

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**Directors' Report and Audited Financial Statements**  
**31 December 2019**

**ETIQA GENERAL TAKAFUL BERHAD**  
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<b>CONTENTS</b>	<b>PAGE</b>
Directors' report	1 - 7
Corporate governance disclosures	8 - 29
Statement by directors	30
Statutory declaration	30
Report of the Shariah Committee	31 - 32
Independent auditors' report	33 - 36
Statement of financial position	37
Income statement	38
Statement of comprehensive income	39
Statement of changes in equity	40
Statement of cash flows	41 - 42
Notes to the financial statements	43 - 174

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**DIRECTORS' REPORT**

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2019.

**PRINCIPAL ACTIVITIES**

The Company is principally engaged in the management of general takaful business. There have been no significant changes in the nature of the principal activities during the financial year.

**RESULTS**

	<b>RM'000</b>
Net profit for the financial year	<u>155,536</u>

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

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

**DIVIDENDS**

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

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**MAYBANK GROUP EMPLOYEE'S SHARE GRANT PLAN ("ESGP") AND CASH-SETTLED PERFORMANCE-BASED EMPLOYEE'S SHARE GRANT PLAN ("CESGP")**

Maybank Group ESGP is governed by the ESGP By-Laws approved by the shareholders at an Extraordinary General Meeting held on 6 April 2017. It was awarded to the participating Maybank Group employees who fulfill the eligibility criteria. The ESGP was implemented on 14 December 2018 for a period of seven (7) years from the effective date and is administered by the ESGP Committee. The ESGP consists of two (2) types of performance-based awards namely as Employees' Share Grant Plan ("ESGP Share") and Cash-settled Performance-based Employees' Share Grant Plan ("CESGP"). The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of Maybank Group ESGP Committee.

The maximum number of ordinary shares in Malayan Banking Berhad ("Maybank") available under the ESGP should not exceed 3.5% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

**DIRECTORS**

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

Dato' Majid Mohamad (Chairman)  
Mr. Philippe Pol Arthur Latour (Vice Chairman)  
Dato' Mohamed Rafique Merican Mohd Wahiduddin Merican  
Dato' Johan Ariffin  
Mr. Koh Heng Kong  
Dr. Rusni Hassan (Appointed w.e.f. 7 February 2020)  
Dr. Abdul Rahim Abdul Rahman (Resigned on 23 September 2019)

Pursuant to Article 101 of the Company's Constitution, the directors appointed under the Provision of the Constitution shall not be subject to retirement by rotation under Section 205 of the Companies Act, 2016.

In accordance with Section 208(4)(a) of the Companies Act 2016, Dr. Rusni Hassan will retire at the forthcoming Annual General Meeting of the Company and being eligible, offers herself for re-election.

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**DIRECTORS' BENEFITS**

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

Since the end of previous financial period, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors, as disclosed in Notes 27 and 34 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

**DIRECTORS' INDEMNITY**

The Company maintains on a group basis, a Directors' and Officers' Liability Insurance ("D&O") against any legal liability incurred by a directors in the discharge of their duties while holding office for the Company. The directors shall not be indemnified by such insurance for any deliberate negligence, fraud, intentional breach of law or breach of trust proven against them.

<b>Coverage</b>	<b>Premium paid</b>	
<b>Limit of liability - Group Policy</b>	<b>2019 Gross Premium (RM'000)</b>	<b>2018 Gross Premium (RM'000)</b>
RM 250 Million	1,108	1,160

**DIRECTORS' INTERESTS**

According to the register of directors' shareholdings kept by the Company under Section 59 of the Companies Act 2016, the interests of directors in office at the end of the financial year in shares and ESGP of the ultimate holding company, Maybank, during the financial year were as follows:

	<b>Number of Ordinary Shares</b>		
	<b>As at 1 January 2019</b>	<b>Issued pursuant to DRP*</b>	<b>As at 31 December 2019</b>
<b>Ultimate Holding Company</b>			
<b>Direct Interest:</b>			
Dato' Mohamed Rafique Merican			
Mohd Wahiduddin Merican	236,144	5,000	241,144
Dato' Johan Ariffin	308,629	6,558	315,187

\*DRP = Dividend Reinvestment Plan

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**DIRECTORS' INTERESTS (CONTD.)**

The ultimate holding company has awarded the ESGP shares to the following director:

	<b>Award date</b>	<b>Number of ESGP shares awarded</b>	<b>Vesting year</b>
Dato' Mohamed Rafique Merican			
Mohd Wahiduddin Merican	14 December 2018	104,000	2021
	30 September 2019	104,000	2022
		<u>208,000</u>	

The ESGP shares will be vested on the ESGP vesting date provided that all the ESGP vesting conditions are met.

Other than as disclosed above, none of the other directors in office at the end of the financial year had any interest in shares of the Company or its related corporations during the financial year.

**CORPORATE GOVERNANCE**

The Company has complied with the prescriptive requirements of and adopted Management practices that are consistent with the principles prescribed under Bank Negara Malaysia ("BNM") Policy Document on Corporate Governance as disclosed from pages 8 to 29.

**FINANCIAL HOLDING COMPANY**

The financial holding company is Maybank Ageas Holdings Berhad ("MAHB").

**IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

The directors regard MAHB, a company incorporated in Malaysia, as the Company's immediate holding company and Maybank, a company incorporated in Malaysia, as the ultimate holding company.

**OTHER STATUTORY INFORMATION**

- (a) Before the statement of financial position and income statement of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts;
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise; and
  - (iii) to ascertain that there was adequate provision for takaful certificate liabilities in accordance with the prescribed valuation methods specified in Part B of the Risk-Based Capital Framework for Takaful Operators ("RBCT Framework") for Takaful Operators issued by BNM.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) it necessary to write off any bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
  - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability of the Company which has arisen since the end of the financial year.

**OTHER STATUTORY INFORMATION (CONTD.)**

(f) In the opinion of the directors:

- (i) 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 its obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e)(ii) and (f)(i) above, contingent or other liabilities do not include liabilities arising from certificate of takaful underwritten in the ordinary course of business of the Company.

**SIGNIFICANT EVENTS**

There were no significant events during the financial year that would require disclosure in the financial statements.

**SUBSEQUENT EVENTS**

There were no material events subsequent to the end of the financial year that would require adjustment or disclosure in the financial statements.



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**AUDITORS**

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

The auditors' remuneration are as disclosed in Note 26 to the financial statements.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 February 2020.

  
DATO' MAJID MOHAMAD

  
DATO' MOHAMED RAFTQUE MERICAN  
MOHD WAHIDUDDIN MERICAN

## **CORPORATE GOVERNANCE DISCLOSURES**

### **(1) INTRODUCTION**

The Board of Directors ("the Board") of Etiqa General Takaful Berhad ("the Company"), a wholly-owned subsidiary of Maybank Ageas Holdings Berhad, the immediate holding company ("MAHB") (collectively with other subsidiaries of MAHB referred to as "the Group") acknowledges the importance of a robust and sound Corporate Governance ("CG") Framework in promoting integrity and transparency throughout the Group. Amidst an increasingly challenging operating environment, the Board continuously strives to refine the Company's CG practices and processes in ensuring high standards of transparency, integrity and honesty.

The Company's CG Framework is premised upon the following statutory provisions, best practices and guidelines:

- (i) Companies Act 2016; and
- (ii) Policy on CG issued by Bank Negara Malaysia on 3 August 2016 ("BNM CG Policy").

Disclosures in this section are pursuant to Paragraph 22 of the BNM CG Policy.

### **(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT**

#### **(a) Board Composition**

As at 31 December 2019, the Board consisted of five (5) Directors, comprising of:-

- (i) one (1) Executive Director ("ED");
- (ii) one (1) Non-Independent Non-Executive Director ("NINED"); and
- (iii) three (3) Independent Non-Executive Directors ("INED").

The composition of the Board meets the requirement of having a majority of independent directors as set out in the BNM CG Policy. Dato' Majid Mohamad, an INED, is the Chairman of the Board, while Dato' Mohamed Rafique Merican is the only ED on the Board and Mr Philippe Pol Arthur Latour, a NINED, is a nominee of Ageas Insurance International N.V. ("Ageas"), a shareholder of MAHB.

The Board is committed to ensuring diversity and inclusiveness in its composition and deliberations and the Company embraces the proposition that having a diverse Board would have a positive, value-added impact on the Company. In this regard, the Board considers diversity from a number of different aspects, including gender, age, cultural and educational background, nationality, professional experience, skills, knowledge and length of service.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(a) Board Composition (contd.)**

The Board meets on a bi-monthly basis, and the meeting dates are scheduled well in advance (before the commencement of each financial year) to enable the Directors to plan ahead. When required, the Board will meet on an ad hoc basis to consider urgent matters. Majority of the Directors attended at least 75% of Board meetings held during the financial year.

The composition of the Board and the attendance of the Directors at meetings during the financial year are as follows:

<b>Members of the Board</b>	<b>Designation</b>	<b>Number of Board Meetings attended</b>	<b>%</b>
Dato' Majid Mohamad ( <i>Chairman</i> )	INED	10/10	100
Mr. Philippe Pol Arthur Latour ( <i>Vice Chairman</i> )	NINED	9/10	90
Dato' Mohamed Rafique Merican	ED	8/10	80
Dato' Johan Ariffin	INED	10/10	100
Dr. Abdul Rahim Abdul Rahman	INED <sup>1</sup>	3/6	50
Mr. Koh Heng Kong	INED	10/10	100

1 Ceased as Director w.e.f 23 September 2019

CORPORATE GOVERNANCE DISCLOSURES (CONTD.)

(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)

(a) Board Composition (contd.)

Profile of Directors

Name/Designation/Age/ Nationality	Background/ Experience	Other Directorship within the Group
<b>Dato' Majid Mohamad</b> Independent Non-Executive Director Chairman 65 years of age Malaysian	Banking & Insurance	<ul style="list-style-type: none"> <li>• Director of Maybank Ageas Holdings Berhad</li> <li>• Chairman of Etiqa Family Takaful Berhad</li> </ul>
<b>Mr. Philippe Pol Arthur Latour</b> Non-Independent Non-Executive Director Vice-Chairman 60 years of age Belgian	Insurance	<ul style="list-style-type: none"> <li>• Director of Etiqa Life Insurance Berhad</li> <li>• Director of Etiqa General Insurance Berhad</li> <li>• Director of Etiqa Family Takaful Berhad</li> </ul>
<b>Dato' Mohamed Rafique Merican</b> Executive Director 54 years of age Malaysian	Banking	<ul style="list-style-type: none"> <li>• Director of Etiqa Family Takaful Berhad</li> </ul>
<b>Dato' Johan Ariffin</b> Independent Non-Executive Director 60 years of age Malaysian	Property Development & Banking	<ul style="list-style-type: none"> <li>• Director of Maybank Ageas Holdings Berhad</li> <li>• Director of Etiqa Life Insurance Berhad</li> <li>• Director of Etiqa General Insurance Berhad <i>(Ceased as Director w.e.f 1 March 2019)</i></li> <li>• Director of Etiqa Family Takaful Berhad</li> <li>• Chairman of Etiqa Insurance Pte Ltd <i>(Incorporated in Singapore)</i> <i>(Appointed w.e.f 23 April 2019)</i></li> </ul>
<b>Dr. Abdul Rahim Abdul Rahman</b> Independent Non-Executive Director 52 years of age Malaysian	Academician	<ul style="list-style-type: none"> <li>• Director of Etiqa Family Takaful Berhad <i>(Ceased as Director w.e.f 23 September 2019)</i></li> </ul>

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(a) Board Composition (contd.)**

**Profile of Directors (contd.)**

<b>Name/Designation/Age/ Nationality</b>	<b>Background/ Experience</b>	<b>Other Directorship within the Group</b>
<b>Mr. Koh Heng Kong</b> Independent Non-Executive Director 67 years of age Malaysian	Insurance	• Director of Etiqa General Insurance Berhad

Detailed profile of each Director is available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)). Directors' interests in shares and share options in the ultimate holding company, Malayan Banking Berhad ("MBB") or ("Maybank") are disclosed in the Directors' Report that accompanies the Company's financial statements for the financial year ended 31 December 2019 ("FYE 2019").

**(b) Roles and Responsibilities of the Board**

The business and affairs of the Company are managed under the direction and oversight of the Board, which also has the responsibility to periodically review and approve the overall strategies, business, organisation and significant policies of the Company. The Board also sets the core values and adopts proper standards to ensure that the Company operates with integrity and complies with the relevant rules and regulations.

