentives provided by the remuneration system take into consideration risks, capital, liquidity and the likelihood and timing of earnings, without prejudice to the tasks of the Board Remuneration Committee.
- Other risk management functions as may be agreed to by the BARMC and the Board.

Compliance

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

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

Compliance (continued)

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

During the financial year ended 30 June 2017, eight (8) BARMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat	8/8
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	8/8
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	4/4

Group Internal Audit Division ("GIAD")

The Company's internal audit function is outsourced to Hong Leong Assurance Berhad (HLA). Internal Audit employs a risk-based assessment approach in auditing the Company's business and operational activities. An annual audit plan is developed and approved by the BARMC. All internal audit reports which incorporates the management's responses were tabled for discussion at the BARMC meetings.

During the financial year ended 30 June 2017, Internal audit carried out its duties covering audit on operations, retakaful, compliance, product pricing, Shariah, product development, business performance, investment profit distribution, branch and information system. These audits are performed in line with BNM Guidelines on Internal Audit Function and BNM Guidelines on Management of IT Environment. The cost incurred for the internal audit function in respect of the current financial year was RM361,000 (2016: RM344,000).

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

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

Financial Reporting

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

Internal Controls and Operational Risk Management

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

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

The Company has put in place adequate security controls for its Information Technology systems and has in place business resumption and contingency plans that can ensure continued operation of critical functions.

Management Accountability

The Company operates in an organisational structure and control environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. The Company has an office in Corporate Communications to guide its communication policy.

Corporate Independence

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

Public Accountability

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

Relationship with Auditors

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

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

(b) Nomination Committee ("NC")

The members of the NC are as follows:

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Executive Director)
Dr Aznan Bin Hasan (Appointed with effect from 28 November 2016)	(Non-Independent Non-Executive Director)
Mr Tan Kong Khoon (Resigned with effect from 28 November 2016)	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz (Resigned with effect from 18 November 2016)	(Non-Independent Non-Executive Director)

The NC's responsibilities are as follows:

- (i) Support the Board in carrying out its functions in the following matters concerning the board, senior management and company secretary:
 - (a) appointments and removals;
 - (b) composition;
 - (c) performance evaluation and development; and
 - (d) fit and proper assessments.
- (ii) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- (iii) Review and recommend to the Board all Board appointments, re-appointments and removals including of the Chief Executive Officer.
- (iv) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- (v) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director.
- (vi) Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities; and
- (vii) Ensure that the Board receives an appropriate continuous training programme.

HONG LEONG MSIG TAKAFUL BERHAD)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)**B. Board Committee (continued)****(b) Nomination Committee ("NC") (continued)**

During the financial year ended 30 June 2017, six (6) NC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat (Chairman)	6/6
Ms Loh Guat Lan	6/6
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	4/4
Mr Tan Kong Khoon (Resigned with effect from 28 November 2016)	2/2
YM Raja Teh Maimunah binti Raja Abdul Aziz (Appointed with effect from 18 November 2016)	1/1

(c) Remuneration Committee ("RC")

The members of the RC are as follows:

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed with effect from 23 November 2016)	(Independent Non-Executive Director)
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	(Independent Non-Executive Director)
Mr Tan Kong Khoon (Resigned with effect from 23 November 2016)	(Non-Independent Non-Executive Director)

The RC's responsibilities are as follows:

- (i) Recommend to the Board the framework and policies governing the remuneration of the:
 - Directors;
 - Chief Executive Officer;
 - Senior management officers; and
 - Other material risk takers
- (ii) Review and recommend to the Board for approval the remuneration of senior management officers and other material risk takers.
- (iii) Review and recommend to the Board for approval.
- (iv) Review and recommend to the Board the remuneration of Shariah Committee members.

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

B. Board Committee (continued)

(c) Remuneration Committee ("RC") (continued)

During the financial year ended 30 June 2017, three (3) RC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat (Chairman)	3/3
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Appointed with effect from 23 November 2016)	2/2
Dr Aznan bin Hasan (Appointed with effect from 28 November 2016)	2/2
Mr Tan Kong Khoon (Resigned with effect from 23 November 2016)	1/1

Procedure

The fees of Directors, including Non-Executive Directors, are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting.

Disclosure

The remuneration of the Directors is set out in Note 21 to the financial statements.

Remuneration Policy

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

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

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

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)****CORPORATE GOVERNANCE (CONTINUED)****B. Board Committee (continued)**Remuneration Policy (continued)**Compensation for Material Risk Takers**

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

The remuneration for Senior Officers and Material Risk Takers for financial year 2016/17 is shown in the table below:

Total value of remuneration awards for the financial year	<u>Unrestricted</u> RM	<u>Deferred</u> RM
Fixed Remuneration	-	-
• Cash-based	2,295,243	-
• Shares and share-linked instruments	-	-
• Other	-	-
Variable Remuneration	-	-
• Cash-based	391,425	-
• Shares and share-linked instruments	-	-
• Other	-	-

C. Independence

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

- the expiry of his term of office approved by BNM; or
- the due date for his retirement pursuant to the Constitution of the Company.

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

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

C. Independence (continued)

The independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent Directors, have continued to bring objective judgment to the Board deliberations and decision making. The tenure of all the independent directors on the Board does not exceed 9 years.

D. Commitment

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

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

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

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretary accordingly. Any Director who has an interest in the subject matter to be deliberated shall abstain from deliberation and voting on the same during the meetings.

E. Shariah Committee ("SC")

The members of the SC are as follows:

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

During the financial year ended 30 June 2017, seven (7) SC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Prof. Dr. Ab. Mumin Ab. Ghani	7/7
Asst. Prof. Dr. Uzaimah Ibrahim	7/7
Dr. Muhammad Aunurrochim Mas'ad Salleh	7/7
Dr. Asmak Ab Rahman	7/7
Dr. Nurul Aini Muhamed	6/7

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

HOLDING COMPANIES

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

OTHER STATUTORY INFORMATION REGARDING THE COMPANY

(I) As at the end of the financial year

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

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

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

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

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

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017
(CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONTINUED)

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

(b) In the opinion of the Directors:

- (i) the results of the operations of the Company for the financial year ended 30 June 2017 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- (ii) no contingent or other liability has become enforceable, or is likely to become enforceable, within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations as and when they fall due (for the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contract of Takaful underwritten in the ordinary course of business of the Company).

(III) As at the date of this report

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

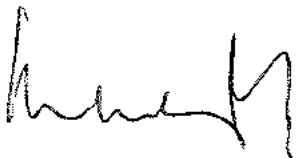
AUDITORS'S REMUNERATION

The remuneration of the auditors' is set out in Note 21 to the financial statements.

AUDITORS

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

The report was approved by the Board of Directors on 19 September 2017. Signed on behalf of the Board of Directors.



MUSTAPHA BIN HAMAT
DIRECTOR



LOH GUAT LAN
DIRECTOR

Petaling Jaya
19 September 2017

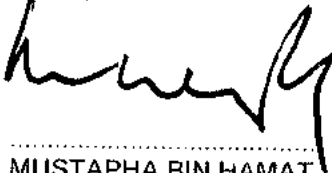
Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

We, Mustapha bin Hamat and Loh Guat Lan, being two of the Directors of HONG LEONG MSIG TAKAFUL BERHAD, state that to the best of knowledge and belief of the Directors, the financial statements set out on pages 33 to 139 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 30 June 2017 and of the results and the cash flows of the Company for the financial year ended on that date.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 19 September 2017.



 MUSTAPHA BIN HAMAT
 DIRECTOR



 LOH GUAT LAN
 DIRECTOR

Petaling Jaya
19 September 2017

Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

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

I, Ong Kheng Heng, being the officer primarily responsible for the financial management of HONG LEONG MSIG TAKAFUL BERHAD, do solemnly and sincerely declare that the financial statements set out on pages 33 to 139 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the above named Ong Kheng Heng)
at Selangor Darul Ehsan this)
19 September 2017



Before me

COMMISSIONER FOR OATHS



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

Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

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

To the Shareholders of Hong Leong MSIG Takaful Berhad,

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2017. We have also conducted our review to form an opinion as to whether the Company has complied with Shariah rules and principles and with the specific fatwas, rulings and guidelines issued by us.

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

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

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

In our opinion and to the best of our knowledge:

- (a) the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2017 as presented and deliberated to us are in compliance with the Shariah rules and principles;
- (b) the allocation of profit and charging of losses relating to investment accounts, the main sources and investments of the Company disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- (c) no earnings have been realised from sources or by means prohibited by the Shariah principles;
- (d) the calculation of zakat is in compliance with Shariah principles; and
- (e) the Shariah non-compliant events occurred were rectified as advised and preventive actions have been taken to avoid the recurrence of the events. During the financial year, six (6) Shariah non-compliant events were identified. We have advised preventive actions such as tightening the process flow and enhancing the procedures to avoid similar breaches from recurring in the future.

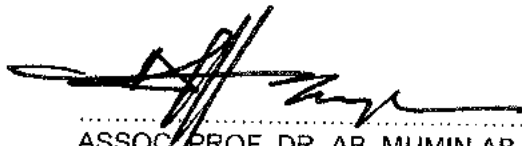
Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

We, are the members of Shariah Committee of Hong Leong MSIG Takaful, do hereby confirm that the operations of Hong Leong MSIG Takaful for the year ended 30 June 2017 have been conducted in conformity with the Shariah principles.

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



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



ASST. PROF. DR. UZAIMAH IBRAHIM
Member
Shariah Committee

Kuala Lumpur
19 September 2017



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong MSIG Takaful Berhad ("the Company") give a true and fair view of the financial position of the Company as at 30 June 2017, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 30 June 2017, and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 33 to 139.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

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

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



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- (d) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

A stylized signature in black ink, likely belonging to a representative of PricewaterhouseCoopers.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A stylized signature in black ink, likely belonging to Manjit Singh A/L Hajander Singh.