The roles and responsibilities of the Board are set out in the Company's Board Charter which is available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities**

The Company leverages on Group Board Committees at MAHB, which the MAHB Board has established to assist the Board in carrying out effective oversight of the operations and business affairs of the Company, namely:

- (i) Nomination and Remuneration Committee;
- (ii) Audit Committee of the Board;
- (iii) Risk Management Committee;
- (iv) Investment Committee;
- (v) Board Oversight Committee of Innovation & Technology;
- (vi) Board Oversight Committee for Development; and

To ensure that the Company's operations comply with Shariah principles pursuant to the Islamic Financial Services Act 2013, the Board is assisted by:

- (vii) Group Shariah Committee.

**(i) Nomination and Remuneration Committee**

The Nomination and Remuneration Committee ("NRC") consists of a majority of INEDs and chaired by an INED.

The primary objectives of the NRC are to establish a documented, formal and transparent procedure for the nomination and appointment of new directors, Chief Executive Officer ("CEO"), Shariah Committee members, senior management and Company Secretary.

The Board via the NRC assesses the independence of INEDs prior to their appointments and re-appointments as part of the annual Fit and Proper Assessment exercise. Pursuant to the recommendation of the NRC based on the assessment undertaken for the financial year, the Board is satisfied that all the INEDs of the Board have met the independence criteria set out under the BNM CG Policy as well as Maybank's Directors' Independence Policy adopted by the Group. NRC engages a consulting firm to conduct the annual Board Effectiveness Evaluation on the overall effectiveness of the Board and individual Directors.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(i) Nomination and Remuneration Committee (contd.)**

The NRC plays a major role in the recruitment and selection process of potential candidates, which includes procuring from time to time the curriculum vitae of prospective candidates discreetly to ensure that the Board will always have a steady pool of talent whenever there is a need to appoint new directors, not only to ensure continuity in meeting its long term goals and to ensure that the knowledge, experience and skillset of the Board members would be well suited to meet the demands of the ever-changing landscape of the takaful industry.

In addition, the NRC is also responsible to provide a formal and transparent procedure in developing remuneration policies for directors, CEO and senior management and ensuring compensation is competitive and consistent with the Group's culture, objectives and strategy and, the industry standards.

The roles and responsibilities of the NRC are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the NRC and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the NRC</b>	<b>Designation</b>	<b>Number of NRC Meetings attended</b>	<b>%</b>
Dato' Johan Ariffin ( <i>Chairman</i> )	INED <sup>1</sup>	7/7	100
Datuk Mohd Najib Abdullah	INED <sup>2</sup>	7/7	100
Mr. Gary Lee Crist	NINED <sup>3</sup>	7/7	100
Dato' Majid Mohamad	INED <sup>4</sup>	0/0	N/A

<sup>1</sup> Appointed as Chairman w.e.f 8 February 2019

<sup>2</sup> Ceased as Chairman w.e.f 31 December 2018. INED of MAHB, Etiqa Life Insurance Berhad and Etiqa General Insurance Berhad, wholly-owned subsidiaries of MAHB

<sup>3</sup> NINED of MAHB

<sup>4</sup> Appointed as member w.e.f 1 December 2019

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(ii) Audit Committee of the Board**

The Audit Committee of the Board ("ACB") consists of a majority of INEDs and chaired by an INED.

The ACB supports the Board in ensuring reliable and transparent financial reporting, oversees the effectiveness of the internal audit functions, review related-party transactions and conflicts of interest situations, assesses the suitability, objectivity and independence of the Group's appointed external auditors and independently assesses the integrity of organisational wide management practices through the review of audit findings raised by the internal auditors, external auditors and/or regulators, ensuring that corrective actions, where necessary, are taken in a timely manner to ensure the Group's operations run in an effective and efficient manner as well as to safeguard the Group's assets and stakeholders' interests.

The roles and responsibilities of the ACB are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the ACB and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the ACB</b>	<b>Designation</b>	<b>Number of ACB Meetings attended</b>	<b>%</b>
Mr. Loh Lee Soon ( <i>Chairman</i> )	INED <sup>1</sup>	8/8	100
Mr. Gary Lee Crist	NINED <sup>2</sup>	7/8	88
Mr. Koh Heng Kong	INED	8/8	100
Mr. Wong Pakshong Kat			
Jeong Colin Stewart	INED <sup>3</sup>	7/8	88

<sup>1</sup> INED of Etiqa Life Insurance Berhad, a wholly-owned subsidiary of MAHB.

<sup>2</sup> NINED of MAHB

<sup>3</sup> INED of Etiqa Life Insurance Berhad, Etiqa Family Takaful Berhad. and Etiqa Insurance Pte Ltd. (incorporated in Singapore), wholly-owned subsidiaries of MAHB.



**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(iii) Risk Management Committee**

The Risk Management Committee ("RMC") consists of a majority of INEDs and chaired by an INED.

The RMC assists the Board in ensuring that the risk exposures and outcomes affecting the Group are effectively managed and addressed by the Board. More specifically, the RMC is responsible for formulating policies and frameworks to identify, monitor, manage and control material risks impacting the Group under the key risk categories of financial, takaful, operational and enterprise risks.

The roles and responsibilities of the RMC are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the RMC and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the RMC</b>	<b>Designation</b>	<b>Number of RMC Meetings attended</b>	<b>%</b>
Mr. Koh Heng Kong ( <i>Chairman</i> )	INED	9/9	100
Mr. Gary Lee Crist	NINED <sup>1</sup>	9/9	100
Mr. Wong Pakshong Kat			
Jeong Colin Stewart	INED <sup>2</sup>	8/9	89

<sup>1</sup> NINED of MAHB

<sup>2</sup> INED of Etiqa Life Insurance Berhad, Etiqa Family Takaful Berhad and Etiqa Insurance Pte Ltd. (incorporated in Singapore), wholly-owned subsidiaries of MAHB.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(iv) Investment Committee**

The Investment Committee ("IC") consists of a majority of EDs and chaired by an ED.

The Board has established the IC as a governance body to oversee investment related activities.

The roles and responsibilities of the IC are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the IC and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the IC</b>	<b>Designation</b>	<b>Number of IC Meetings attended</b>	<b>%</b>
Dato' Amirul Feisal Wan Zahir (Chairman)	ED <sup>1</sup>	4/4	100
Dato' Mohamed Rafique Merican Mohd Wahiduddin Merican	ED	3/4	75
Mr. Philippe Pol Arthur Latour	NINED	4/4	100

<sup>1</sup> ED of MAHB

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(v) Board Oversight Committee of Innovation & Technology**

The Board Oversight Committee of Innovation & Technology ("BOC IT") consists of four (4) members and chaired by an INED.

The BOC IT is a governance body which carries an oversight function for innovation and technology related activities.

The roles and responsibilities of the BOC IT are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the BOC IT and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the BOC IT</b>	<b>Designation</b>	<b>Number of BOC IT Meetings attended</b>	<b>%</b>
Mr. Loh Lee Soon ( <i>Chairman</i> )	INED <sup>1</sup>	7/7	100
Encik Kamaludin Ahmad	Member <sup>2</sup>	7/7	100
Encik Mohd Suhail Amar Suresh	Member <sup>3</sup>	6/7	86
Mr. Valer Merenyi	Member <sup>4</sup>	4/4	100
Mr. Vincent Rocard	Member <sup>5</sup>	3/3	100

<sup>1</sup> INED of Etiqa Life Insurance Berhad, a wholly-owned subsidiary of MAHB

<sup>2</sup> CEO of MAHB

<sup>3</sup> Group Chief Technology Officer, Maybank

<sup>4</sup> Regional Director, Digital Strategy and Solutions, Ageas (Appointed as member w.e.f. 1 January 2019; ceased as member w.e.f. 30 June 2019)

<sup>5</sup> Regional Director, Digital Strategy and Solutions, Ageas (Appointed as member w.e.f. 1 July 2019)

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(vi) Board Oversight Committee for Development**

The Board Oversight Committee for Development (“BOC Development”) consists of four (4) members and chaired by an INED.

The BOC Development is a governance body which carries an oversight function for development activities within the Group.

The roles and responsibilities of the BOC Development are set out in its Terms of Reference which are available on the Group’s corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the BOC Development and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the BOC Development</b>	<b>Designation</b>	<b>Number of BOC Development Meetings attended</b>	<b>%</b>
Dato’ Johan Ariffin ( <i>Chairman</i> )	INED	8/8	100
Mr. Loh Lee Soon	INED <sup>1</sup>	7/8	88
Encik Kamaludin Ahmad	Member <sup>2</sup>	7/8	88
Mr. Goh Teong Yam	Member <sup>3</sup>	6/7	86

<sup>1</sup> INED of Etiqa Life Insurance Berhad, a wholly-owned subsidiary of MAHB.

<sup>2</sup> CEO of MAHB

<sup>3</sup> Head, Group Property, Maybank (Appointed as member w.e.f 28 January 2019)

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(c) Board Committees Composition and Roles & Responsibilities (contd.)**

**(vii) Group Shariah Committee**

As at 31 December 2019, the Group Shariah Committee ("Group SC") consists of five (5) members.

The Board of both the Company and Etiqa Family Takaful Berhad, a related company (collectively referred to as "Takaful Operators") set up Group SC in compliance with the Islamic Financial Services Act 2013, which will oversee the operations of Takaful Operators to ensure that they are in line with the principles of Shariah.

The roles and responsibilities of the Group SC are set out in its Terms of Reference which are available on the Group's corporate website ([www.etiqa.com.my](http://www.etiqa.com.my)).

The composition of the Group SC and the attendance of its members at meetings during the financial year are as follows:

<b>Members of the Group SC</b>	<b>Designation</b>	<b>Number of Group SC Meetings attended</b>	<b>%</b>
Dr. Ahcene Lahsasna	Chairman <sup>1</sup>	7/8	88
Assoc. Prof. Dr. Aznan Hasan	Chairman <sup>2</sup>	8/8	100
Dr. Sarip Adul	Member	12/14	86
Prof Dr. Rusni Hassan	Member	12/14	86
Dr. Abdul Rahim Abdul Rahman	INED	12/14	86
Prof Dato' Dr. Mohd Azmi Omar	Member	12/14	86
Dato' Dr. Anhar Opir	Member <sup>3</sup>	10/12	83

<sup>1</sup> Ceased as Chairman and member w.e.f 31 May 2019

<sup>2</sup> Appointed as Chairman w.e.f 1 June 2019

<sup>3</sup> Ceased as member w.e.f 31 October 2019

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(d) Directors' Training**

The Board acknowledges the importance of continuing education for its Directors to ensure they are equipped with the necessary skills and knowledge to perform their functions and meet the challenges facing the Board.

During the financial year, all the Board members have attended various training programmes and workshops on issues relevant to the Group, including key training programmes for new Directors, namely the Induction Programme ("in-house training") and Financial Institutions Directors' Education ("FIDE").

(i) Induction Programme

A comprehensive induction programme has also been established and coordinated by the Company Secretary to ease new Directors into their new role and to assist them in their understanding of the Group's business strategy and operational matters. New Directors are required to attend the programme as soon as possible after they have been appointed. The programme includes intensive one-on-one session with the Senior Management Committee members/Heads of Departments, that wherein new Directors would be briefed and brought up to speed on the challenges and issues faced by the Group.

(ii) Training Attended

The Board continues to assess the training needs of its Directors and identify key areas of focus for training programmes vide the Annual Board Assessment conducted at the beginning of each financial year.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(d) Directors' Training (contd.)**

(ii) Training Attended (contd.)