MANJIT SINGH A/L HAJANDER SINGH
02954/03/2019 J
Chartered Accountant

Kuala Lumpur
19 September 2017

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

	Note	30.06.2017					30.06.2016				
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	
Assets											
Property and equipment	3	2,274	-	-	2,274		1,622	-	-	1,622	
Intangible assets	4	4,955	-	-	4,955		6,009	-	-	6,009	
Financial assets		73,856	78,526	264,687	411,626		70,984	44,591	180,112	290,568	
- available-for-sale	5	73,856	78,526	233,391	380,330		70,984	44,591	157,515	267,971	
- fair value through profit or loss	5	-	-	31,296	31,296		-	-	22,597	22,597	
Loans and receivables	6	-	420	6,520	6,940		-	407	6,312	6,719	
Deferred tax assets	15	275	428	(610)	93		649	618	(552)	715	
Retakaful assets	7	-	72,020	36,831	108,851		-	69,603	36,010	105,613	
Takaful receivables	8	-	15,379	4,616	19,995		-	4,627	7,824	12,451	
Qard receivables		469	-	-	-		-	-	-	-	
Other receivables	9	23,158	2,619	3,543	9,799		19,541	3,951	1,485	7,368	
Due from related companies		216	-	-	216		111	-	-	111	
Cash and cash equivalents	10	1,031	6,456	28,330	35,817		4,616	38,874	53,298	96,788	
		106,234	175,848	343,917	600,566		103,532	162,671	284,489	527,964	

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017 (CONTINUED)

	Note	30.06.2017			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Shareholders' equity					
Share capital	16	100,000	-	-	100,000
Accumulated losses		(21,526)	-	-	(21,526)
Fair value reserves		2,405	-	-	2,405
Total equity		80,879	-	-	80,879
Liabilities					
Takaful contract liabilities	11	-	123,373	312,360	430,290
Tax payables		(2,216)	3,281	2,624	3,689
Takaful payables	12	-	36,268	12,459	48,727
Expense liabilities	13	11,780	-	-	11,780
Qard payables		-	-	469	-
Other payables	14	15,422	12,926	16,005	24,832
Due to related companies		369	-	-	369
Total liabilities		25,355	175,848	343,917	519,687
Total equity and liabilities		106,234	175,848	343,917	600,566

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

	Note	30.06.2016			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
		100,000	-	-	100,000
		(21,673)	-	-	(21,673)
		2,166	-	-	2,166
		80,493	-	-	80,493
		-	118,743	266,189	379,813
		(44)	1,154	1,684	2,794
		-	27,668	7,473	35,141
		10,710	-	-	10,710
		-	-	-	-
		12,373	15,106	9,143	19,013
		-	-	-	-
		23,039	162,671	284,489	447,471
		103,532	162,671	284,489	527,964

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Note	30.6.2017				30.6.2016			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Gross contributions	-	60,019	110,027	170,046	-	43,065	88,155	131,220
Contributions ceded to retakaful	-	(28,180)	(29,595)	(57,775)	-	(19,970)	(19,157)	(39,127)
Net contributions	-	31,839	80,432	112,271	-	23,095	68,998	92,093
Change in unearned contribution reserve	-	(2,405)	-	(2,405)	-	(237)	-	(237)
Net earned contributions	-	29,434	80,432	109,866	-	22,858	68,998	91,856
Wakalah income	47,256	-	-	-	35,705	-	-	-
Surplus sharing from General and Family Takaful funds	13,476	-	-	-	12,785	-	-	-
Share of investment profit from Family Takaful	1,027	-	-	-	688	-	-	-
Commission income	-	7,312	-	7,312	-	5,285	-	5,285
Investment income	3,001	2,988	9,945	16,961	3,000	2,255	7,934	13,877
Realised gains	138	239	2,281	2,658	454	461	947	1,862
Fair value (losses)/gains	(50)	(88)	219	81	(252)	(380)	(1,787)	(2,419)
Other operating income	414	170	4,322	4,559	608	148	2,147	2,327
Other income	65,262	10,621	16,767	31,571	52,988	7,769	9,241	20,932
Gross benefits and claims paid	-	(17,195)	(43,031)	(60,226)	-	(3,979)	(18,967)	(22,946)
Claims ceded to retakaful	-	8,015	28,761	36,776	-	2,569	13,300	15,869
Gross change to Takaful contract liabilities	-	(5,073)	(47,478)	(52,551)	-	(7,927)	(51,647)	(59,574)
Change in Takaful contract liabilities ceded to retakaful	-	3,475	1,364	4,839	-	3,296	3,505	6,801
Net benefits and claims	-	(10,778)	(60,384)	(71,162)	-	(6,041)	(53,809)	(59,850)

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

Note	30.6.2017				30.6.2016			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Wakalah expenses	-	(18,721)	(28,535)	-	-	(13,299)	(22,406)	-
Surplus sharing with Takaful Operator	-	(7,642)	(5,834)	-	-	(12,002)	(783)	-
Fees and commission expense	(23,405)	-	-	(23,405)	(16,143)	-	-	(16,143)
Management expenses	(36,133)	-	-	(36,133)	(31,535)	-	-	(31,535)
Change to expense liability	(1,070)	-	-	(1,070)	(3,596)	-	-	(3,596)
Other operating expenses	(447)	(693)	(1,346)	(2,139)	(3,845)	(12)	(978)	(4,259)
Other expenses	(61,055)	(27,056)	(35,715)	(62,747)	(55,119)	(25,313)	(24,167)	(55,533)
Profit/(loss) before zakat and taxation	4,207	2,221	1,100	7,528	(2,131)	(727)	263	(2,595)
Tax expense attributable to participants	-	(2,221)	(1,100)	(3,321)	-	727	(263)	464
Profit before taxation attributable to Takaful Operator	4,207	-	-	4,207	(2,131)	-	-	(2,131)
Taxation	(3,967)	(2,221)	(1,100)	(7,288)	(5,174)	(727)	(263)	(4,710)
Tax expense attributable to participants	-	2,221	1,100	3,321	-	(727)	263	(464)
Tax expense attributable to Takaful Operator	(3,967)	-	-	(3,967)	(5,174)	-	-	(5,174)
Zakat	(93)	-	-	(93)	(88)	-	-	(88)
Profit/(loss) after zakat and taxation	147	-	-	147	(7,393)	-	-	(7,393)
Earning per share	0.15	-	-	0.15	(7.39)	-	-	(7.39)

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	30.6.2017			30.6.2016		
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
Profit/(loss) after zakat and taxation		147	-	-	(7,393)	-	(7,393)
Other comprehensive income/(loss):							
Items that may be subsequently reclassified to profit or loss:							
Fair value changes on available-for-sale financial assets, net of deferred tax:							
Gross fair value gains arising during the financial year		452	546	1,960	431	120	2,571
Gross fair value gains transferred to income statement		(138)	(239)	(1,487)	(454)	(461)	(1,172)
Tax effects thereon		314	307	473	(23)	(341)	1,399
Net fair value gains/(losses)		(75)	(96)	102	34	96	(122)
Change in Takaful contract liabilities arising from unrealised net fair value losses	11	239	211	575	11	(245)	1,147
Other comprehensive income/(loss) for the financial year, net of tax		-	(211)	(575)	-	245	(1,147)
		239	-	-	11	-	-
Total comprehensive income/(loss) for the financial year		386	-	-	(7,382)	-	(7,382)

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Number of Shares '000	Issued and fully paid ordinary shares Nominal Value RM'000	Non- distributable AFS Reserve RM'000	Accumulated Losses RM'000	Total RM'000
At 1 July 2015	100,000	100,000	2,155	(14,280)	87,875
Loss for the financial year	-	-	-	(7,393)	(7,393)
Total comprehensive income for the financial year	-	-	11	-	11
At 30 June 2016	100,000	100,000	2,166	(21,673)	80,493
At 30 June 2016	100,000	100,000	2,166	(21,673)	80,493
Profit for the financial year	-	-	-	147	147
Total comprehensive income for the financial year	-	-	239	-	239
At 30 June 2017	100,000	100,000	2,405	(21,526)	80,879

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

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit/(loss) for the financial year	147	(7,393)
Adjustments for:		
Write back of impairment of takaful receivables	(506)	(2,055)
Depreciation of property and equipment	568	550
Amortisation of intangible assets	2,020	1,883
Gain on disposal of investments	(2,658)	(1,862)
Unrealised fair value gain on financial assets	(885)	(264)
Accretion of discounts-net	(59)	(40)
Profits and dividend income	(16,906)	(13,837)
Allowance for diminution in value of investments	804	2,683
Taxation	7,288	4,710
Loss from operations before changes in operating assets and liabilities	(10,187)	(15,625)
Proceeds from disposal of investments	113,838	44,303
Maturity of investments	15,000	1,139
Purchase of investments	(245,569)	(65,014)
Increase in expenses liabilities	1,070	3,597
Increase in family takaful contract liabilities	45,272	51,930
Increase in general takaful contract liabilities	4,419	4,394
(Increase)/decrease in loans and receivables	(218)	308
Increase in retakaful assets	(3,238)	(3,031)
(Decrease)/ increase in takaful receivables	(7,038)	6,182
Increase in other receivables	(2,343)	(1,612)
Increase in takaful payables	13,586	20,169
Increase in other payables	6,143	8,066
Increase/(decrease) in amount due to related companies	264	(302)
	(69,001)	54,504
Tax paid	(5,840)	(3,518)
Profit received	13,810	12,726
Dividends received	2,246	1,070
Net cash (outflow)/inflow from operating activities	(58,785)	64,782

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

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

	<u>2017</u> RM'000	<u>2016</u> RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,283)	(518)
Purchase of intangible assets	(903)	(621)
Net cash outflow from investing activities	<u>(2,186)</u>	<u>(1,139)</u>
Net increase in cash and cash equivalents	(60,971)	63,643
Cash and cash equivalents at beginning of the financial year	<u>96,788</u>	<u>33,145</u>
Cash and cash equivalents at the end of the financial year	<u>35,817</u>	<u>96,788</u>
Cash and cash equivalents comprise:		
Cash and bank balances	10,451	6,677
Islamic short term deposits	<u>25,366</u>	<u>90,111</u>
	<u>35,817</u>	<u>96,788</u>

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1 CORPORATE INFORMATION

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 19 September 2017.