Training attended by the Directors during the financial year were as follows:

Training attended by Directors	DMM <sup>1</sup>	PL <sup>2</sup>	DRM <sup>3</sup>	DJA <sup>4</sup>	DAR <sup>5</sup>	KHK <sup>6</sup>
<b>A. Inhouse Training</b>						
1. Etiqa Board Risk Workshop 2019	√					√
2. Etiqa Strategic Outlook: Business as Usual and Business Unusual	√		√	√		√
3. Etiqa Takaful Executive Development ("TED") Program 2019: Future-Ready Leadership and Succession Planning	√					
4. Etiqa TED Program 2019: Forum on Integrity as the Pillar of Shariah Compliance Culture in Islamic Financial Institutions – Moving Forward	√			√	√	
5. Etiqa TED Program 2019: Etiqa's Role in Preserving Environmental Sustainability	√					
6. Etiqa: Takaful Business Surplus Workshop					√	
7. Etiqa: Retakaful Operations					√	
8. Etiqa Investment Management					√	
9. Etiqa: IFRS 17: Overview and Its Impact to Etiqa	√					
10. Etiqa: Workshop on Malaysian Financial Reporting Standard					√	
11. Ageas Partnership Days 2019	√	√	√	√		√
12. Ageas AIC Conference		√				
13. Ageas Finance and Risk Offsite		√				
14. Ageas Management Forum 2019		√				
<b>B. External Training</b>						
1. BNM: FIDE Forum – Reading The Signs: The Next Financial Crisis and Potential Impact on Asia	√			√		
2. BNM: 2018 CRR Communication						
3. BNM: Dialogue with BNM Deputy Governor on draft Risk Management in Technology Policy	√					√
4. BNM: FIDE: Focus Group Discussion in Preparing for BNM FIDE Dialogue	√					
5. BNM: BNM Annual Report Launch by Governor	√		√			
6. BNM: FIDE Forum: Artificial Intelligence and its Role in Financial Institutions						√
7. BNM: FIDE & Isra : VBI – Directors Role	√					
8. BNM: KL Islamic Financial Forum - Technology	√					
9. BNM: MyFintech Week (MFW)	√					√
10. BNM: Karnival Kewangan Kuala Terengganu			√			
11. BNM, AIBIM & MTA: Islamic Finance Rendezvous Series 2019			√			

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(d) Directors' Training (contd.)**

**(ii) Training Attended (contd.)**

Training attended by Directors	DMM <sup>1</sup>	PL <sup>2</sup>	DRM <sup>2</sup>	DJA <sup>4</sup>	DAR ε	KHK <sup>3</sup>
12. BNM, AIBIM & MTA: Islamic Finance Rendezvous Series Johor			√			
13. BNM: Regional Conference on Climate Change			√			
14. Bursa Malaysia Sustainability Advocacy Programme: Workshop on The Recommendations of the Task Force on Climate-Related Financial Disclosures				√		
15. Bursa Malaysia: Invest Malaysia	√		√			
16. PIAM: IT Risk Management Training for Board Members' of Member Companies	√					
17. Asia Insurance Review: The Takaful Rendezvous 2019	√					
18. Asia Insurance Review: Asia CEO Insurance Summit	√					
19. Ernst & Young: MFRS 17 Understanding its Impact and Consequences	√					
20. Malaysia Takaful Association: Malaysian Financial Reporting Standard (MFRS 17)					√	
21. Malaysia Takaful Association & Association of Shariah Advisors in Islamic Finance: Muzakarah for Shariah Advisors of Takaful Operators 2019 (M-SAT 2019)					√	
22. Sime Darby Property Berhad: Economy Update In EU / UK				√		
23. INCEIF: IFRS Round Table Discussion on Disaster and Conflict – Challenges for Islamic Finance	√					
24. CERT: Kuala Lumpur Islamic Finance Forum 2019			√			
25. Dubai International Financial Centre & The Financial Times: Global Financial Forum 2019			√			
26. IIF: 2019 International Institute of Finance Annual Membership Meeting			√			
27. Securities Commission: Capital Market Directors Programme			√			
28. Securities Commission: IOSCO Asia Pacific Hub Conference 2019			√			
29. INSEAD International Directors Programme Module 1		√				
30. INSEAD International Directors Programme Module 2		√				
31. INSEAD International Directors Programme Module 3		√				
32. Sime Darby Property Berhad: Training for Directors a. Update on Accounting Standards b. Malaysian Anti-Corruption Commission Act c. Reputation Resilience & Crisis Management : Out of Control but in Command – How to Manage the New Realities of Business				√		
33. PNB Leadership Forum 2019: Governance to Performance			√	√		√
34. PNB Leadership Forum 2019: Positive Autocracy: A Leadership Model for Industry 4.0						√
35. PNB Corporate Summit	√					√
36. PNB Board Workshop on IT Blueprint				√		



**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(2) BOARD OF DIRECTORS - COMPOSITION, FUNCTION AND CONDUCT (CONTD.)**

**(d) Directors' Training (contd.)**

**(ii) Training Attended (contd.)**

Training attended by Directors	DMM <sup>1</sup>	PL <sup>2</sup>	DRM <sup>3</sup>	DJA <sup>4</sup>	DAR <sup>5</sup>	KHK <sup>6</sup>
37. PNB: Strategic Assets Allocation (SAA) Workshop				√		
38. PNB: Minggu Amanah Saham Malaysia 2019			√			
39. 10 <sup>th</sup> World Congress of Council on Tall Buildings and Urban Habitat				√		
40. World Bank Group: Constructing & Financing Affordable Housing across Asia			√			
41. Global Halal Summit, Malaysia International Halal Showcase and World Halal Conference			√			

*1 DMM - Dato' Majid Mohamad*

*2 PL - Mr. Philippe Pol Arthur Latour*

*3 DRM - Dato' Mohamed Rafique Merican*

*4 DJA - Dato' Johan Ariffin*

*5 DAR - Dr. Abdul Rahim Abdul Rahman*

*6 KHK - Mr. Koh Heng Kong*

**(3) INTERNAL CONTROL FRAMEWORK**

The Board exercises overall responsibility on the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing risk. The Company has established internal controls which cover all levels of personnel and business processes to ensure the Company's operations run in an effective and efficient manner as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action, where necessary, is taken in a timely manner. The Company's dealings with the public are always conducted fairly, honestly, and professionally.

**(4) REMUNERATION - QUALITATIVE DISCLOSURES**

**(a) Board Performance**

In line with good corporate governance, the Board via the NRC has set out its intention to periodically review the Non-Executive Directors' ("NED") remuneration per Maybank's remuneration policy for Directors.

The Board believes that the one area that the Board needs to focus on in order to remain effective in the discharge of its duties and responsibilities is the setting of a fair and comprehensive remuneration package commensurate with the expertise, skills, and responsibilities with being a director of a financial institution.

The remuneration package of NED consists of fees and meeting allowances which are based on a fixed sum as determined by the NRC and the Board, and subsequently approved by the shareholders.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(4) REMUNERATION - QUALITATIVE DISCLOSURES (CONTD.)**

**(b) Senior Management Appointment and Performance**

The NRC also recommends and assesses the nominee for the position of CEO and re-appointment of CEO as well as oversee the appointment and succession planning of the identified Senior Officers (Chief Financial Officer, Chief Risk Officer and Appointed Actuary) of the Company.

The NRC is responsible to oversee performance evaluation of CEO and Senior Officers.

The NRC is also responsible to ensure all Key Responsible Persons ("KRPs") fulfil the fit and proper requirements, in line with the Fit and Proper Policy for KRPs.

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES**

**(a) Non-Executive Directors' Remuneration**

The Non-Executive Directors' Remuneration for the financial year are as follows:

<b><u>Remuneration</u></b>	<b><u>Per Annum (RM)</u></b>
<b>(i) Fees</b>	
▪ Board	
- Chairman	180,000
- Member	120,000
▪ Committee	
- Chairman	32,500
- Member	28,000
▪ Shariah Committee	
- Chairman	60,000
- Member	50,000
<b>(ii) Meeting Allowance</b>	
▪ per meeting attended	2,000

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)**

**(b) Disclosure of Directors' and CEO's Remuneration**

The details of Directors' and CEO's remuneration for FYE 2019 are disclosed in the Notes 26 and 27 to the Company's financial statements.

**(c) Remuneration Policy in respect of Officers of the Company**

Maybank Group's total rewards philosophy goes beyond tangible rewards. It is an integrated rewards strategy that focuses on the right remuneration, benefits and career development as well as progression opportunities at the right timing for employees' personal and professional aspirations. It involves a holistic integration of the total rewards' key elements that are aligned to the Group strategy, Group Human Capital strategy, culture and Core Values T.I.G.E.R.\*, all critical to sustain employee engagement levels, productivity and business growth.

Remuneration policy is approved by the Board and is monitored and reviewed periodically. It reinforces a high performance culture to attract, motivate and retain talent through market competitiveness and differentiated pay.

Maybank Group rewards' principles are delivered holistically via the Group's Total Rewards Framework which includes base pay, other fixed cash, performance-based variable cash, long-term incentive awards, benefits and development.

*\* Core Values: Teamwork; Integrity; Growth; Excellence & Efficiency and Relationship Building*

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)**

**(c) Remuneration Policy in respect of Officers of the Company (contd.)**

<b>Key elements</b>	<b>Purpose</b>
<b>Fixed Pay</b>	Attract and retain talent by providing competitive pay that is externally benchmarked against relevant peers and location, and internally aligned with consideration of differences in individual performance and achievements, skills-set, job scope as well as competency level
<b>Variable Pay</b>	<p><u>Variable Bonus</u></p> <ul style="list-style-type: none"> <li>- Reinforce pay-for-performance culture and adherence to the Group's Core Values T.I.G.E.R.*</li> <li>- Variable cash award design that is aligned with the long-term performance goals of the Group through deferral and claw-back policies</li> <li>- Based on overall Group Performance, Business/Corporate Function and individual performance.</li> <li>- Performance is measured via the Balanced Scorecard approach.</li> <li>- Deferral Policy: Any Variable Bonus Awards in excess of certain thresholds will be deferred over a period of time</li> </ul> <p><u>Long-term Incentive Award</u></p> <p>The Long-term Incentive Award is offered within the suite of Total Rewards for eligible Talents. An approved customized Share Grant Plan is offered to eligible Senior Management who has direct line of sight in driving, leading and executing the Group's business strategies and objectives.</p> <p><u>Clawback Provision</u></p> <p>The Board, based on risk management issues, financial misstatement, fraud and gross negligence or wilful misconduct, has the discretion to make potential adjustment or clawback on Variable Bonus and Long-term Incentive Awards.</p>
<b>Benefits</b>	Provides employees with financial protection, access to health care, paid time-off, staff loans at preferential rates, programmes to support work/life balance, etc. for a diverse workforce. The benefits programmes which blend all elements including cost optimisation and employee/job needs, are reviewed regularly with proactive actions taken to remain competitive in the increasingly dynamic business landscape and continuously enrich employees, as part of total rewards strategy.
<b>Development and Career Opportunities</b>	Continue to invest in the personal and professional growth of employees. Opportunities provided to employees to chart their careers across different businesses and geographies.

\* Core Values: Teamwork; Integrity; Growth; Excellence & Efficiency and Relationship Building

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)**

**(c) Remuneration Policy in respect of Officers of the Company (contd.)**

Total compensation ensures that employees are paid equitably to the market, delivered via cash and share/share-linked instruments, where applicable. The mix of cash and shares/shares-linked instruments is aligned to the Group's long-term value creation and time horizon of risks with targeted mix ratio.

The target positioning of base pay is mid-market while target positioning for total compensation for a performer is to be within the upper range of market. Target positioning for benefits is mid-market. In certain markets/geographies, there may be exceptions for selected benefits with above mid-market positioning for strategic purposes. As the Group operates globally, it is essential that local legislation and practices are observed. Should any clause of any policy conflict with local legislation, local legislations shall take precedence.

**Key features of our Remuneration Framework that Promotes Alignment between Risk and Rewards**

The Group's total compensation comprising a mixture of fixed and variable elements (i.e. Variable Bonus and Long-term Incentive Plan) is designed to align with the long-term performance goals and objectives of the organisation. The compensation framework provides a balanced approach between fixed and variable components that change according to individual performance, business/corporate function performance, group performance outcome as well as individual's level and accountability.

The Company has strong internal governance on performance and remuneration of control functions which are measured and assessed independently from the business units they support to avoid any conflict of interests. The remuneration of staff in control functions are predominantly fixed to reflect the nature of their responsibilities. Annual reviews of compensation are benchmarked against market rate and internally to ensure that it is set at an appropriate level.

Performance Management principles ensure Key Performance Indicators ("KPI") continue to focus on outcomes delivered that are aligned to the business plans. Each of the Senior Officers and Other Material Risk Takers ("OMRT") carry Risk, Governance & Compliance goals in their individual scorecard and are cascaded accordingly. Being a responsible organisation, the right KPI setting continues to shape the organisational culture, actively drive risk and compliance agendas effectively where inputs from control functions and Board committees are incorporated into the sector and individual performance results.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)**

**(c) Remuneration Policy in respect of Officers of the Company (contd.)**

**Long-term Incentive Award – Employees’ Share Grant Plan**

Maybank in December 2018, rolled out a new scheme under the Long-term Incentive Award i.e. Employees Shares Grant Scheme (“ESGP”) replacing the previous scheme that expired in June 2018. ESGP serves as a Long-term Incentive Award for eligible Senior Management with the following objectives:

- To align to the Group's long-term strategic objectives to maximise shareholders' value through a high performance culture.
- To continue to attract, motivate and retain key talents in Senior Management level.
- To align the Group total rewards to the long-term value creation and time horizon of risk.
- To drive performance that is tied to long-term outcomes and business growth.
- To participate in the Group's business strategies for future growth of the Group.

**Corporate Governance – Remuneration practices**

As part of the overall corporate governance framework, the Company ensures its remuneration policies and structure are in line with the requirements of governance regulations. From a risk management perspective, the remuneration policy is supported by strong governance and sensitive to risk outcomes.

Staff rewards are reviewed on an annual basis and consistent with business performance and prudent risk management. Appropriately, involvement by the relevant control functions are sufficiently embedded to provide an independent and objective assessment of the remuneration principles and practices which are pre-requisites for executing a sound remuneration policy.

**CORPORATE GOVERNANCE DISCLOSURES (CONTD.)**

**(5) REMUNERATION - QUANTITATIVE DISCLOSURES (CONTD.)**

**(d) Senior Officers and Other Material Risk Takers ("OMRT")**

The remuneration package for Senior Officers and OMRTs are reviewed on an annual basis and submitted to the NRC for recommendation to the Board for approval.

Senior officer is defined as performing a senior management function whose primary or significant responsibility is for the management and performance of significant business activities and includes those who assume primary or significant responsibility for key control functions.

Other Material Risk Taker ("OMRT") is defined as :

- (a) an officer who is a member of senior management of the Company and who can materially commit or control significant amounts of the Company's resources or whose actions are likely to have a significant impact on its risk profile; or
- (b) among the most highly remunerated officers in the Company

Summary of financial year ended 2019 compensation outcome for those identified as Senior Officers and OMRTs:

Remuneration	Unrestricted		Deferred	
	No. of Pax	RM	No. of Pax	Units
<b>Material Risk Taker ("Senior Officers")</b>				
Cash-based	1	645	Nil	Nil
Shares and share-linked instrument (ESOS etc)				
Other	Nil			
<b>Other Material Risk Taker ("OMRT")</b>				
Cash-based	Nil	Nil	Nil	Nil
Shares and share-linked instrument (ESOS etc)				
Other	Nil			
* The Remuneration of Senior Officers and OMRT was captured in MAHB's payroll and back-charged to the Company on cost-sharing basis per Service Level Agreement.				

*The figures above exclude the Long-Term Incentive Award (combination of cash and shares) awarded in 2019 as the amount, conditional upon fulfilment of payment/vesting criteria have not taken effect.*


ETIQA GENERAL TAKAFUL BERHAD  
201701025031 (1239197-A)  
(Incorporated in Malaysia)

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

We, Dato' Majid Mohamad and Dato' Mohamed Rafique Merican Mohd Wahiduddin Merican, being two of the directors of Etiqa General Takaful Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 37 to 174 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2019 and of the results and the cash flows of the Company for the financial year ended 31 December 2019.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 February 2020.

  
DATO' MAJID MOHAMAD

  
DATO' MOHAMED RAFIQUE MERICAN  
MOHD WAHIDUDDIN MERICAN

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

I, Loy Teck Wooi, being the Officer primarily responsible for the financial management of Etiqa General Takaful Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 37 to 174 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

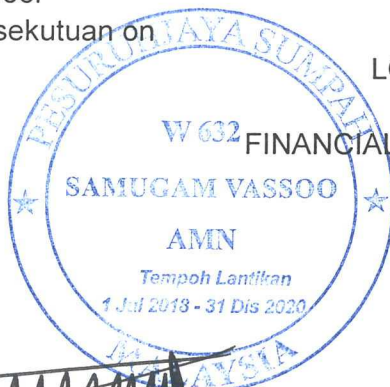
Subscribed and solemnly declared  
by the abovenamed Loy Teck Wooi  
at Kuala Lumpur in Wilayah Persekutuan on  
12 February 2020



LOY TECK WOUI  
(MIA 29468)  
FINANCIAL CONTROLLER

Before me,

Commissioner for Oaths



No. 10-1, Jalan Bangsar Utama 1,  
Bangsar Utama,  
59000 Kuala Lumpur.



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**REPORT OF THE SHARIAH COMMITTEE**

*In the name of Allah, the Most Beneficent, the Most Merciful*

We, Associate Professor Dr. Aznan Hasan and Professor Dato' Dr. Mohd Azmi Omar, being two of the members of the Shariah Committee of Etiqa General Takaful Berhad, do hereby report on behalf of the Committee that to the best of our knowledge and belief:

In compliance with our letter of appointment and terms of reference, we have reviewed and approved the principles, policies, products and the contracts relating to the transactions undertaken by the Company during the financial year ended 31 December 2019. We have also conducted our review to form an opinion pursuant to Section 30(1) of Islamic Financial Services Act 2013 ("IFSA"), as to whether the Company has complied with the principles of Shariah, Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia ("BNM"), Shariah standards issued by BNM pursuant to Section 29 of IFSA, relevant guidelines and circulars issued by BNM, Shariah rulings issued by the Shariah Advisory Council of Securities Commission (for capital market related matters), as well as Shariah decisions resolved by us.

The management of the Company has held responsible for ensuring that the Company conducts its business in accordance with Shariah rules and principles. It is our responsibility to express an independent opinion based on our review of the operations of the Company.

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

We obtained all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company has not violated the rules and principles of Shariah.

In our opinion:

1. the relevant contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2019 that we have reviewed are in compliance with the Shariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. the sharing of surplus arising from the tabarru' fund (Participants' Risk Fund) conforms with the respective internal policies and approved by us;
4. there is no Shariah non-compliant transactions and earnings encountered by us during the financial year ended 31 December 2019; and
5. the calculation, payment and distribution of business zakat and distribution of Amal Jariah fund is in compliance with the principles of Shariah.

**ETIQA GENERAL TAKAFUL BERHAD**  
201701025031 (1239197-A)  
(Incorporated in Malaysia)

**REPORT OF THE SHARIAH COMMITTEE (CONTD.)**

This opinion is rendered based on what has been presented to us by the management of the Company and its Shariah Management. All in all, we, the members of the Shariah Committee of Etiqa General Takaful Berhad, do hereby confirm that, in our level best, the operations of the Company for the financial year ended 31 December 2019 have been conducted in conformity with the rules and principles of Shariah.

*They said, "Exalted are You (Allah); we have no knowledge except what You have taught us. Indeed, it is You who is the Knowing, the Wise." (Surah al-Baqarah, chapter 2, verse 32)*

Allah knows best.

Signed on behalf of the Committee.



ASSOCIATE PROFESSOR  
DR AZNAN HASAN



PROFESSOR DATO'  
DR MOHD AZMI OMAR

Kuala Lumpur, Malaysia  
12 February 2020



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**Independent auditors' report to the member of  
Etiqa General Takaful Berhad  
201701025031 (1239197-A)  
(Incorporated in Malaysia)**

**Report on the Audit of Financial Statements**

***Opinion***

We have audited the financial statements of Etiqa General Takaful Berhad (“the Company”), which comprise the statement of financial position as at 31 December 2019 and the income statement, statement of comprehensive income, statement of changes in equity and the statement of cash flows for the financial year ended 31 December 2019, and summary of significant accounting policies and other explanatory notes, as set out on pages 37 to 174.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

***Information Other than the Financial Statements and Auditors' Report Thereon***

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

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

**Independent auditors' report to the member of  
Etiqa General Takaful Berhad (contd.)  
201701025031 (1239197-A)  
(Incorporated in Malaysia)**

*Information Other than the Financial Statements and Auditors' Report Thereon (contd.)*

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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

**Independent auditors' report to the member of  
Etiqa General Takaful Berhad (contd.)  
201701025031 (1239197-A)  
(Incorporated in Malaysia)**

*Auditors' Responsibilities for the Audit of the Financial Statements (contd.)*

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 skepticism throughout the audit. We also:

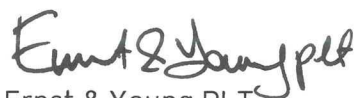
- Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.
- 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.

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

**Independent auditors' report to the member of  
Etika General Takaful Berhad (contd.)  
201701025031 (1239197-A)  
(Incorporated in Malaysia)**

**Other Matters**

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



Ernst & Young PLT  
202006000003 (LLP0022760-LCA) & AF 0039  
Chartered Accountants



Ahmad Hammami Bin Muhyidin  
No. 03313/07/2021 J  
Chartered Accountant

Kuala Lumpur, Malaysia  
12 February 2020

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2019**

	Note	2019			2018		
		Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>ASSETS</b>							
Property, plant and equipment	3	-	-	-	-	-	-
Intangible assets	4	1,012	-	1,012	1,170	-	1,170
Investments	5	1,355,556	2,003,790	3,359,346	1,123,749	1,697,218	2,820,967
Financing receivables	7	252	-	252	-	-	-
Retakaful assets	8	-	239,075	239,075	-	232,173	232,173
Takaful receivables	9	-	83,063	83,063	-	96,596	96,596
Other assets	10	98,144	21,859	63,187	99,284	19,569	53,137
Deferred tax assets	16	-	-	-	-	6,983	6,064
Current tax assets		-	3,883	3,883	-	3,883	3,883
Cash and bank balances		11,578	33,260	44,838	18,115	62,114	80,229
<b>Total assets</b>		<b>1,466,542</b>	<b>2,384,930</b>	<b>3,794,656</b>	<b>1,242,318</b>	<b>2,118,536</b>	<b>3,294,219</b>
<b>EQUITY, LIABILITIES AND PARTICIPANTS' FUNDS</b>							
<b>Equity</b>							
Share capital	11	870,000	-	870,000	870,000	-	870,000
Reserves	12	356,406	-	356,406	158,386	-	158,386
<b>Total equity</b>		<b>1,226,406</b>	<b>-</b>	<b>1,226,406</b>	<b>1,028,386</b>	<b>-</b>	<b>1,028,386</b>
<b>Liabilities and Participants' Funds</b>							
Participants' funds	13	-	222,517	222,517	-	163,845	163,845
Takaful certificate liabilities	14	-	1,706,694	1,706,694	-	1,503,563	1,503,563
Expense liabilities	15	148,713	-	148,713	127,590	-	127,590
Deferred tax liabilities	16	14,115	8,412	22,527	919	-	-
Takaful payables	17	-	114,642	114,642	-	102,027	102,027
Other liabilities	18	59,051	332,665	334,900	52,100	349,101	335,485
Current tax liabilities		18,257	-	18,257	33,323	-	33,323
<b>Total liabilities and participants' funds</b>		<b>240,136</b>	<b>2,384,930</b>	<b>2,568,250</b>	<b>213,932</b>	<b>2,118,536</b>	<b>2,265,833</b>
<b>Total equity, liabilities and participants' funds</b>		<b>1,466,542</b>	<b>2,384,930</b>	<b>3,794,656</b>	<b>1,242,318</b>	<b>2,118,536</b>	<b>3,294,219</b>

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

INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	1 January 2019 to 31 December 2019			18 July 2017 to 31 December 2018		
		Shareholder's fund	General Takaful fund	Company	Shareholder's fund	General Takaful fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Operating revenue</b>	19	568,404	1,684,131	1,738,400	457,797	1,377,617	1,423,645
Gross earned contributions		-	1,513,789	1,513,789	-	1,249,513	1,249,513
Earned contributions ceded to retakaful		-	(133,445)	(133,445)	-	(121,303)	(121,303)
<b>Net earned contributions</b>	20	-	1,380,344	1,380,344	-	1,128,210	1,128,210
Fee and commission income	21	514,135	7,458	7,458	411,769	16,297	16,297
Investment income	22	54,269	79,338	133,607	46,028	68,242	114,270
Realised gains/(losses)	23	7,096	6,254	13,350	(6,660)	(4,918)	(11,578)
Fair value gains/(losses)	24	521	2,613	3,134	(1,783)	(1,720)	(3,503)
Other operating income/(losses), net	25	301	(2,434)	(2,133)	174	1,720	1,894
<b>Other revenue</b>		576,322	93,229	155,416	449,528	79,621	117,380
Gross claims paid		-	(789,424)	(789,424)	-	(728,707)	(728,707)
Claims ceded to retakaful		-	22,013	22,013	-	32,733	32,733
Gross change in certificate liabilities		-	(112,127)	(166,856)	-	63,398	(13,260)
Change in certificate liabilities ceded to retakaful		-	19,837	19,837	-	(29,087)	(29,087)
<b>Net claims incurred</b>		-	(859,701)	(914,430)	-	(661,663)	(738,321)
Management expenses	26	(234,099)	-	(234,099)	(189,318)	-	(189,318)
Change in expense liabilities		(21,123)	-	(21,123)	10,326	-	10,326
Fee and commission expenses	29	(149,344)	(514,345)	(149,554)	(119,581)	(411,924)	(119,736)
Tax borne by participants	30	-	(11)	(11)	-	2,824	2,824
<b>Other expenses</b>		(404,566)	(514,356)	(404,787)	(298,573)	(409,100)	(295,904)
<b>Operating profit before surplus transfers</b>		171,756	99,516	216,543	150,955	137,068	211,365
Surplus transferred to participants' funds		-	(54,729)	-	-	(76,658)	-
Surplus attributable to shareholder		44,787	(44,787)	-	60,410	(60,410)	-
<b>Profit before taxation</b>		216,543	-	216,543	211,365	-	211,365
Taxation	30	(58,055)	-	(58,055)	(51,870)	-	(51,870)
Zakat		(2,952)	-	(2,952)	(6,339)	-	(6,339)
<b>Net profit for the year/period</b>		155,536	-	155,536	153,156	-	153,156
<b>Basic and diluted earnings per share (sen):</b>	31			17.88			24.80