2 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)**

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

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

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

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

The new accounting standards, amendments to published standards and interpretations that are applicable and effective for the Company's financial year beginning on 1 July 2016 are as follows:

- Amendments to MFRS 116 & MFRS 138 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Amendments to MFRS 101 "Presentation of Financial Statements" - Disclosure Initiative
- Annual improvements to MFRS 2012 - 2014 Cycle.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)**

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

A number of new standards and amendments to standards and interpreting are effective for financial year beginning after 1 July 2016. None of these is expected have significant effect on the financial statements of the Company, except the following set out below:

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

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

The amendments shall be applied retrospectively.

Financial year beginning on/after 1 July 2018

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

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

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.1 Basis of preparation (continued)**

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

Financial year beginning on/after 1 July 2018 (continued)

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

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

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

- MFRS 17 'Insurance Contracts' replaces MFRS 4 'Insurance Contracts'.

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

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies****(a) Property and equipment**

Property and equipment are stated at cost, net of the amount of goods and services tax (GST) less accumulated depreciation and accumulated impairment losses. When the amount of GST incurred is not recoverable from the government, the GST is recognised as part of the cost of acquisition of the property and equipment. The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

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

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

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

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(b) Intangible assets - computer software**

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

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

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

(c) Islamic Financial instruments

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

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

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

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

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

HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Islamic Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

Financial assets

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

Financial assets at FVTPL

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

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

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

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

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

AFS financial assets

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Islamic Financial Instruments (continued)

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

AFS financial assets (continued)

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

HTM financial assets

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

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

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

LAR financial assets

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Islamic Financial instruments (continued)

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

Financial liabilities

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

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

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

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss of the respective funds.

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

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Fair value of financial instruments

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

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

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

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

(e) Qard

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

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

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

(f) Impairment

(i) Financial assets, excluding Takaful receivables

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(f) Impairment****(i) Financial assets, excluding Takaful receivables (Continued)****(1) Financial assets carried at amortised cost**

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

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

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

(2) Financial assets carried at cost

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(f) Impairment (continued)****(i) Financial assets, excluding Takaful receivables (continued)****(3) Financial assets carried at fair value**

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

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

(ii) Non-financial assets

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Takaful receivables

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

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

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

(h) Cash and cash equivalents

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

(i) Taxation

Taxation for the financial year comprises current and deferred tax.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(i) Taxation (continued)

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

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

(j) Zakat

Zakat is a giving of alms payable by the Company to relevant Zakat institution for distribution to the needy, poor or other relevant recipients (asnaf) and as approved by the Shariah Committee. Zakat provision is calculated based on 2.5% of net asset method, calculated on the percentage of the muslim equity of the ultimate holding company. Zakat is only provided when there is a commitment or an obligation exists as at financial year end.

(k) Management expenses, commission expenses and wakalah fee

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Expense liabilities

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

(m) Employee benefits

Short-term employee benefits

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

Post employment benefits

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

(n) Product classification

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

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

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

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(o) Retakaful contracts

Takaful funds cede Takaful risk in the normal course of business for its businesses. Retakaful assets represent balances due from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's policies and are in accordance with the related retakaful contracts.

Ceded retakaful arrangements do not relieve the fund from its obligations to participants. Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.

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

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

Contributions and claims on assumed facultative retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the ceded retakaful business. Contributions, claims and other transactions costs on assumed treaty retakaful are accounted for upon notification by the ceding companies or upon receipts of statements of accounts.

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

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant Takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less an explicit identified contributions or fees to be retained by the retakaful operator.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts

Family Takaful fund

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

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

Contribution income

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(p) Family Takaful contracts (continued)**Benefits, claims and expense

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

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

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

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

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

Family Takaful contract liabilities

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

(i) Claims liabilities

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

(ii) Actuarial liabilities

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

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

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

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

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

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

(iii) Unallocated surplus/deficits

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(p) Family Takaful contracts (continued)****(iv) AFS fair value adjustment**

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

(q) General Takaful contracts**General Takaful fund**

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

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

Contribution income

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

Claims and expenses

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

General Takaful contracts liabilities

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.2 Summary of significant accounting policies (continued)****(q) General Takaful contracts (continued)****(i) Contribution liabilities**

The contribution liabilities refer to the higher of:

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

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

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

(ii) Claims liabilities

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

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

(iii) Participants' account

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

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

(iv) AFS fair value adjustment

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

(v) Unallocated surplus/deficits

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

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

(r) Other revenue recognition

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(s) Foreign currencies

(i) Functional and presentation currencies

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

(ii) Transactions and balances

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

(t) Contingent liabilities and contingent assets

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

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

(u) Provisions

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2.3 Significant accounting judgements, estimates and assumptions**

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

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

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

(b) Key sources of estimation uncertainty and assumptions

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

(i) Claims liabilities of General Takaful business

For the financial year ended 30 June 2017, the claims estimates have been computed by an independent actuarial firm, Actuarial Partners Consulting Sdn Bhd ("Actuarial Partners"). Actuarial Partners had considered the Link Ratio method with a Bornhuetter-Ferguson ("BF") adjustment on an incurred claims basis for all classes of business.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

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

(ii) Actuarial liabilities for Family Takaful fund

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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3 PROPERTY AND EQUIPMENT

Takaful Operator/Company

	Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Company RM'000
Cost					
At 1 July 2015	365	2,487	509	-	3,361
Additions	5	81	-	432	518
At 30 June 2016	370	2,568	509	432	3,879
Additions	-	463	-	820	1,283
Reclassification (Note 4)	-	92	-	(155)	(63)
At 30 June 2017	370	3,123	509	1,097	5,099
Accumulated depreciation					
At 1 July 2015	241	1,265	201	-	1,707
Charge for the financial year	71	421	58	-	550
At 30 June 2016	312	1,686	259	-	2,257
Charge for the financial year	39	471	58	-	568
At 30 June 2017	351	2,157	317	-	2,825
Net carrying amount					
At 30 June 2016	58	882	250	432	1,622
At 30 June 2017	19	966	192	1,097	2,274

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4 INTANGIBLE ASSETS

Takaful Operator/Company

	2017 RM'000	2016 RM'000
<u>Cost</u>		
At 1 July	12,217	11,596
Additions	903	621
Reclassification (Note 3)	63	-
At 30 June	<u>13,183</u>	<u>12,217</u>
<u>Accumulated amortisation</u>		
At 1 July	6,208	4,325
Amortisation	<u>2,020</u>	<u>1,883</u>
At 30 June	<u>8,228</u>	<u>6,208</u>
Net carrying amount	<u>4,955</u>	<u>6,009</u>

5 FINANCIAL ASSETS

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>				
Government Investment Issues	2,670	-	18,182	20,852
Islamic bonds	56,341	42,483	188,103	286,927
Equity securities	5,408	7,706	50,703	63,817
Unit and property trust funds	3,436	28,001	1,060	32,497
Investments in investment-linked funds	5,443	-	-	-
Structured investments	-	-	4,638	4,638
Accrued profit	<u>558</u>	<u>336</u>	<u>2,001</u>	<u>2,895</u>
Total	<u>73,856</u>	<u>78,526</u>	<u>264,687</u>	<u>411,626</u>
<u>30 June 2016</u>				
Government Investment Issues	2,697	-	8,092	10,789
Islamic bonds	59,138	39,009	141,295	239,442
Equity securities	3,436	5,270	25,009	33,715
Investments in investment-linked funds	5,119	-	-	-
Structured investments	-	-	4,486	4,486
Accrued profit	<u>594</u>	<u>312</u>	<u>1,230</u>	<u>2,136</u>
Total	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>				
AFS financial assets	73,856	78,526	233,391	380,330
FVTPL	-	-	31,296	31,296
Total	73,856	78,526	264,687	411,626
Current	9,058	12,036	6,804	27,898
Non-current	64,798	66,490	257,883	383,728
	73,856	78,526	264,687	411,626

(i) AFS

30 June 2017

Government Investment Issues	2,670	-	17,113	19,783
Islamic bonds	56,341	42,483	177,745	276,569
Equity securities quoted in Malaysia	5,408	7,706	35,927	49,041
Unit and property trust funds	3,436	28,001	701	32,138
investments in investment-linked funds	5,443	-	-	-
Structured investments	-	-	-	-
Accrued profit	558	336	1,905	2,799
Total	73,856	78,526	233,391	380,330

(ii) FVTPL

30 June 2017

Government Investment Issues	-	-	1,069	1,069
Islamic bonds	-	-	10,358	10,358
Equity securities quoted in Malaysia	-	-	14,776	14,776
Unit and property trust fund	-	-	359	359
Structured investments	-	-	4,638	4,638
Accrued profit	-	-	96	96
Total	-	-	31,296	31,296

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2016</u>				
AFS	70,984	44,591	157,515	267,971
FVTPL	-	-	22,597	22,597
Total	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>
Current	594	312	1,230	3,276
Non-current	<u>70,390</u>	<u>44,279</u>	<u>178,882</u>	<u>287,292</u>
	<u>70,984</u>	<u>44,591</u>	<u>180,112</u>	<u>290,568</u>

(i) AFS

30 June 2016

Government Investment Issues	2,697	-	7,013	9,710
Islamic bonds	59,138	39,009	131,897	230,044
Equity securities quoted in Malaysia	3,436	5,270	17,444	26,150
Investments in investment-linked funds	5,119	-	-	-
Accrued profit	594	312	1,161	2,067
Total	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>

(ii) FVTPL

30 June 2016

Government Investment Issues	-	-	1,079	1,079
Islamic bonds	-	-	9,398	9,398
Equity securities quoted in Malaysia	-	-	7,565	7,565
Structured investments	-	-	4,486	4,486
Accrued profit	-	-	69	69
Total	<u>-</u>	<u>-</u>	<u>22,597</u>	<u>22,597</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