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



ETIQA GENERAL TAKAFUL BERHAD  
201701025031 (1239197-A)  
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019

	1 January 2019 to 31 December 2019			18 July 2017 to 31 December 2018		
	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>Net profit for the year/period</b>	155,536	-	155,536	153,156	-	153,156
<b>Other comprehensive income:</b>						
<b>Item that may be subsequently reclassified to income statement:</b>						
Net gains on Fair Value through Other Comprehensive Income ("FVOCI") financial assets:						
- Fair value changes	48,038	57,199	105,237	5,490	1,985	7,475
- Transfer to profit and loss upon disposal	23 7,862	6,900	14,762	1,391	2,314	3,705
Tax effects relating to components of other comprehensive income	16 (13,416)	(15,384)	(28,800)	(1,651)	(1,032)	(2,683)
Other comprehensive loss attributable to participants	-	(48,715)	(48,715)	-	(3,267)	(3,267)
<b>Other comprehensive income for the year/period, net of tax</b>	42,484	-	42,484	5,230	-	5,230
<b>Total comprehensive income for the year/period</b>	198,020	-	198,020	158,386	-	158,386

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

ETIQA GENERAL TAKAFUL BERHAD  
201701025031 (1239197-A)  
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2019

	<u>Attributable to Equity Holder of the Company</u>			Total Equity RM'000
		<u>Non-Distributable</u>	<u>Distributable</u>	
	Share Capital RM'000	FVOCI Reserves RM'000	Retained Profits RM'000	
<b>At 1 January 2019</b>	870,000	5,230	153,156	1,028,386
Net profit for the year	-	-	155,536	155,536
Other comprehensive income for the year	-	42,484	-	42,484
Total comprehensive income for the year	-	42,484	155,536	198,020
<b>At 31 December 2019</b>	<b>870,000</b>	<b>47,714</b>	<b>308,692</b>	<b>1,226,406</b>

	<u>Attributable to Equity Holder of the Company</u>			Total Equity RM'000
		<u>Non-Distributable</u>	<u>Distributable</u>	
	Share Capital RM'000	FVOCI Reserves RM'000	Retained Profits RM'000	
<b>At 18 July 2017 (date of incorporation)</b>	- *	-	-	- *
Net profit for the period	-	-	153,156	153,156
Other comprehensive income for the period	-	5,230	-	5,230
Total comprehensive income for the period	-	5,230	153,156	158,386
Issued during the period	870,000	-	-	870,000
<b>At 31 December 2018</b>	<b>870,000</b>	<b>5,230</b>	<b>153,156</b>	<b>1,028,386</b>

\*Representing RM1

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

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

		1 January 2019 to 31 December 2019 RM'000	18 July 2017 to 31 December 2018 RM'000
	Note		
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation and zakat:		216,543	211,365
Adjustments for:			
Amortisation of intangible assets	4	242	251
Fair value (gains)/losses on financial assets at fair value through profit or loss ("FVTPL")	24	(3,134)	3,503
Realised (gains)/losses on disposal of investments	23	(13,350)	11,578
Reversal of impairment losses on investments	25	(159)	(141)
Allowance/(reversal) of impairment losses on takaful receivables	25	3,300	(211)
Allowance of impairment losses on other receivables	25	771	634
Allowance/(reversal) of impairment losses on retakaful assets	25	716	(4)
Profit income	22	(135,235)	(115,233)
Dividend income	22	(1,096)	(2,018)
Net amortisation of premiums	22	2,134	2,353
Tax borne by participant's fund	30	11	(2,824)
Surplus transferred to participant's fund	13	54,729	76,658
Operating cash flows before working capital changes		125,472	185,911
Changes in working capital:			
Decrease in takaful receivables		10,233	37,596
(Increase)/decrease in other assets		(1,804)	44,108
Increase/(decrease) in takaful payables		12,615	(13,799)
Increase in other liabilities		727	48,120
Increase/(decrease) in expense liabilities		21,123	(10,326)
Increase in financing receivables		(252)	-
Operating cash flows after working capital changes and carried forward		168,114	291,610

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

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

	1 January 2019 to 31 December 2019	18 July 2017 to 31 December 2018
Note	RM'000	RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>(CONTD.)</b>		
Brought forward	168,114	291,610
Changes in working capital:		
Increase in placements of deposits with financial institutions	(94,750)	(78,013)
(Increase)/decrease in retakaful assets	(7,618)	29,999
Increase/(decrease) in takaful certificate liabilities	203,131	(3,536)
Profit income received	126,152	105,407
Gross dividend income received	1,162	1,927
Zakat paid	(4,264)	-
Taxation paid	(73,341)	(19,279)
Surplus paid to participants	13 (44,772)	(99,241)
Net cash flows generated from operating activities	32 <u>273,814</u>	<u>228,874</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investments	1,466,936	1,198,074
Purchase of investments	(1,776,057)	(2,250,474)
Purchase of intangible assets	4 (84)	(204)
Net cash flows used in investing activities	32 <u>(309,205)</u>	<u>(1,052,604)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of share capital	11 -	870,000
Net cash flows generated from financing activities	32 <u>-</u>	<u>870,000</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	32 (35,391)	46,270
<b>Cash and cash equivalents beginning of year</b>	80,229	-
Transferred from Etiqa Family Takaful Berhad ("EFTB")	-	33,959
<b>Cash and cash equivalents at end of period</b>	32 <u>44,838</u>	<u>80,229</u>
<b>Cash and cash equivalents comprise:</b>		
Cash and bank balances of:		
Shareholder's fund	11,578	18,115
General Takaful fund	33,260	62,114
	<u>44,838</u>	<u>80,229</u>

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

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2019**

**1. CORPORATE INFORMATION**

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur, Malaysia.

The immediate and ultimate holding companies of the Company are Maybank Ageas Holdings Berhad ("MAHB") and Malayan Banking Berhad ("Maybank") respectively, both of which are incorporated in Malaysia. Maybank is a licensed commercial bank listed on the Main Market of Bursa Malaysia Securities Berhad.

The principal activity of the Company are the management of general takaful business.

There were no significant changes in the nature of the principal activity during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 12 February 2020.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**2.1 Basis of preparation**

**(a) Statement of compliance**

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

The Company have adopted those MFRSs, amendments to MFRSs and Interpretation effective for the annual periods beginning on or after 1 January 2019 as disclosed in Note 2.3.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework for Takaful Operators ("RBCT Framework") issued by BNM, as at the reporting date.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.1 Basis of preparation (contd.)**

#### **(a) Statement of compliance (contd.)**

In preparing the Company-level financial statements, the balances and transactions of the Shareholder's fund are amalgamated and combined with those of Takaful fund. Interfund balances, transactions and unrealised gains or losses are eliminated in full during amalgamation. The accounting policies adopted for Shareholder's and the Takaful fund are uniform for transactions and events in similar circumstances.

The Takaful fund are consolidated and amalgamated from the date of control and continue to be consolidated until the date such control ceases which will occur when the Company's license to manage takaful business is withdrawn or surrendered.

#### **Takaful operations and its funds**

Under the concept of takaful, individuals make contributions to a pool which is managed by a third party with the overall aim of using the monies to aid fellow participants in times of need. Accordingly, as a Takaful Operator, the Company manages the General Takaful fund in line with the principles of wakalah (agency), which is the main business model adopted by the Company. Under the wakalah model, the Takaful Operator is not a participant in the fund but manages the funds (including the relevant assets and liabilities) towards the purpose outlined above.

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

The inclusion of separate information of the Takaful fund and the Takaful Operator together with the consolidated financial information of the Company in the statement of financial position, the income statement, the statement of comprehensive income as well as certain relevant notes to the financial statements represents additional supplementary information required for Bank Negara Malaysia reporting.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.1 Basis of preparation (contd.)**

#### **(b) Basis of measurement**

The financial statements of the Company have been prepared on a historical cost basis, unless otherwise indicated in the summary of significant accounting policies.

#### **(c) Functional and presentation currency**

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand (RM'000) unless otherwise stated.

#### **(d) Use of estimates and judgements**

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

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

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

##### **(a) Takaful certificate liabilities**

Note 2.2(xii) describes the measurement and recognition of the general takaful certificate liabilities including a general explanation on the estimation methods used. Details of the sensitivity analysis of the carrying amount of the general takaful certificate liabilities to the changes in assumptions are disclosed in Note 36 of the financial statements.

##### **(b) Impairment losses on financial assets as refers to note 2.2(vi).**

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies**

#### **(i) Property, plant and equipment and depreciation**

All items of property and equipment are initially recorded at cost. The cost of an item of property, plant and equipment are recognised as an asset, if, and only if, 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.

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Work-in-progress are also not depreciated as these assets are not available for use. When work-in-progress is completed and the asset is available for use, it is reclassified to the relevant category of property, plant and equipment and depreciation of the asset begins.

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

Furniture, fittings, office equipment and renovations	20% - 25%
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The residual values, useful lives and depreciation method are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds and the net carrying amount is recognised in profit or loss.



## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(ii) Intangible assets**

Intangible assets include software development costs, computer software and licences. Intangible assets acquired separately are measured on initial recognition at fair value. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date.

Amortisation is charged to the profit or loss. Work-in-progress is not depreciated as these assets are not available for use.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level.

The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

#### **(a) Software development costs**

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

#### **(b) Computer software and licenses**

The useful lives of computer software and licenses are amortised using the straight-line method over their estimated useful lives of 10 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each reporting date.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iii) Leases**

##### **(a) Classification**

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

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and
- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of the building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

##### **(b) Finance leases - the Company as lessee**

The useful lives of all leasehold buildings are shorter than the lease terms of the leasehold land on which the buildings are located. As such, all risks and rewards incidental to the ownership of such assets would be deemed to have been substantially transferred to the Company at the end of their useful lives. Accordingly, all leasehold buildings are classified as finance lease in the financial statements.

Buildings held under finance lease are recognised as assets in the Company's statements of financial position and are measured in accordance with MFRS 116 *Property, Plant and Equipment* and MFRS 140 *Investment Properties*.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(iii) Leases (contd.)**

**(c) Operating leases - the Company as lessor**

Assets leased out under operating leases are presented in the statements of financial position according to the nature of the assets. Rental income from operating lease is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are included in the carrying amount of the leased assets and recognised on a straight-line basis over the lease term.

**(d) Operating leases - the Company as lessee**

Before 1 January 2019

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis. In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and buildings elements in proportion to the relative fair values for leasehold interests in the land and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

Beginning 1 January 2019

Upon implementation of MFRS 16 *Leases* on 1 January 2019, the lessees are required to perform the right-of-use assessment to all the leases whether it shall be recorded as either under a single on-balance sheet model or recognition to profit or loss.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(iii) Leases (contd.)**

**(d) Operating leases - the Company as lessee (contd.)**

Beginning 1 January 2019 (contd.)

The lease accounting is as follow:

**(a) Right-of-use assets ("ROU")**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease arrangement based on whether the contract that conveys to the user ("the lessee") the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains more than one lease component, or a combination of leasing and services transactions, the consideration is allocated to each of these lease and non-lease components on conclusion and on each subsequent re-measurement of the contract on the basis of their relative stand-alone selling prices. The Company combines lease and non-lease components, in cases where splitting the non-lease component is not possible.