(b) Carrying values of financial investments

	AFS				FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
At 1 July 2016	70,984	44,591	157,515	267,971	22,597
Purchases	10,390	106,199	114,853	231,442	14,127
Maturities	(7,000)	(1,500)	(5,500)	(14,000)	(1,000)
Disposals	(762)	(71,001)	(34,078)	(105,841)	(5,339)
Fair value gain recorded in income statement (Note 19)	-	-	-	-	885
Fair value recorded in other comprehensive income	452	546	1,960	2,634	-
Movement in impairment allowance (Note 19)	(50)	(88)	(666)	(804)	-
Realised gains	(138)	(239)	(1,487)	(1,864)	-
Accretion of discount, net of amortisation of premium (Note 17)	16	(6)	50	60	(1)
Movement in accrued profit	(36)	24	744	732	27
At 30 June 2017	<u>73,856</u>	<u>78,526</u>	<u>233,391</u>	<u>380,330</u>	<u>31,296</u>
At 1 July 2015	74,064	49,879	133,836	252,760	17,754
Purchases	3,431	7,703	48,105	59,239	5,775
Maturities	-	-	(870)	(870)	(269)
Disposals	(6,209)	(12,203)	(23,102)	(41,514)	(927)
Fair value losses recorded in income statement (Note 19)	-	-	-	-	264
Fair value recorded in other comprehensive income	431	120	2,571	3,022	-
Movement in impairment allowance (Note 19)	(252)	(380)	(2,051)	(2,683)	-
Realised gains	(454)	(461)	(1,172)	(2,087)	-
Accretion of discount, net of amortisation of premium (Note 17)	11	(5)	34	40	-
Movement in accrued profit	(38)	(62)	164	64	-
At 30 June 2016	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>	<u>22,597</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

(b) Carrying values of financial investments (continued)

As at 30 June 2017, impairment losses of impaired available-for-sale financial assets of RM5,723,845 is RM 803,824 (2016: RM2,682,787). A reconciliation of the allowance for impairment losses for available-for-sale financial assets is as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 July 2016	1,358	900	3,227	5,485
Charge for the financial year (Note 19)	50	88	666	804
At 30 June 2017	<u>1,408</u>	<u>988</u>	<u>3,893</u>	<u>6,289</u>

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

(c) Fair value hierarchy

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

5 FINANCIAL ASSETS (CONTINUED)

(c) Fair value hierarchy

	AFS				FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
30 June 2017					
Level 1	8,844	35,707	36,628	81,179	15,135
Level 2	65,012	42,819	196,763	299,151	16,161
Level 3	-	-	-	-	-
	<u>73,856</u>	<u>78,526</u>	<u>233,391</u>	<u>380,330</u>	<u>31,296</u>

	AFS				FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
30 June 2016					
Level 1	3,436	5,270	17,444	26,150	7,565
Level 2	67,548	39,321	140,071	241,821	15,032
Level 3	-	-	-	-	-
	<u>70,984</u>	<u>44,591</u>	<u>157,515</u>	<u>267,971</u>	<u>22,597</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****6 LOANS AND RECEIVABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>				
Fixed and cash deposits with licensed Islamic financial institutions	-	413	6,467	6,880
Accrued profit	-	7	53	60
	<u>-</u>	<u>420</u>	<u>6,520</u>	<u>6,940</u>
<u>30 June 2016</u>				
Fixed and cash deposits with licensed Islamic financial institutions	-	400	6,262	6,662
Accrued profit	-	7	50	57
	<u>-</u>	<u>407</u>	<u>6,312</u>	<u>6,719</u>

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

7 RETAKAFUL ASSETS

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>			
Retakaful of Takaful contracts	<u>72,020</u>	<u>36,831</u>	<u>108,851</u>
<u>30 June 2016</u>			
Retakaful of Takaful contracts	<u>69,603</u>	<u>36,010</u>	<u>105,613</u>

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NOTES TO THE FINANCIAL STATEMENTS
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8 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>			
Outstanding contributions including agents, brokers and co-takaful balances	15,350	4,513	19,863
Less: Allowance for impairment	(26)	-	(26)
	<u>15,324</u>	<u>4,513</u>	<u>19,837</u>
 Amount due from retakaful operators	 2,878	 103	 2,981
Less: Allowance for impairment	(2,823)	-	(2,823)
	<u>55</u>	<u>103</u>	<u>158</u>
	<u>15,379</u>	<u>4,616</u>	<u>19,995</u>
 Gross amounts of recognised financial assets	 19,650	 4,616	 24,266
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(1,422)	-	(1,422)
	<u>18,228</u>	<u>4,616</u>	<u>22,844</u>
Allowance for impairment	(2,849)	-	(2,849)
Net amounts of financial assets presented in the statement of financial position	<u>15,379</u>	<u>4,616</u>	<u>19,995</u>

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NOTES TO THE FINANCIAL STATEMENTS
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8 TAKAFUL RECEIVABLES (CONTINUED)

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

9 OTHER RECEIVABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
30 June 2017				
Dividend receivables	22	22	137	181
Amount due from Operator Takaful Fund	-	-	-	-
Amount due from General Takaful Fund	10,442	-	-	-
Amount due from Family Takaful Fund	9,079	-	-	-
Other receivables	<u>3,615</u>	<u>2,597</u>	<u>3,406</u>	<u>9,618</u>
	<u>23,158</u>	<u>2,619</u>	<u>3,543</u>	<u>9,799</u>
30 June 2016				
Dividend receivables	13	16	64	93
Amount due from Operator Takaful Fund	-	-	-	-
Amount due from General Takaful Fund	14,624	-	-	-
Amount due from Family Takaful Fund	2,203	782	-	-
Other receivables	<u>2,701</u>	<u>3,153</u>	<u>1,421</u>	<u>7,275</u>
	<u>19,541</u>	<u>3,951</u>	<u>1,485</u>	<u>7,368</u>

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

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NOTES TO THE FINANCIAL STATEMENTS
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10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2017</u>				
Cash and bank balances	925	2,714	6,812	10,451
Islamic short term deposits	106	3,741	21,508	25,355
Accrued profit	-	1	10	11
	<u>1,031</u>	<u>6,456</u>	<u>28,330</u>	<u>35,817</u>
<u>30 June 2016</u>				
Cash and bank balances	1,571	46	5,060	6,677
Islamic short term deposits	3,044	38,823	48,221	90,088
Accrued profit	1	5	17	23
	<u>4,616</u>	<u>38,874</u>	<u>53,298</u>	<u>96,788</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

11 TAKAFUL CONTRACT LIABILITIES

	Note	30.06.2017		30.06.2016	
		Gross RM'000	Re-takaful RM'000	Net RM'000	Net RM'000
General Takaful	11(a)	123,373	(72,020)	51,353	49,140
Family Takaful	11(b)	312,360	(36,831)	275,529	230,179
		435,733	(108,851)	326,882	279,319
Elimination of investment in investment-linked funds		(5,443)	-	(5,443)	(5,119)
Total Company		430,290	(108,851)	321,439	274,200

(a) General Takaful contract liabilities

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

	30.06.2017		30.06.2016	
	Gross RM'000	Re-takaful RM'000	Net RM'000	Net RM'000
Provision for claims reported by certificate holders	49,797	(42,342)	7,455	10,721
Provision for IBNR	28,045	(18,617)	9,428	9,637
Provision for outstanding claims (i)	77,842	(60,959)	16,883	20,358
Unearned contribution reserve (ii)	23,038	(11,061)	11,977	9,572
AFS fair value adjustment (iii)	1,003	-	1,003	792
Participants' account (iv)	20,200	-	20,200	16,392
Unallocated surplus (v)	1,290	-	1,290	2,026
	123,373	(72,020)	51,353	49,140

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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful contract liabilities (continued)

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

	30.06.2017			30.06.2016		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
(i) Provision for outstanding claims						
At 1 July	85,340	(64,982)	20,358	84,927	(61,687)	23,240
Claims incurred in the current accident year	21,409	(13,114)	8,295	20,759	(12,245)	8,514
Other movements in claims incurred in prior accident year	(46,102)	25,152	(20,950)	(16,367)	6,381	(9,986)
Claims paid during the financial year	17,195	(8,015)	9,180	(3,979)	2,569	(1,410)
At 30 June	<u>77,842</u>	<u>(60,959)</u>	<u>16,883</u>	<u>85,340</u>	<u>(64,982)</u>	<u>20,358</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)****(a) General Takaful contract liabilities (continued)**

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

	30.6.2017			30.6.2016		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
(ii) Unearned contribution reserve						
At 1 July	14,193	(4,621)	9,572	17,725	(8,390)	9,335
Contribution written in the financial year	60,019	(28,180)	31,839	43,065	(19,970)	23,095
Contribution earned during the financial year	(51,174)	21,740	(29,434)	(46,597)	23,739	(22,858)
At 30 June	23,038	(11,061)	11,977	14,193	(4,621)	9,572

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NOTES TO THE FINANCIAL STATEMENTS
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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) General Takaful contract liabilities (continued)

		Gross/Net	
		2017	2016
		RM'000	RM'000
(iii)	AFS fair value adjustment		
	At 1 July	792	1,037
	Net fair value change during the financial year	211	(245)
	At 30 June	<u>1,003</u>	<u>792</u>
(iv)	Participants' account		
	At 1 July	16,392	7,270
	Participants' account recognised as unallocated surplus	3,808	9,122
	At 30 June	<u>20,200</u>	<u>16,392</u>
(v)	Unallocated surplus		
	At 1 July	2,026	3,635
	Surplus arising during the financial year	12,714	19,515
	Surplus sharing with Takaful operator/participants	(13,450)	(21,124)
	At 30 June	<u>1,290</u>	<u>2,026</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful contract liabilities