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessment.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(iii) Leases (contd.)**

**(d) Operating leases - the Company as lessee (contd.)**

Beginning 1 January 2019 (contd.)

The lease accounting is as follow (contd.):

**(b) Lease liabilities**

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance, fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**(c) Significant judgement in determining the lease term of contracts with renewal options**

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iii) Leases (contd.)**

##### **(d) Operating leases - the Company as lessee (contd.)**

###### Beginning 1 January 2019 (contd.)

The lease accounting is as follow (contd.):

##### **(c) Significant judgement in determining the lease term of contracts with renewal options (contd.)**

The Company has the option, under some of its leases to lease the assets for additional terms of three to five years. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Company has applied the following practical expedients permitted by the standard to leases:-

###### **(i) Leases with a lease term of 12 months or shorter;**

The Company applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date that does not have a renewable clause options and purchase options.

###### **(ii) Leases for low-value assets which is less than RM10,000; and**

The Company also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value and are recognised as expense in profit and loss on a straight-line basis over the lease term.

###### **(iii) Leases with variable lease payments**

Variable lease payments of the Company does not contain any component of fixed rent in the clauses of the contract.

The Company is to recognise the lease payments when incurred, profit or loss for the leases that do not meet the ROU assessment and for which it has applied the exemptions as permitted by the standard.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iv) Financial assets**

##### **(a) Date of recognition**

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

##### **(b) Initial and subsequent measurement**

The Company determine the classification of financial assets at initial recognition depends on their business model for managing the financial assets and the contractual cash flows characteristic as below:

##### **(i) Business model assessment**

The Company determine its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company holds financial assets to generate returns and provide a capital base to provide for settlement of claims as they arise. The Company consider the timing, amount and volatility of cash flow requirements to support insurance liability portfolios in determining the business model for the assets as well as the potential to maximise return for shareholders and future business development.

The Company's business model are not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios that is based on observable factors and is determined by the key management personnel on the basis of both:

- the way that assets are managed and their performance is reported to them; and
- the contractual cash flow characteristics of the financial asset.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iv) Financial assets (contd.)**

##### **(b) Initial and subsequent measurement (contd.)**

###### **(i) Business model assessment (contd.)**

The expected frequency, value and timing of asset sales are also important aspects of the Company's assessment. The Company should assess its business models at each reporting period in order to determine whether the models have changed since the preceding period.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company do not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Change in business model is not expected to be frequent; but should such event take place, it must be:

- i) Determined by the Company's senior management as a result of external or internal changes;
- ii) Significant to the Company's operations; and
- iii) Demonstrable to external parties.

A change in the Company's business model will occur only when the Company begin or cease to perform an activity that is significant to its operations. Change in the objective of the business model must be effected before the reclassification date.



## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iv) Financial assets (contd.)**

##### **(b) Initial and subsequent measurement (contd.)**

###### **(ii) The Solely Payments of Principal and Interest ("SPPI") test**

As a second step of its classification process, the Company assess the contractual terms to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a debt arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company apply judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

##### **(c) Classification of financial assets**

The categories include financial assets at fair value through profit or loss ("FVTPL"), fair value to other comprehensive income ("FVOCI") and amortised cost ("AC") financial assets.

###### **(i) Financial assets at FVTPL**

Financial assets in this category are those financial assets that are held for trading or financial assets that qualify for neither held at AC nor at FVOCI. This category includes debt instruments whose cash flow characteristic fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or both collect contractual cash flows and sell. Equity instruments that were not elected for FVOCI will be measured at FVTPL.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iv) Financial assets (contd.)**

##### **(c) Classification of financial assets (contd.)**

###### **(i) Financial assets at FVTPL (contd.)**

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or losses on financial assets at FVTPL do not include exchange differences, profit and dividend income. Exchange differences, profit and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other expenses or other income and investment income respectively. Derivatives are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

###### **(ii) Financial assets at FVOCI**

Financial assets in this category are those financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual cash flows represent solely payments of principal and interest.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, to measure changes through FVOCI i.e. without recycling profit or loss upon derecognition.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Exchange differences, profit and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other expenses or other income and investment income respectively. Other net gain and losses are recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve. On derecognition, gains or losses accumulated in other comprehensive income are reclassified to profit or loss.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(iv) Financial assets (contd.)**

##### **(c) Classification of financial assets (contd.)**

###### **(iii) Financial assets at AC**

Financial assets in this category are those financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows which represent solely payments of principal and interest.

Subsequent to initial recognition, financial assets at AC are measured at amortised cost using the effective interest method. Exchange differences, profit and dividend income on financial assets at AC are recognised separately in profit or loss as part of other expenses or other income and investment income respectively. On derecognition, any gain or loss is recognised in profit or loss.

##### **(d) Derecognition**

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or the Company have transferred substantially all the risks and rewards of the financial asset.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the Company commit to purchase or sell the asset.

##### **(v) Fair value of financial assets**

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market prices for assets at the close of business at the reporting date.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(v) Fair value of financial assets (contd.)**

For financial assets in both quoted and unquoted unit and real estate investment trusts, fair value is determined by reference to published prices. Investments in unquoted equity instrument that do not have quoted market prices in an active market, the fair value are measured based on the net asset method by referencing to the annual financial statement of the entity that the Company invested in.

For non-exchange traded financial assets such as unquoted fixed income securities, i.e. unquoted bonds, Malaysian Government Securities ("MGS"), Government Investment Issues ("GII"), Government Guaranteed Bonds, Khazanah bonds, fair values are determined by referencing to indicative bid prices obtained from Bondweb and Malaysia Retail Bond Portal provided by the Bond Pricing Agency Malaysia ("BPAM"). In the case of any downgraded or defaulted bond, internal valuations will be performed to determine the fair value of the bond. The fair values of structured deposits are based on market prices obtained from the respective issuers. The market value of Negotiable Islamic Certificates of Deposit ("NICD") are determined by reference to BNM's Interest Rate Swap.

Over-the-counter derivatives comprise foreign exchange forward contracts, currency swap contracts and options. Over-the-counter derivatives are revalued at each reporting date, based on valuations provided by the respective counterparties in accordance with market conventions.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value which is the cost of the deposit/placement.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instruments or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment, except in the case of financial assets at FVTPL where the transaction costs are recognised in profit or loss.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(vi) Impairment**

##### **(a) Financial assets**

The Company assess the impairment of financial assets based on an Expected Credit Loss ("ECL") model. The ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments.

The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments, financial guarantee contracts, which will include loans, advances, financing, takaful receivables, debts instruments and deposits held by the Company. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 16 *Leases*.

ECL would be recognised from the point at which the financial assets are originated or purchased. A 12 months ECL must be recognised initially for all assets subject to impairment.

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

##### **(i) Determining a significant increase in credit risk since initial recognition**

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECLs. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition. The Company will be generally required to apply a three-stage approach based on the change in credit quality since initial recognition.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(vi) Impairment (contd.)**

**(a) Financial assets (contd.)**

**(i) Determining a significant increase in credit risk since initial recognition (contd.)**

<b>3 Stage approach</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
	<b>Performing</b>	<b>Under-performing</b>	<b>Non-performing</b>
<b>ECL Approach</b>	12-month ECL	Lifetime ECL	Lifetime ECL
<b>Criterion</b>	No significant increase in credit risk	Credit risk increased significantly	Credit-impaired assets
<b>Recognition of interest/profit income</b>	Gross carrying amount	Gross carrying amount	Net carrying amount

**(ii) Forward-looking information and ECL measurement**

The amount of credit loss recognised is based on forward-looking estimates that reflect current and forecast credit conditions. The forward-looking adjustment is interpreted as an adjustment for the expected future economic conditions, as indicated by different macroeconomic factors and/or expert experienced in credit judgement. A forward-looking ECL calculation should be based on an accurate estimation of current and future probability of default ("PD"), exposure at default ("EAD"), loss given default ("LGD") and discount factors.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(vi) Impairment (contd.)**

**(a) Financial assets (contd.)**

Loans, advances and financing

The ECL on the loan portfolio of the Company is computed using a risk sensitive model, leveraging the ECL coverage ratio calculated for comparable portfolios from Maybank for Stage 1 and Stage 2 and individual assessment is applied for Stage 3.

Takaful receivables

The impairment on takaful receivables is measured at initial recognition and throughout its life at an amount equal to lifetime ECL. The ECL is calculated using a provision matrix based on historical data where the takaful and retakaful receivables are grouped based on different sales channel and different retakaful premium type's arrangement respectively. The impairment is calculated on the total outstanding balance including all aging buckets from current to 12 months and above. Roll rates is to be applied on the outstanding balance of the aging bucket which forms the base of the roll rate. Forward looking information has been included in the calculation of ECL.

Financial assets at FVOCI and AC

In accordance to the three-stage approach, all newly purchased financial assets shall be classified in Stage 1, except for credit impaired financial assets. It will move from Stage 1 to Stage 2 when there is significant increase in credit risk ("SICR"), and Stage 2 to Stage 3 when there is an objective evidence of impairment. Financial assets which have experience an SICR since initial recognition are classified as Stage 2, and are assigned a lifetime ECL.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(vi) Impairment (contd.)**

##### **(a) Financial assets (contd.)**

###### Financial assets at FVOCI and AC (contd.)

Financial assets which have not experienced a SICR since initial recognition are classified as Stage 1, and are assigned a 12-month ECL. All financial assets are assessed for objective evidence of impairment except for:

- Financial assets measured at FVTPL;
- Equity instruments; and
- Local federal governments and local central banks issued bonds, Treasury Bills and Notes. Low credit risk on the basis that both the federal government and Central Bank will have strong capacity in repaying the instruments upon maturity. In addition, there is no past historical lost experiences arising from these securities.

##### **(b) Non-financial assets**

The Company assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company estimate the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying value of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss except for assets that were previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.



## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(vi) Impairment (contd.)**

##### **(b) Non-financial assets (contd.)**

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount nor does it exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

#### **(vii) Retakaful assets**

The Company cede takaful risk in the normal course of their business. Ceded retakaful arrangements do not relieve the Company from their obligations to participants. For both ceded and assumed retakaful, contributions, claims and benefits paid or payable are presented on a gross basis.

Retakaful arrangements, entered into by the Company, that meet the classification requirements of takaful certificates as described in Note 2.2 (xii) are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets.

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

At each reporting date, or more frequently, the Company assess whether objective evidence exists that retakaful assets are impaired. The impairment loss is recognised in profit or loss.

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

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(viii) Takaful receivables**

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

The impairment of takaful receivables is described in Note 2.2(vi).

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

#### **(ix) Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash and bank balances.

#### **(x) Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in equity in the year in which they are declared.

#### **(xi) Product classification**

The Company, as the operator of the participants' funds, issue certificates that contain takaful risk.

A takaful certificate is a certificate under which the participants' fund has accepted significant takaful risk from the participants by agreeing to compensate the participants if a specified uncertain future event (the insured event) adversely affects the participants. As a general guideline, the Company define whether significant takaful risk has been accepted by comparing benefits paid or payable on the occurrence of an insured event against benefits paid or payable if the insured event does not occur. If the ratio of the former exceeds the latter by 5% or more, the takaful underwriting risk accepted is deemed to be significant.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xi) Product classification (contd.)**

Once a certificate has been classified as a takaful certificate, it remains a takaful certificate 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.

#### **(xii) Takaful certificate liabilities**

The takaful certificate liabilities of the Company comprise claim liabilities and contribution liabilities.

##### **(a) Claim liabilities**

Claim liabilities represent the Company's obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at reporting date. Claim liabilities are the estimated provision for claims reported, claims incurred but not reported ("IBNR"), claims incurred but not enough reserved ("IBNER") and related claims handling costs. Claim liabilities are measured at best estimate value and include a provision of risk margin for adverse deviation ("PRAD") as prescribed by BNM.

Provision for claims reported are recognised upon notification by participants or claimants.

Claim liabilities are determined based upon valuations performed by the Appointed Actuary, using a range of actuarial claims projection techniques based on, amongst others, actual claims development patterns. Claim liabilities are not discounted.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xii) Takaful certificate liabilities (contd.)**

##### **(b) Contribution liabilities**

Contribution liabilities represent the Company's future obligations on takaful certificates as represented by contributions received for risks that have not yet expired. The movement in contribution liabilities is released over the term of the takaful certificates and is recognised as contribution income.

In accordance with the valuation requirements of the RBCT Framework, contribution liabilities are reported at the higher of the aggregate of the unearned contribution reserves ("UCR") for all lines of business or the best estimate value of the unearned risk reserves ("URR") at the end of the financial year and a PRAD as prescribed by BNM.

##### **- UCR**

UCR represent the portion of the contributions of takaful certificates written, net of the related retakaful contributions ceded to qualified operators, that relate to the unexpired periods of the certificates at the reporting date.

In determining short-term UCR at the reporting date, the method that most accurately reflects the actual unearned contribution is used as follows:

- 25% method for marine cargo and aviation cargo, and transit business; and
- all other classes of general business, using time-apportionment basis over the period of the risks, reduced by the corresponding percentage of accounted gross direct business commissions to the corresponding contributions, not exceeding limits specified by BNM.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(xii) Takaful certificate liabilities (contd.)**

**(b) Contribution liabilities (contd.)**

**- UCR (contd.)**

Wakalah

The UCR for wakalah business is calculated on contribution income with a further deduction for wakalah management expense to reflect the wakalah business principle.

**- URR**

The URR is a prospective estimate of the expected future payments arising from future events insured under certificates in force as at the reporting date and also includes allowance for expenses, including overheads and cost of retakaful, expected to be incurred during the unexpired period in administering these certificates and settling the relevant claims, and expected future contribution refunds. URR is estimated via an actuarial valuation performed by the Appointed Actuary.

**(xiii) Financial liabilities**

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

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xiii) Financial liabilities (contd.)**

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. During the financial year and as at the reporting date, the Company did not classify any of its financial liabilities at FVTPL.

The Company's other financial liabilities include other payables, takaful payables and subordinated obligation. Other payables are subsequently measured at amortised cost using the effective profit method.

Subsequent to initial recognition, subordinated obligation is recognised at amortised cost using the effective profit method. Subordinated obligation is classified as current liabilities unless the Company has a conditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

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

#### **(xiv) Expense liabilities**

The expense liabilities of the Shareholder's fund consist of expense liabilities of the General Takaful fund which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the takaful certificates and recognised in profit or loss.

Expense liabilities in relation to the Company's general takaful business are reported as the higher of the aggregate of the provision for unearned wakalah fees ("UWF") and the unexpired expense risk ("UER") and a PRAD, as prescribed by BNM.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xiv) Expense liabilities (contd.)**

##### **(i) Provision for unearned wakalah fees**

The UWF represents the portion of wakalah fee income allocated for expenses to be incurred in managing general takaful certificates that relate to the unexpired periods of certificates at the end of the reporting period. The method used in computing UWF is consistent with the method used to reflect the actual Unearned Contribution Reserves ("UCR").

##### **(ii) Unexpired expense reserves**

UER consists of the best estimate value of the unexpired expense reserves at the valuation date and a PRAD as prescribed by BNM. The best estimate UER is determined based on the expected claims handling expenses to be incurred as well as the expected expenses in maintaining certificates with unexpired risks. The method used in computing UER is consistent with the method used to value unexpired risk reserves ("URR").

#### **(xv) Measurement and impairment of Qard**

In the event where the assets of the Takaful funds are insufficient to meet the liabilities, the Shareholder's fund is required to rectify the deficit of the Takaful funds via a Qard, which is a profit free loan. The Qard shall be repaid from future surpluses of the Takaful fund. In the Shareholder's fund, the Qard is stated at cost less impairment losses, if any, whereas in the Takaful funds, the Qard is stated at cost.

At each reporting date, the balance of the Qard and the ability of the affected funds to generate sufficient surpluses to repay the Shareholder's fund is assessed. The likelihood that the Qard will be repaid and the duration of time that will be required to repay the Qard is determined and ascertained via projected cash flows which take into account past experience of the affected funds. The projected cash flows are then discounted to determine the recoverable value of the Qard.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xv) Measurement and impairment of Qard (contd.)**

If the carrying amount of the Qard exceeds its recoverable amount, the difference is recognised as an impairment loss and the Qard is written down to its recoverable amount. Impairment losses are subsequently reversed in profit or loss if objective evidence exists that the Qard is no longer impaired.

#### **(xvi) Takaful payables**

Takaful payables are recognised when due and measured on initial recognition at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

#### **(xvii) Offsetting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only 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 liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

#### **(xviii) Contribution income**

Contributions represent consideration paid for takaful certificate, respectively, and is accounted for as follows:

- Contribution income is recognised in the 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 issued as of the reporting date are accrued at that date.
- Inward facultative retakaful contributions are recognised in the financial year in respect of the facultative risks accepted during that particular financial year, as in the case of direct certificates, following the individual risks' inception dates.



## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xviii) Contribution income (contd.)**

Contributions represent consideration paid for takaful certificate, respectively, and is accounted for as follows (contd.):

- Inward treaty retakaful contributions are recognised on the basis of periodic advices received from ceding takaful operators.
- Outward retakaful contributions are recognised in the same financial year as the original certificates to which the retakaful relates.

#### **(xix) Claims expenses**

Claim expenses represent compensation paid or payable on behalf of the certificate holders in relation a specific loss event that has occurred. They include claims, handling costs and settlement costs and arise from events that have occurred up to the end of the reporting year even if they had not been reported to the Company.

#### **(xx) Commission expenses and acquisition costs**

Commission expenses net of income derived from retakaful, which are costs directly incurred in securing contributions on takaful certificates net of income derived from ceding retakaful contributions, are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

##### Mudharabah principle

Commission expenses are borne by the General Takaful fund with the resulting underwriting surplus/deficit after expenses shared between the Company and the participants as advised by the Shariah Committee.

##### Wakalah principle

Commission expenses are borne by the Shareholder's fund. This is in accordance with the principles of wakalah as approved by the Shariah Committee and agreed with the participants and the Company.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xxi) Other revenue recognition**

##### Revenue from contract with customers

Revenue is recognised when the Company satisfy a performance obligation by transferring a promised good or service to a customer. Generally, satisfaction of a performance obligation occurs when/as the Company's control of the goods or services is transferred to the customer. Control can be defined as the ability to direct the use of an asset and to obtain substantially all of the remaining benefits from the asset. Control also includes the ability to prevent another entity from directing the use of and obtaining the benefits from an asset.

For each separate performance obligation, the Company will need to determine whether the performance obligation is satisfied by transferring the control of goods or services over time. If the performance obligation is not satisfied over time, then it is satisfied at a point of time.

When/as a performance obligation is satisfied, the Company shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained, that is allocated to that performance obligation).

##### Other revenue

#### **(a) Profit income**

Profit income is recognised using the effective profit/yield method over the term of the underlying investments.

#### **(b) Dividend income**

Dividend income is recognised at a point of time when the Company's right to receive payment is established.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(xxi) Other revenue recognition (contd.)**

Other revenue (contd.)

**(c) Fund management fees**

Fund management fees are recognised at a point of time when services are rendered.

**(d) Wakalah fees**

Wakalah fees represent fees charged by the Shareholder's fund to manage takaful certificates issued by the General Takaful fund under the principle of wakalah and are recognised at a point of time as soon as the contributions to which they relate can be reliably measured in accordance with the principles of Shariah.

**(e) Fee and commission income**

Commission income is derived from retakaful operators in the course of ceding contributions to retakaful operators.

**(xxiii) Employee benefits**

**(a) Short-term benefits**

Wages, salaries, bonuses and Social Security Contributions ("SOCSO") are recognised as an expense in profit or loss the period in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognised as an expenses in profit or loss when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised as an expense in the profit or loss when the absences occur.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xxiii) Employee benefits (contd.)**

##### **(b) Long-term employee benefits**

Long-term employee benefits are benefits that are not expected to be settled wholly before twelve months after the end of the reporting date in which employees render the related services.

The cost of long-term employee benefits is accrued to match the services rendered by employees of the Company using the recognition and measurement bases similar to that for defined benefits contribution plans disclosed in 2.2(xxiii)(c), except that the remeasurements of the net defined benefit liability or asset are recognised immediately in the profit or loss.

##### **(c) Defined contribution plans**

As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss when incurred.

##### **(d) Share-based compensation**

###### **(1) Employees' Share Grant Plan ("ESGP Shares")**

The ESGP Shares is awarded to eligible Executive Directors and employees of participating companies within the Maybank Group (excluding dormant subsidiaries). The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of the ESGP Committee.

The total fair value of ESGP Shares granted to eligible employees is recognised as an employee cost with a corresponding increase in amount due to Maybank. The fair value of ESGP Shares is measured at grant date, taking into account, the market and non-market vesting conditions upon which the ESGP Shares were granted. Upon vesting of ESGP Shares, Maybank will recognise the impact of the actual numbers of ESGP Shares vested as compared to original estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(xxiii) Employee benefits (contd.)**

**(d) Share-based compensation (contd.)**

**(2) Cash-settled Performance-based Employees' Share Grant Plan ("CESGP")**

The CESGP is awarded to the eligible Executive Directors and employees of participating companies within the Maybank Group, subject to achievement of performance criteria set out by the Board of Directors and prevailing market practices in the respective countries. Upon vesting, the cash amount equivalent to the value of the Maybank Reference Shares will be transferred to the eligible employees.

The total fair value of CESGP Shares granted to eligible employees is recognised as an employee cost, with a corresponding increase in Maybank's liability over the vesting period and taking into account the probability that the CESGP will vest. The fair value of ESGP Shares is measured at grant date, taking into account, the market and non-market vesting conditions upon which the CESGP Shares were granted. Upon vesting of CESGP Shares, Maybank will recognise the impact of the actual numbers of ESGP Shares vested as compared to original estimates.

**(xxiv) Foreign currencies**

**(a) Functional and presentation currency**

The financial statements of the Company 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 ("RM"), which is also the Company's functional currency.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

**2.2 Summary of significant accounting policies (contd.)**

**(xxiv) Foreign currencies (contd.)**

**(b) Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the spot exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the spot exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss.

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

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.2 Summary of significant accounting policies (contd.)**

#### **(xxv) Income tax**

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

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised as an income or an expense and included in profit or loss, except when it arises from a transaction which is recognised directly in equity/takaful certificate liabilities, in which case the deferred tax is also recognised directly in other comprehensive income/takaful certificate liabilities.

#### **(xxvi) Zakat**

This represent business zakat payable by the Company in compliance with Shariah principles and as approved by the Company's Shariah Committee. Zakat provision is calculated based on the working capital method at 2.5%.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.3 Amendments to MFRS**

At the beginning of the current financial year, the Company adopted the following MFRS, amendments to MFRSs and Interpretation which are mandatory for the financial periods beginning on or after 1 January 2019:

MFRS 9 *Prepayment Features with Negative Compensation* (Amendments to MFRS 9)

MFRS 16 *Leases*

MFRS 128 *Long-term Interests in Associates and Joint Ventures*

(Amendments to MFRS 128)

Annual Improvements to MFRSs 2015-2017 Cycle

(i) MFRS 3 *Business Combinations*

(ii) MFRS 11 *Joint Arrangements*

(iii) MFRS 112 *Income Taxes*

(iv) MFRS 123 *Borrowing Costs*

MFRS 119 *Plan Amendment, Curtailment or Settlement*

(Amendments to MFRS 119)

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

The adoption of these MFRSs, amendments to MFRSs and Interpretation do not have any significant financial impacts on the Company. The effect of adopting MFRS 16 is described in Note 2.5.

### **2.4 Standards and amendments to standards issued but not yet effective**

The following are Standards and amendments to Standards issued by the Malaysian Accounting Standards Board ("MASB"), but not yet effective, up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards, if applicable, when they become effective:

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to MFRS 3 - <i>Definition of a Business</i>	1 January 2020
Amendments to MFRS 101 and MFRS 108 - <i>Definition of Material</i>	1 January 2020
Amendments to MFRS 7, MFRS 9 and MFRS 139 - <i>Interest Rate Benchmark Reform</i>	1 January 2020
MFRS 17 <i>Insurance Contracts</i>	1 January 2021
Amendments to MFRS 10 and MFRS 128 - <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred



## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.4 Standards and amendments to standards issued but not yet effective (contd.)**

The Company do not expect that the adoption of the above pronouncements will have significant financial impacts in future financial statements other than the following:

#### **MFRS 17 *Insurance Contracts***

MFRS 17 will replace MFRS 4 *Insurance Contracts* that was issued in 2005. MFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The main features of the new accounting model for insurance contracts are, as follows:

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

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.4 Standards and amendments to standards issued but not yet effective (contd.)**

#### **MFRS 17 *Insurance Contracts* (contd.)**

The standard is effective for annual periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies MFRS 9 and MFRS 15 on or before the date it first applies MFRS 17. An entity shall apply MFRS 17 retrospectively for estimating the CSM on the transition date. However, if full retrospective approach application for estimating the CSM, as defined by MFRS 108 for a group of insurance contracts, is impracticable, an entity is required to choose one of the following two alternatives:

(i) Modified retrospective approach

Based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications are applied to the extent full retrospective application is not possible, but still with the objective to achieve the closest possible outcome to retrospective application.