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

	30.06.2017			30.06.2016		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Certificate holders' liabilities						
Net asset value attributable to certificate holders	252,321	(24,315)	228,006	220,961	(31,590)	189,371
	29,116	-	29,116	25,956	-	25,956
Actuarial liabilities (i)	281,437	(24,315)	257,122	246,917	(31,590)	215,327
Claims liabilities	15,428	(12,516)	2,912	5,449	(4,420)	1,029
Unallocated surplus (ii)	9,852	-	9,852	8,755	-	8,755
AFS fair value adjustment (iii)	5,643	-	5,643	5,068	-	5,068
	<u>312,360</u>	<u>(36,831)</u>	<u>275,529</u>	<u>266,189</u>	<u>(36,010)</u>	<u>230,179</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) Family Takaful contract liabilities (continued)

(i) Actuarial liabilities

	Gross RM'000	Re-takaful RM'000	Net RM'000
At 1 July 2015	201,729	(28,151)	173,578
Change in certificate liabilities	34,748	(3,439)	31,309
Movement in net asset value attributable to certificate holders	10,440	-	10,440
At 30 June 2016/1 July 2016	246,917	(31,590)	215,327
Change in certificate liabilities	31,360	7,275	38,635
Movement in net asset value attributable to certificate holders	3,160	-	3,160
At 30 June 2017	281,437	(24,315)	257,122

	Gross/Net	
	2017 RM'000	2016 RM'000
(ii) Unallocated surplus		
At 1 July	8,755	2,396
Surplus during the financial year	14,368	7,596
Surplus sharing with Takaful operator/participants	(13,271)	(1,237)
At 30 June	9,852	8,755
(iii) AFS fair value adjustment		
At 1 July	5,068	3,921
Net fair value change during the financial year	575	1,147
At 30 June	5,643	5,068

Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

12 TAKAFUL PAYABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
30 June 2017			
Due to agents and intermediaries	1,495	-	1,495
Due to retakaful operators and cedants	34,773	12,459	47,232
	<u>36,268</u>	<u>12,459</u>	<u>48,727</u>
Gross amounts of recognised financial liabilities	37,690	12,459	50,149
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(1,422)	-	(1,422)
Net amounts of financial assets presented in the statement of financial position	<u>36,268</u>	<u>12,459</u>	<u>48,727</u>
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
30 June 2016			
Due to agents and intermediaries	2,731	-	2,731
Due to retakaful operators and cedants	24,937	7,473	32,410
	<u>27,668</u>	<u>7,473</u>	<u>35,141</u>
Gross amounts of recognised financial liabilities	28,249	10,046	38,295
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(581)	(2,573)	(3,154)
Net amounts of financial assets presented in the statement of financial position	<u>27,668</u>	<u>7,473</u>	<u>35,141</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****13 EXPENSE LIABILITIES**

	<u>Takaful Operator/Company</u>	
	<u>2017</u>	<u>2016</u>
	RM'000	RM'000
At the beginning of the financial year	10,710	7,113
Increase during the financial year	<u>1,070</u>	<u>3,597</u>
At end of the financial year	<u>11,780</u>	<u>10,710</u>

14 OTHER PAYABLES

	<u>Takaful Operator</u>	<u>General Takaful Fund</u>	<u>Family Takaful Fund</u>	<u>Company</u>
	RM'000	RM'000	RM'000	RM'000
<u>30 June 2017</u>				
Contribution deposits	-	170	3,073	3,243
Amount due to Takaful Operator Fund	-	10,442	9,079	-
Amount due to Takaful General Fund	-	-	-	-
Amount due to Family Takaful Fund	-	-	-	-
Sundry payables and accruals	<u>15,422</u>	<u>2,314</u>	<u>3,853</u>	<u>21,589</u>
	<u>15,422</u>	<u>12,926</u>	<u>16,005</u>	<u>24,832</u>
<u>30 June 2016</u>				
Contribution deposits	-	29	2,442	2,471
Amount due to Takaful Operator Fund	-	14,624	2,203	-
Amount due to Takaful General Fund	-	-	782	-
Amount due to Family Takaful Fund	-	-	-	-
Sundry payables and accruals	<u>12,373</u>	<u>453</u>	<u>3,716</u>	<u>16,542</u>
	<u>12,373</u>	<u>15,106</u>	<u>9,143</u>	<u>19,013</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****15 DEFERRED TAX ASSETS/(LIABILITIES)**

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

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

The movements in deferred tax balances are as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 July 2015	551	578	(316)	813
Recognised in:				
Profit or loss	64	(56)	16	24
Other comprehensive income	34	96	(252)	(122)
At 30 June 2016/1 July 2016	649	618	(552)	715
Recognised in:				
Profit or loss	(299)	(94)	(160)	(553)
Other comprehensive income	(75)	(96)	102	(69)
At 30 June 2017	275	428	(610)	93

Presented after appropriate offsetting as follows:

30 June 2017				
Deferred tax liabilities	(1,160)	(346)	(661)	(2,167)
Deferred tax assets	1,435	774	51	2,260
	275	428	(610)	93
30 June 2016				
Deferred tax liabilities	(2,371)	(250)	(685)	(3,306)
Deferred tax assets	3,020	868	133	4,021
	649	618	(552)	715
30 June 2017				
Current	304	684	-	988
Non-current	(29)	(256)	(610)	(895)
	275	428	(610)	93
30 June 2016				
Current	340	868	-	1,208
Non-current	309	(250)	(552)	(493)
	649	618	(552)	715

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)**

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

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
<u>Takaful Operator</u>					
At 1 July 2015	(853)	(584)	-	1,988	551
Recognised in:					
Profit or loss	(834)	(24)	-	922	64
Other comprehensive income	-	34	-	-	34
At 30 June 2016/1 July 2016	(1,687)	(574)	-	2,910	649
Recognised in:					
Profit or loss	1,286	(55)	-	(1,530)	(299)
Other comprehensive income	-	(75)	-	-	(75)
At 30 June 2017	<u>(401)</u>	<u>(704)</u>	<u>-</u>	<u>1,380</u>	<u>275</u>
<u>General Takaful Fund</u>					
At 1 July 2015	-	(213)	791	-	578
Recognised in:					
Profit or loss	-	11	(67)	-	(56)
Other comprehensive income	-	96	-	-	96
At 30 June 2016/1 July 2016	-	(106)	724	-	618
Recognised in:					
Profit or loss	-	(54)	(40)	-	(94)
Other comprehensive income	-	(96)	-	-	(96)
At 30 June 2017	<u>-</u>	<u>(256)</u>	<u>684</u>	<u>-</u>	<u>428</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Payables RM'000	Total RM'000
<u>Family Takaful Fund</u>					
At 1 July 2015	-	(316)	-	-	(316)
Recognised in:					
Profit or loss	-	16	-	-	16
Other comprehensive income	-	(252)	-	-	(252)
At 30 June 2016/1 July 2016	-	(552)	-	-	(552)
Recognised in:					
Profit or loss	-	(160)	-	-	(160)
Other comprehensive income	-	102	-	-	102
At 30 June 2016	-	(610)	-	-	(610)
<u>Company</u>					
At 1 July 2015	(853)	(1,113)	791	1,988	813
Recognised in:					
Profit or loss	(834)	3	(67)	922	24
Other comprehensive income	-	(122)	-	-	(122)
At 30 June 2016/1 July 2016	(1,687)	(1,232)	724	2,910	715
Recognised in:					
Profit or loss	1,286	(269)	(40)	(1,530)	(553)
Other comprehensive income	-	(69)	-	-	(69)
At 30 June 2017	(401)	(1,570)	684	1,380	93

16 SHARE CAPITAL

Takaful Operator/Company

	30.06.2017		30.06.2016	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Ordinary shares of RM 1.00 each				
Authorised:				
At beginning/end of financial year	-	-	1,000,000	1,000,000
Issued and fully paid				
At beginning/end of financial year	100,000	100,000	100,000	100,000

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NOTES TO THE FINANCIAL STATEMENTS
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16 SHARE CAPITAL (CONTINUED)

Takaful Operator/Company (CONTINUED)

The new Companies Act 2016 ("New Act"), which came into effect on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

17 INVESTMENT INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>				
<u>AFS financial assets</u>				
Profit income	2,647	1,689	7,904	12,240
Accretion of discounts/(amortisation of premiums) - net	16	(6)	50	60
Dividend income	244	806	914	1,964
<u>FVTPL</u>				
Profit income	-	-	503	503
Accretion of discounts/(amortisation of premiums) - net	-	-	(1)	(1)
Dividend income	-	-	370	370
<u>Loans and receivables</u>				
Profit income	-	16	312	328
<u>Cash and cash equivalents</u>				
Profit income	95	484	922	1,501
	3,002	2,989	10,974	16,965
Less: Share of investment profit of Takaful funds with Takaful Operator	-	-	(1,027)	-
Less: Investment Charges	(1)	(1)	(2)	(4)
	<u>3,001</u>	<u>2,988</u>	<u>9,945</u>	<u>16,961</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****17 INVESTMENT INCOME (CONTINUED)**

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

18 REALISED GAINS/(LOSSES)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
<u>AFS financial assets</u>				
Quoted equities	138	249	1,423	1,810
Government Investment Issues	-	(11)	-	(11)
Islamic bond	-	-	64	64
Unit Trusts	-	1	-	1
 <u>FVTPL</u>				
Quoted equities	-	-	714	714
Islamic bonds	-	-	80	80
	<u>138</u>	<u>239</u>	<u>2,281</u>	<u>2,658</u>
 2016				
<u>AFS financial assets</u>				
Quoted equities	355	360	953	1,668
Government Investment Issues	15	101	94	210
Islamic bond	84	-	125	209
 <u>FVTPL</u>				
Government Investment Issues	-	-	(218)	(218)
Islamic bond	-	-	(7)	(7)
	<u>454</u>	<u>461</u>	<u>947</u>	<u>1,862</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****19 FAIR VALUE (LOSSES)/GAINS**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>				
Impairment of AFS financial assets	(50)	(88)	(666)	(804)
Fair value gains on financial assets at fair value through profit or loss	-	-	885	885
	<u>(50)</u>	<u>(88)</u>	<u>219</u>	<u>81</u>
<u>2016</u>				
Impairment of AFS financial assets	(252)	(380)	(2,051)	(2,683)
Fair value gains on financial assets at fair value through profit or loss	-	-	264	264
	<u>(252)</u>	<u>(380)</u>	<u>(1,787)</u>	<u>(2,419)</u>

20 OTHER OPERATING INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>				
Write back of impairment loss on Takaful receivables	-	170	336	506
Other income	414	-	3,986	4,400
Elimination of income from investment-linked funds	-	-	-	(347)
	<u>414</u>	<u>170</u>	<u>4,322</u>	<u>4,559</u>
<u>2016</u>				
Write back of impairment loss on Takaful receivables	-	147	1,908	2,055
Other income	608	1	239	848
Elimination of income from investment-linked funds	-	-	-	(576)
	<u>608</u>	<u>148</u>	<u>2,147</u>	<u>2,327</u>

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****21 MANAGEMENT EXPENSES**

	<u>2017</u> RM'000	<u>2016</u> RM'000
<u>Takaful Operator/Company</u>		
Staff costs:		
Salary and bonus	11,886	11,946
Social security costs	97	82
Employees' provident fund	1,893	1,885
Other staff related expenses	466	435
Directors' fees (Note 27)	238	257
Shariah Committee remuneration and other expenses		
- remuneration	180	180
Depreciation of property and equipment (Note 3)	568	550
Amortisation of intangible assets (Note 4)	2,020	1,883
Auditors' remuneration:		
Audit related services		
- current year	298	299
Non-audit related services	188	85
Other professional fee	1840	1,931
Rental of properties	1,116	1,029
Shared services fee	3,629	2,326
Other expenses	11,714	8,647
Total	<u>36,133</u>	<u>31,535</u>

There is no remuneration, including benefits-in-kind, attributable to the Chief Executive Officer (CEO) of the Company during the financial year due to resignation of CEO on 28 June 2016. The CEO remuneration, including benefits-in-kind for 2016 was RM 951,536.

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

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**NOTES TO THE FINANCIAL STATEMENTS
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The total remuneration of the Shariah Committee members is as follows:

	<u>2017</u> RM'000	<u>2016</u> RM'000
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	36	36
Asst. Prof. Dr. Uzaimah Ibrahim	36	36
Dr. Muhammad Aunurrochim Mas'ad Salleh	36	36
Dr. Nurul Aini binti Muhamed	36	36
Dr. Asmak Binti Ab Rahman	36	36
	<u>180</u>	<u>180</u>

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

22 OTHER OPERATING EXPENSES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>				
Others	(447)	(693)	(1,346)	(2,486)
Elimination of income from investment-linked funds	-	-	-	347
	<u>(447)</u>	<u>(693)</u>	<u>(1,346)</u>	<u>(2,139)</u>
<u>2016</u>				
Others	(4)	(12)	(978)	(994)
Provision for legal expense	(3,841)	-	-	(3,841)
Elimination of income from investment-linked funds	-	-	-	576
	<u>(3,845)</u>	<u>(12)</u>	<u>(978)</u>	<u>(4,259)</u>

Company No.	
738090	M

HONG LEONG MSIG TAKAFUL BERHAD

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

23 TAXATION

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2017</u>				
Current tax :				
- In respect of current financial year	3,668	2,127	940	6,735
Deferred tax benefits	<u>299</u>	<u>94</u>	<u>160</u>	<u>553</u>
	<u>3,967</u>	<u>2,221</u>	<u>1,100</u>	<u>7,288</u>
<u>2016</u>				
Current tax :				
- In respect of current financial year	3,544	1,583	602	5,729
- Under provision in prior financial years	1,694	(2,366)	(323)	(995)
Deferred tax expenses/(benefits)	<u>(64)</u>	<u>56</u>	<u>(16)</u>	<u>(24)</u>
	<u>5,174</u>	<u>(727)</u>	<u>263</u>	<u>4,710</u>

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

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Profit before taxation attributable to Takaful Operator	<u>4,207</u>	<u>(2,131)</u>
Taxation at Malaysian statutory rate of 24% (2016: 24%)	1,010	(511)
Income not subject to tax	(2,815)	(5,433)
Expenses not deductible for tax purposes	5,772	9,424
Tax expense attributable to participants	3,321	(464)
Under provision in prior financial years	-	1,694
Tax expense for the financial year	<u>7,288</u>	<u>4,710</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****24 INVESTMENT-LINKED BUSINESS****(a) Assets and liabilities as at**

	<u>30.06.2017</u> RM'000	<u>30.06.2016</u> RM'000
<u>Assets</u>		
Fair value through profit and loss financial assets	26,258	19,039
Other receivables	393	89
Cash and cash equivalents	4,163	7,949
Investment-linked business assets	<u>30,814</u>	<u>27,077</u>
<u>Liabilities</u>		
Deferred tax liabilities	155	84
Tax payables	144	15
Current tax liabilities	1,399	195
Amount due to non-investment linked Family Takaful Fund*	<u>-</u>	<u>827</u>
Investment-linked business liabilities	<u>1,698</u>	<u>1,121</u>
Net asset value of funds	<u>29,116</u>	<u>25,956</u>
Represented by:		
<u>Unit holders' account</u>		
At beginning of the financial year	25,956	15,516
Net creation of units	5,932	11,268
Net cancellation of units	(1,896)	(693)
Deficit for the financial year	<u>(876)</u>	<u>(135)</u>
	<u>29,116</u>	<u>25,956</u>

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

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Investment income	817	521
Realised gain on disposal of investment	792	(225)
Fair value gain on investments	925	258
Other expenses	<u>(3,211)</u>	<u>(678)</u>
Deficit before taxation	(677)	(124)
Taxation:		
- current tax	(129)	10
- deferred tax	<u>(70)</u>	<u>(21)</u>
	<u>(876)</u>	<u>(135)</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****25 SEGMENTAL INFORMATION ON CASH FLOW**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2017				
Cash flows from:				
Operating activities	(1,399)	(32,418)	(24,968)	(58,785)
Investing activities	(2,186)	-	-	(2,186)
	<u>(3,585)</u>	<u>(32,418)</u>	<u>(24,968)</u>	<u>(60,971)</u>
Net increase in cash and cash equivalent	(3,585)	(32,418)	(24,968)	(60,971)
Cash and cash equivalents:				
At beginning of financial year	<u>4,616</u>	<u>38,874</u>	<u>53,298</u>	<u>96,788</u>
At end of financial year	<u>1,031</u>	<u>6,456</u>	<u>28,330</u>	<u>35,817</u>
2016				
Cash flows from:				
Operating activities	2,512	36,353	25,917	64,782
Investing activities	(1,139)	-	-	(1,139)
	<u>1,373</u>	<u>36,353</u>	<u>25,917</u>	<u>63,643</u>
Net increase in cash and cash equivalent	1,373	36,353	25,917	63,643
Cash and cash equivalents:				
At beginning of financial year	<u>3,243</u>	<u>2,521</u>	<u>27,381</u>	<u>33,145</u>
At end of financial year	<u>4,616</u>	<u>38,874</u>	<u>53,298</u>	<u>96,788</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****26 RELATED PARTY TRANSACTIONS**

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

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

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

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

	<u>2017</u> RM'000	<u>2016</u> RM'000
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(8,365)	(8,018)
- Fund management fee	(1,208)	(875)
- Profit from Islamic deposits and Islamic money market placements with licensed Islamic banks	243	315
- Bank charges	(115)	(95)
- Office rental expenses	(1,116)	(1,032)
- Shared services fee	(3,629)	(2,326)
- Campaign and incentives	-	(591)

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

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

	<u>30.06.2017</u> RM'000	<u>30.06.2016</u> RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	6,381	5,456
- Islamic deposits and Islamic money market placements with licensed Islamic banks	3,092	10,630
- Accrued profit	-	1
- Rental deposit included in other receivables	322	322
- Amount due to related companies	(152)	111

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

27 KEY MANAGEMENT PERSONNEL REMUNERATION

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

Key management personnel's remuneration is as follows:

	2017 RM'000	2016 RM'000
<u>Non-Executive Directors</u>		
Fees:		
YBhg Tan Sri A. Razak bin Ramli	-	79
Dr Aznan bin Hasan (Appointed on 28.11.2016)	50	
Encik Mustapha bin Hamat	96	96
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	92	82
	<u>238</u>	<u>257</u>
<u>Key management personnel</u>		
Short term employee benefits:		
Salary and other remuneration	1,871	2,314
Defined contribution retirement plan	295	391
Benefits-in-kind/perquisite	135	179
	<u>2,301</u>	<u>2,884</u>
Total	<u>2,539</u>	<u>3,141</u>

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****28 RISK MANAGEMENT FRAMEWORK****(a) Risk management framework**

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

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

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

(b) Capital management objectives, policies and approach

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****28 RISK MANAGEMENT FRAMEWORK (CONTINUED)****(b) Capital management objectives, policies and approach (continued)**Risk governance structure

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

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

Regulatory capital requirements

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

	<u>30.06.2017</u>	<u>30.06.2016</u>
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital	100,000	100,000
- Reserves, including retained earnings	(10,384)	(10,891)
Eligible Tier 2 capital		
- Eligible reserves	3,672	2,920
	<u>93,288</u>	<u>92,029</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****29 TAKAFUL RISK**

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

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

(a) General Takaful/Company

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

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

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

	30.06.2017			30.06.2016		
	Gross	Re-takaful	Net	Gross	Re-takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	2,439	(998)	1,441	3,168	(1,452)	1,716
Fire	28,740	(16,605)	12,135	29,249	(17,119)	12,130
Engineering	32,108	(29,859)	2,249	29,393	(25,420)	3,973
Liability	2,953	(476)	2,477	4,895	(757)	4,138
Miscellaneous	34,640	(24,082)	10,558	32,828	(24,855)	7,973
	<u>100,880</u>	<u>(72,020)</u>	<u>28,860</u>	<u>99,533</u>	<u>(69,603)</u>	<u>29,930</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Key assumptions

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

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

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NOTES TO THE FINANCIAL STATEMENTS
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29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)Sensitivity

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

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

	Change in assumptions %	Impact on gross Takaful claims liabilities RM'000	Impact on net Takaful claims liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
30 June 2017					
ULRs for all business classes for all loss years	+10	18,497	5,661	-	-
ULRs for Other class for all loss years	+20	8,221	2,383	-	-
ULRs for Fire class for all loss years	+20	10,939	4,175	-	-
PRAD for all business classes for all loss years	+20	1,649	348	-	-
30 June 2016					
ULRs for all business classes for all loss years	+10	17,668	5,124	-	-
ULRs for Personal Accident class for all loss years	+20	8,916	1,956	-	-
ULRs for Fire class for all loss years	+20	10,064	3,270	-	-
PRAD for all business classes for all loss years	+20	1,762	443	-	-

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)

Claims development table

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

Gross General Takaful claims liabilities for 30 June 2017

	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	5,956	21,080	35,591	46,842	51,089	28,280	20,759	21,409	
One year later	5,249	18,211	33,995	33,607	39,535	26,218	19,474	-	
Two years later	4,286	16,814	30,394	29,060	29,428	24,045	-	-	
Three years later	3,525	15,602	49,411	27,522	26,432	-	-	-	
Four years later	3,405	14,057	47,088	24,886	-	-	-	-	
Five years later	2,941	13,696	45,953	-	-	-	-	-	
Six years later	2,963	12,250	-	-	-	-	-	-	
Seven years later	2,925	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	2,925	12,250	45,953	24,886	26,432	24,045	19,474	21,409	

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)
Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2017 (continued)

	2010	2011	2012	2013	2014	2015	2016	2017	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year									
At end of accident year	357	1,194	2,754	3,316	3,833	3,030	2,354	3,168	
One year later	2,301	7,562	10,018	11,610	7,664	11,047	6,696	-	
Two years later	2,732	9,097	15,254	14,562	21,215	15,817	-	-	
Three years later	2,773	10,860	39,297	15,952	23,149	-	-	-	
Four years later	2,731	11,066	17,344	18,560	-	-	-	-	
Five years later	2,736	11,683	17,652	-	-	-	-	-	
Six years later	2,739	11,749	-	-	-	-	-	-	
Seven years later	2,741	-	-	-	-	-	-	-	
Cumulative payments to-date	2,741	11,749	17,652	18,560	23,149	15,817	6,696	3,168	
Gross General Takaful claims liabilities	184	501	28,301	6,326	3,283	8,228	12,778	18,241	77,842

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)
Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2017

<u>Accident year</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	2,404	8,474	13,410	18,807	13,280	10,117	8,514	8,294	
One year later	2,214	9,674	12,551	13,208	9,169	8,227	6,861	-	
Two years later	1,802	8,115	11,639	11,179	7,762	7,704	-	-	
Three years later	1,653	7,821	10,434	9,659	6,884	-	-	-	
Four years later	1,634	7,276	5,536	8,023	-	-	-	-	
Five years later	1,267	6,998	8,649	-	-	-	-	-	
Six years later	1,273	6,003	-	-	-	-	-	-	
Seven years later	1,259	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1,259	6,003	8,649	8,023	6,884	7,704	6,861	8,294	

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)
Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2017 (continued)

<u>Accident year</u>	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>Total</u> RM'000
At end of accident year	259	1,008	2,085	1,845	1,899	2,252	1,647	1,750	
One year later	866	4,234	5,152	4,482	3,692	4,709	3,579	-	
Two years later	1,206	4,875	7,287	5,631	4,584	5,715	-	-	
Three years later	1,172	5,474	7,864	6,043	5,246	-	-	-	
Four years later	1,194	5,566	3,729	6,244	-	-	-	-	
Five years later	1,197	5,699	7,312	-	-	-	-	-	
Six years later	1,200	5,747	-	-	-	-	-	-	
Seven years later	1,201	-	-	-	-	-	-	-	
Cumulative payments to-date	1,201	5,747	7,312	6,244	5,246	5,715	3,579	1,750	
Net General Takaful claims liabilities	58	256	1,337	1,779	1,638	1,989	3,282	6,544	16,883

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

29 TAKAFUL RISK (CONTINUED)

- (a) General Takaful/Company (continued)
Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2016

	2009	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	3,722	5,956	21,080	35,591	46,842	51,089	28,280	20,759	
One year later	2,399	5,249	18,211	33,995	33,607	39,535	26,218	-	
Two years later	1,147	4,286	16,814	30,394	29,060	29,428	-	-	
Three years later	1,058	3,525	15,602	49,411	27,522	-	-	-	
Four years later	1,045	3,405	14,057	47,088	-	-	-	-	
Five years later	1,051	2,941	13,696	-	-	-	-	-	
Six years later	1,045	2,963	-	-	-	-	-	-	
Seven years later	1,045	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1,045	2,963	13,696	47,088	27,522	29,428	26,128	20,759	

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)
Claims development table (continued)Gross General Takaful claims liabilities for 30 June 2016 (continued)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	142	357	1,194	2,754	3,316	3,833	3,030	2,354	
One year later	482	2,301	7,562	10,018	11,610	7,664	11,047	-	
Two years later	1,034	2,732	9,097	15,254	14,562	21,215	-	-	
Three years later	1,033	2,773	10,860	39,297	15,952	-	-	-	
Four years later	1,040	2,731	11,066	17,344	-	-	-	-	
Five years later	1,043	2,736	11,683	-	-	-	-	-	
Six years later	1,045	2,739	-	-	-	-	-	-	
Seven years later	1,045	-	-	-	-	-	-	-	
Cumulative payments to-date	1,045	2,739	11,683	17,344	15,952	21,215	11,047	2,354	
Gross General Takaful claims liabilities	-	224	2,013	29,744	11,570	8,213	15,171	1,8405	85,340

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

(a) General Takaful/Company (continued)
Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2016

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

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

29 TAKAFUL RISK (CONTINUED)

- (a) General Takaful/Company (continued)
Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2016 (continued)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	84	259	1,016	2,119	1,845	1,899	2,252	1,647	
One years later	141	1,114	4,295	5,186	4,482	3,692	4,709	-	
Two years later	143	1,505	4,936	7,321	5,631	4584	-	-	
Three years later	139	1,471	5,535	7,898	6,043	-	-	-	
Four years later	143	1,493	5,627	3,763	-	-	-	-	
Five years later	148	1,496	5,760	-	-	-	-	-	
Six years later	150	1,499	-	-	-	-	-	-	
Seven years later	150	-	-	-	-	-	-	-	
Cumulative payments to-date	150	1,499	5,760	3,763	6,043	4,584	4,709	1,647	
Net General Takaful claims liabilities	-	73	1,299	1,807	3,616	3,178	3,518	6,867	20,358

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****29 TAKAFUL RISK (CONTINUED)****(b) Family Takaful/Company**

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

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

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

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

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

	Gross RM'000	Retakaful RM'000	Net RM'000
<u>30 June 2017</u>			
Mortgage Reducing Term and Group business	29,742	(22,833)	6,909
Others	4,407	(1,482)	2,925
	<u>34,149</u>	<u>(24,315)</u>	<u>9,834</u>
<u>30 June 2016</u>			
Mortgage Reducing Term and Group business	35,982	(26,847)	9,135
i-BR1M	4,578	(3,663)	915
Others	2,226	(1,080)	1,146
	<u>42,786</u>	<u>(31,590)</u>	<u>11,196</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****29 TAKAFUL RISK (CONTINUED)****(b) Family Takaful/Company (continued)**

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

Key assumptions

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****29 TAKAFUL RISK (CONTINUED)****(b) Family Takaful/Company (continued)**Sensitivity

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

	Change in assumptions %	Impact on gross Takaful actuarial liabilities RM'000	Impact on net Takaful actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
<u>30 June 2017</u>					
Mortality	+10	15,643	3,237	-	-
Mortality	-10	(9,892)	(1,584)	-	-
Lapse and surrender rates	+10	(408)	(100)	-	-
Lapse and surrender rates	-10	426	107	-	-
Discount rate	+10	(1,032)	(297)	-	-
Discount rate	-10	1,144	357	-	-
Investment return	+10	(2,065)	(439)	-	-
Investment return	-10	2,189	535	-	-

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

29 TAKAFUL RISK (CONTINUED)

(b) Family Takaful/Company (continued)

Sensitivity (continued)

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

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

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30 FINANCIAL RISK

Credit risk

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

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

	Neither past due nor impaired			Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2017							
<u>Takaful Operator</u>							
<u>AFS financial assets</u>							
Government Investment Issues	-	-	-	-	-	-	2,670
Islamic bonds	5,137	19,679	-	-	-	-	56,341
Equity securities	-	-	-	5,408	-	-	5,408
Unit and property trust funds	-	-	-	3,436	-	-	3,436
Investment-linked funds	-	-	-	5,443	-	-	5,443
Accrued profit	118	126	-	-	-	-	558
Other receivables	-	-	-	-	-	-	22,653
Cash and cash equivalents	160	869	-	-	-	-	1,031
	<u>5,415</u>	<u>20,674</u>	<u>-</u>	<u>14,287</u>	<u>-</u>	<u>-</u>	<u>97,540</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired				Not subject to credit risk	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
30 June 2017								
<u>General Takaful Fund</u>								
AFS financial assets								
Government Investment Issues	-	-	-	-	-	-	-	-
Islamic bonds	-	20,332	-	-	-	-	-	42,483
Equity securities	-	-	-	-	7,706	-	-	7,706
Unit and property trust funds	-	-	-	-	28,001	-	-	28,001
Accrued profit	-	139	-	-	-	-	-	336
Loans and receivables								
Fixed and call deposits	-	413	-	-	-	-	-	413
Accrued profit	-	7	-	-	-	-	-	7
Retakaful assets	49	4,461	26,565	4,608	-	-	-	60,959
Takaful receivables	-	-	-	-	-	1,634	-	18,228
Allowance for impairment	-	-	-	-	-	-	2,849	(2,849)
Other receivables	-	-	-	-	-	-	-	2,619
Cash and cash equivalents	3,272	3,184	-	-	-	-	-	6,456
	3,321	28,536	26,565	4,608	35,707	1,634	-	164,359

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NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISK (CONTINUED)

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****30 FINANCIAL RISK (CONTINUED)**Credit risk (continued)Credit exposure by credit rating (continued)

	Neither past due nor impaired				Not subject to credit risk RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000				
30 June 2017								
<u>Family Takaful Fund</u>								
<u>AFS financial assets</u>								
Government Investment Issues	-	-	-	-	-	-	-	17,113
Islamic bonds	9,983	60,453	-	-	-	-	-	177,745
Equity securities	-	-	-	-	35,927	-	-	35,927
Unit and property trust funds	-	-	-	-	701	-	-	701
Accrued profit	158	278	-	-	-	-	-	1,905
<u>FVTPL financial assets</u>								
Government Investment Issues	-	-	-	-	-	-	-	1,069
Islamic bonds	-	6,845	-	-	-	-	-	10,358
Equity securities	-	-	-	-	14,776	-	-	14,776
Unit and property trust funds	-	-	-	-	359	-	-	359
Structured investments	4,638	-	-	-	-	-	-	4,638
Accrued profit	-	42	-	-	-	-	-	96
<u>Loans and receivables</u>								
Fixed and call Islamic deposits	-	6,467	-	-	-	-	-	6,467
Accrued profit	-	53	-	-	-	-	-	53
<u>Retakaful assets</u>								
Takaful receivables	-	-	27,662	-	-	-	-	36,831
Allowance for impairment	-	-	-	-	-	-	-	4,616
Other receivables	-	-	-	-	-	-	-	-
Cash and cash equivalents	21,279	7,020	-	-	-	-	-	3,543
	36,058	81,158	27,662	-	51,763	-	-	28,330
								344,527

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**NOTES TO THE FINANCIAL STATEMENTS
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FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

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

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Credit risk (continued)Credit exposure by credit rating (continued)[illegible]

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

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FINANCIAL RISK (CONTINUED)

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

30 June 2016 Company	Neither past due nor impaired				Not subject to credit risk RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000				
AFS financial assets								
Government Investment Issues	-	-	-	-	-	-	-	9,710
Islamic bonds	14,396	106,441	-	-	-	-	-	230,044
Equity securities	-	-	-	-	26,150	-	-	26,150
Accrued profit	252	655	-	-	-	-	-	2,067
FVTPL financial assets								
Government Investment Issues	-	-	-	-	-	-	-	1,079
Islamic bonds	1,000	5,839	-	-	-	-	-	9,398
Equity securities	-	-	-	-	7,565	-	-	7,565
Structured investments	4,486	-	-	-	-	-	-	4,486
Accrued profit	4	33	-	-	-	-	-	69
Loans and receivables								
Fixed and call Islamic deposits	-	800	5,862	-	-	-	-	6,662
Accrued profit	-	14	43	-	-	-	-	57
Retakaful assets	-	5,147	33,776	7,135	-	-	-	100,992
Takaful receivables	-	-	-	-	-	3,462	3,355	15,806
Allowance for impairment	-	-	-	-	-	-	(3,355)	(3,355)
Other receivables	-	-	-	-	-	-	-	6,979
Cash and cash equivalents	80,558	16,216	1	-	-	-	-	96,788
	100,696	135,145	39,682	7,135	33,715	3,462	-	514,497

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NOTES TO THE FINANCIAL STATEMENTS**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****30 FINANCIAL RISK (CONTINUED)**Credit risk (continued)Aging analysis of financial assets past due but not impaired

	Company	
	30.06.2017	30.06.2016
	RM'000	RM'000
Takaful receivables		
61 to 180 days	894	2,983
>180 days	740	479
	<u>1,634</u>	<u>3,462</u>

Impaired Takaful receivables

At 30 June 2017, there are impaired Takaful receivables of RM 2.849 million (2016: RM 3.355 million). Impairment assessment of Takaful receivables is explained under Note 2.2(g). No collateral is held as security for these impaired assets.

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

	Company	
	30.6.2017	30.6.2016
	RM'000	RM'000
As at 1 July	3,355	5,024
Charge/(write back) for the financial year	(506)	(1,669)
As at 30 June	<u>2,849</u>	<u>3,355</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Liquidity risk

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

Maturity profiles

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

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

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

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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
30 June 2017						
<u>Takaful Operator</u>						
AFS financial assets	73,856	9,058	31,398	19,113	14,287	73,856
Other receivables	22,653	22,653	-	-	-	22,653
Amount due from related companies	216	216	-	-	-	216
Cash and cash equivalents	1,031	106	-	-	925	1,031
Total financial assets	97,756	32,033	31,398	19,113	15,212	97,756
Other payables	15,422	15,422	-	-	-	15,422
Amount due to related companies	369	369	-	-	-	369
Total financial liabilities	15,791	15,791	-	-	-	15,791

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FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

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

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FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
30 June 2017						
<u>General Takaful Fund</u>						
AFS financial assets	78,526	12,036	18,738	12,045	35,707	78,526
Loan and receivables	420	420	-	-	-	420
Retakaful assets	60,959	23,739	35,156	2,064	-	60,959
Takaful receivables	15,379	15,379	-	-	-	15,379
Other receivables	2,619	2,619	-	-	-	2,619
Cash and cash equivalents	6,456	3,742	-	-	2,714	6,456
Total financial assets	164,359	57,935	53,894	14,109	38,421	164,359
Takaful contract liabilities	77,842	31,460	43,599	2,783	-	77,842
Takaful payables	36,268	36,268	-	-	-	36,268
Other payables	12,926	12,926	-	-	-	12,926
Total financial liabilities	127,036	80,654	43,599	2,783	-	127,036

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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
30 June 2016						
<u>General Takaful Fund</u>						
AFS financial assets	44,591	1,814	30,464	7,043	5,270	44,591
Loan and receivables	407	407	-	-	-	407
Retakaful assets	64,982	34,165	29,030	1,787	-	64,982
Takaful receivables	4,627	4,627	-	-	-	4,627
Other receivables	3,951	3,951	-	-	-	3,951
Cash and cash equivalents	38,874	38,874	-	-	-	38,874
Total financial assets	157,432	83,838	59,494	8,830	5,270	157,432
Takaful contract liabilities	85,340	43,218	39,657	2,465	-	85,340
Takaful payables	27,668	27,668	-	-	-	27,668
Other payables	15,106	15,106	-	-	-	15,106
Total financial liabilities	128,114	85,992	39,657	2,465	-	128,114

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FINANCIAL RISK (CONTINUED)Liquidity risk (continued)Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
30 June 2017						
<u>Family Takaful Fund</u>						
AFS financial assets	233,391	3,907	29,720	163,137	36,627	233,391
FVTPL financial assets	31,296	2,897	10,800	2,463	15,136	31,296
Loan and receivables	6,520	6,520	-	-	-	6,520
Retakaful assets	36,831	18,467	1,056	17,308	-	36,831
Takaful receivables	4,616	4,616	-	-	-	4,616
Other receivables	3,543	3,543	-	-	-	3,543
Cash and cash equivalents	28,330	21,518	-	-	6,812	28,330
Total financial assets	344,527	61,468	41,576	182,908	58,575	344,527
Takaful contract liabilities	306,717	38,093	49,016	126,070	257,140	470,319
Takaful payables	12,459	12,459	-	-	-	12,459
Other payables	16,005	16,005	-	-	-	16,005
Total financial liabilities	335,181	66,557	49,016	126,070	257,140	498,783

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NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)Maturity profiles (continued)

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

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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
30 June 2017						
<u>Company</u>						
AFS financial assets	380,330	19,558	79,856	194,295	86,621	380,330
FVTPL financial assets	31,296	2,897	10,800	2,463	15,136	31,296
Loan and receivables	6,940	6,940	-	-	-	6,940
Retakaful assets	97,790	42,206	36,212	19,372	-	97,790
Takaful receivables	19,995	19,995	-	-	-	19,995
Other receivables	9,294	9,294	-	-	-	9,294
Amount due from related companies	216	216	-	-	-	216
Cash and cash equivalents	35,817	25,366	-	-	10,451	35,817
Total financial assets	581,678	126,472	126,868	216,130	112,208	581,678
Takaful contract liabilities	379,116	69,553	92,615	128,853	257,140	548,161
Takaful payables	48,727	48,727	-	-	-	48,727
Other payables	24,832	44,353	-	-	-	44,353
Amount due from related companies	369	369	-	-	-	369
Total financial liabilities	453,044	163,002	92,615	128,853	257,140	641,610

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**NOTES TO THE FINANCIAL STATEMENTS
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30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

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

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

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

(i) Profit rate risk

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

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

	Impact on profit before taxation RM'000	Impact on equity* RM'000
30 June 2017		
Change in variables		
+ 100 basis point of profit rate	-	(1,841)
- 100 basis point of profit rate	-	1,994
30 June 2016		
Change in variables		
+ 100 basis point of profit rate	-	(1,971)
- 100 basis point of profit rate	-	2,132

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017 (CONTINUED)****30 FINANCIAL RISK (CONTINUED)**Market risk (continued)**(ii) Price risk**

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

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

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

	Impact on profit before taxation RM'000	Impact on equity* RM'000
<u>30 June 2017</u>		
Change in variables		
+ 20% of equity price	-	842
- 20% of equity price	-	(842)
<u>30 June 2016</u>		
Change in variables		
+ 20% of equity price	-	524
- 20% of equity price	-	(524)

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

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

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

31 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

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

On 4 November 2016, HLFG announced that HLFG and HLAH could not reach an acceptable commercial agreement with the BNM approved negotiating parties and have mutually agreed to cease negotiations