(ii) Fair value approach

The CSM is determined as the positive difference between the fair value determined in accordance with MFRS 13 *Fair Value Measurement* and the fulfilment cash flows (any negative difference would be recognised in retained earnings at the transition date).

Both the modified retrospective approach and the fair value approach provide transitional reliefs for determining the grouping of contracts. If an entity cannot obtain reasonable and supportable information necessary to apply the modified retrospective approach, it is required to apply the fair value approach.

The Company as part of the Group, has established a project team, with assistance from the actuarial, finance, risk, IT and various business sectors to study the implications and to evaluate the potential impact of adopting this standard on the required effective date. The Company believes that it is achieving the relevant milestones in adopting this new standard.

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)**

### **2.5 Changes in accounting policies - MFRS 16 Leases**

MFRS 16 replaces MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases — Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessee to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117. Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessor will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117 and IC Interpretation 4 at the date of initial application. Therefore, MFRS 16 did not have any significant impact for leases where the Company is the lessor.

#### **Leases previously classified as operating lease - The Company as lessee**

On 1 January 2019, the Company have applied MFRS 16 for the first time which requires the recognition of the cumulative effect of initially applying MFRS 16, to the retained earnings brought forward and not restating prior period comparatives information which remain as previously reported under MFRS 117 and related interpretations.

The Company analysed all their lease contracts of which they are a lessee and concludes that:

- (1) Short-term lease contracts with a term not exceeding 12 months at the date of initial application are not recognised under MFRS 16;
- (2) The Company used hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease; and
- (3) Leases of premises were scoped out due to substitution rights over the assets in the terms of lease.

There was no financial impact of the adoption of MFRS 16 on the financial statements of the Company.

**3. PROPERTY, PLANT AND EQUIPMENT**

**General Takaful fund/Company**

	<b>Furniture, fittings, office equipment and renovations RM'000</b>
<b>2019</b>	
<b>Cost</b>	
At 1 January 2019	23
Additions	-
At 31 December 2019	<u>23</u>
<b>Accumulated depreciation</b>	
At 1 January 2019	23
Depreciation charge for the year	-
At 31 December 2019	<u>23</u>
<b>Net Book Value at 31 December 2019</b>	<u>-</u>
<b>2018</b>	
<b>Cost</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	23
At 31 December 2018	<u>23</u>
<b>Accumulated depreciation</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	23
At 31 December 2018	<u>23</u>
<b>Net Book Value at 31 December 2018</b>	<u>-</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**4. INTANGIBLE ASSETS**

**Shareholder's fund**

	<b>Computer software and licences RM'000</b>
<b>2019</b>	
<b>Cost</b>	
At 1 January 2019	3,234
Additions	84
At 31 December 2019	<u>3,318</u>
<b>Accumulated amortisation</b>	
At 1 January 2019	2,064
Amortisation charge for the year	242
At 31 December 2019	<u>2,306</u>
<b>Net Book Value at 31 December 2019</b>	<u>1,012</u>
<b>2018</b>	
<b>Cost</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	3,030
Additions	204
At 31 December 2018	<u>3,234</u>
<b>Accumulated amortisation</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	1,813
Amortisation charge for the period	251
At 31 December 2018	<u>2,064</u>
<b>Net Book Value at 31 December 2018</b>	<u>1,170</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**4. INTANGIBLE ASSETS (CONTD.)**

**General Takaful fund**

	<b>Computer software and licences RM'000</b>
<b>2019</b>	
<b>Cost</b>	
At 1 January 2019	5,536
Additions	-
At 31 December 2019	<u>5,536</u>
<b>Accumulated amortisation</b>	
At 1 January 2019	5,536
Amortisation charge for the year	-
At 31 December 2019	<u>5,536</u>
<b>Net Book Value at 31 December 2019</b>	<u>-</u>
<b>2018</b>	
<b>Cost</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	5,536
At 31 December 2018	<u>5,536</u>
<b>Accumulated amortisation</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	5,536
At 31 December 2018	<u>5,536</u>
<b>Net Book Value at 31 December 2018</b>	<u>-</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**4. INTANGIBLE ASSETS (CONTD.)**

**Company**

	<b>Computer software and licences RM'000</b>
<b>2019</b>	
<b>Cost</b>	
At 1 January 2019	8,770
Additions	84
At 31 December 2019	<u>8,854</u>
<b>Accumulated amortisation</b>	
At 1 January 2019	7,600
Amortisation charge for the year	242
At 31 December 2019	<u>7,842</u>
<b>Net Book Value at 31 December 2019</b>	<u>1,012</u>
<b>2018</b>	
<b>Cost</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	8,566
Additions	204
At 31 December 2018	<u>8,770</u>
<b>Accumulated amortisation</b>	
At 18 July 2017 (date of incorporation)	-
Transferred from EFTB	7,349
Amortisation charge for the period	251
At 31 December 2018	<u>7,600</u>
<b>Net Book Value at 31 December 2018</b>	<u>1,170</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**5. INVESTMENTS**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
Malaysian government papers	64,166	214,215	278,381
Debt securities	1,145,430	1,514,892	2,660,322
Equity securities	23,428	20,698	44,126
Unit and property trust funds	660	844	1,504
Deposits with financial institutions	121,872	253,141	375,013
	<u>1,355,556</u>	<u>2,003,790</u>	<u>3,359,346</u>
<b>2018</b>			
Malaysian government papers	2,003	334,707	336,710
Debt securities	948,124	1,151,260	2,099,384
Equity securities	26,070	30,175	56,245
Structured product (Note 6)	-	48,365	48,365
Deposits with financial institutions	147,552	132,711	280,263
	<u>1,123,749</u>	<u>1,697,218</u>	<u>2,820,967</u>

The Company's financial investments are summarised by categories as follows:

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
Fair value through profit or loss ("FVTPL")			
- Designated upon initial recognition	-	25,374	25,374
- Held for trading ("HFT")	24,088	21,542	45,630
Fair value through other comprehensive income ("FVOCI")	1,209,596	1,703,733	2,913,329
Amortised cost ("AC")	121,872	253,141	375,013
	<u>1,355,556</u>	<u>2,003,790</u>	<u>3,359,346</u>
<b>2018</b>			
Fair value through profit or loss ("FVTPL")			
- Designated upon initial recognition	-	56,637	56,637
- Held for trading ("HFT")	26,070	30,175	56,245
Fair value through other comprehensive income ("FVOCI")	950,127	1,477,695	2,427,822
Amortised cost ("AC")	147,552	132,711	280,263
	<u>1,123,749</u>	<u>1,697,218</u>	<u>2,820,967</u>



5. INVESTMENTS (CONTD.)

The following investments will mature after 12 months:

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>2019</b>			
FVTPL			
- Designated upon initial recognition	-	25,374	25,374
FVOCI	1,204,581	1,568,997	2,773,578
	<u>1,204,581</u>	<u>1,594,371</u>	<u>2,798,952</u>
<b>2018</b>			
FVTPL			
- Designated upon initial recognition	-	56,637	56,637
FVOCI	834,748	1,384,064	2,218,812
	<u>834,748</u>	<u>1,440,701</u>	<u>2,275,449</u>
	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>(i) FVTPL</b>			
- Designated upon initial recognition			
<b>2019</b>			
<u>At fair value:</u>			
Unquoted debt securities in Malaysia	-	25,374	25,374
<b>Total financial assets designated as FVTPL upon initial recognitions</b>	<u>-</u>	<u>25,374</u>	<u>25,374</u>
<b>2018</b>			
<u>At fair value:</u>			
Unquoted debt securities in Malaysia	-	8,272	8,272
Structured product (Note 6)	-	48,365	48,365
<b>Total financial assets designated as FVTPL upon initial recognitions</b>	<u>-</u>	<u>56,637</u>	<u>56,637</u>

5. INVESTMENTS (CONTD.)

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>(i) FVTPL (CONTD.)</b>			
<b>- HFT</b>			
<b>2019</b>			
<u>At fair value:</u>			
Quoted equity securities in Malaysia	23,428	20,698	44,126
Quoted unit and property trust funds in Malaysia	660	844	1,504
<b>Total HFT financial assets</b>	<b>24,088</b>	<b>21,542</b>	<b>45,630</b>
<b>2018</b>			
<u>At fair value:</u>			
Quoted equity securities in Malaysia	26,070	30,175	56,245
<b>Total HFT financial assets</b>	<b>26,070</b>	<b>30,175</b>	<b>56,245</b>
	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>(ii) FVOCI</b>			
<b>2019</b>			
<u>At fair value:</u>			
Malaysian government papers	64,166	214,215	278,381
Unquoted debt securities in Malaysia	1,145,430	1,489,518	2,634,948
<b>Total FVOCI financial assets</b>	<b>1,209,596</b>	<b>1,703,733</b>	<b>2,913,329</b>
<b>2018</b>			
<u>At fair value:</u>			
Malaysian government papers	2,003	334,707	336,710
Unquoted debt securities in Malaysia	948,124	1,142,988	2,091,112
<b>Total FVOCI financial assets</b>	<b>950,127</b>	<b>1,477,695</b>	<b>2,427,822</b>

5. INVESTMENTS (CONTD.)

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>(iii) AC</b>			
<b>2019</b>			
<u>At cost</u>			
Islamic investment accounts with:			
Licensed financial institutions	83,547	197,263	280,810
Others	38,325	55,878	94,203
<b>Total AC financial assets</b>	<u>121,872</u>	<u>253,141</u>	<u>375,013</u>
<b>2018</b>			
<u>At cost</u>			
Islamic investment accounts with:			
Licensed financial institutions	105,111	109,311	214,422
Others	42,441	23,400	65,841
<b>Total AC financial assets</b>	<u>147,552</u>	<u>132,711</u>	<u>280,263</u>

The carrying amounts of financial assets at AC are reasonable approximations of fair values due to the short-term maturity of the financial assets.

**Fair Value of Investments**

An analysis of the different fair value measurement bases used in the determination of the fair values of investments are further disclosed in Note 40(c) to the financial statements.

6. STRUCTURED PRODUCT

The notional amount, recorded at gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The carrying amount of structured product is presented as follows:

**General Takaful fund/Company**

	<-----2019----->		<-----2018----->	
	Principal/ Notional Amount RM'000	Net Carrying Amount RM'000	Principal/ Notional Amount RM'000	Net Carrying Amount RM'000
<b>Financial asset at FVTPL</b>				
Structured deposit (Note 5)	-	-	50,000	48,365
Total structured product		<u>-</u>		<u>48,365</u>

The fair value of structured product of the Company is derived based on valuation techniques from market observable inputs. They are revalued at the reporting date using such values as provided by the respective counterparties.

**7. FINANCING RECEIVABLES**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
Corporate loan	-	3,331	3,331
Staff loan	252	-	252
Allowance for impairment losses (Note 37 (i))	-	(3,331)	(3,331)
	<u>252</u>	<u>-</u>	<u>252</u>
Receivable after 12 months	<u>193</u>	<u>-</u>	<u>193</u>
<b>2018</b>			
Corporate loan	-	3,331	3,331
Allowance for impairment losses (Note 37 (i))	-	(3,331)	(3,331)
	<u>-</u>	<u>-</u>	<u>-</u>

**8. RETAKAFUL ASSETS**

**General Takaful fund/Company**

	<b>2019 RM'000</b>	<b>2018 RM'000</b>
Retakaful operators' share of:		
Claims liabilities (Note 14 (i))	207,844	188,007
Contribution liabilities (Note 14 (ii))	31,947	44,166
	<u>239,791</u>	<u>232,173</u>
Allowance for impairment losses (Note 37 (i))	(716)	-
	<u>239,075</u>	<u>232,173</u>

**9. TAKAFUL RECEIVABLES**

**General Takaful fund/Company**

	<b>2019 RM'000</b>	<b>2018 RM'000</b>
Due contributions including agents/ brokers, cedants and co-takaful balances	85,423	95,205
Due from retakaful operators	7,403	7,854
	<u>92,826</u>	<u>103,059</u>
Allowance for impairment losses (Note 37 (i))	(9,763)	(6,463)
	<u>83,063</u>	<u>96,596</u>

**9. TAKAFUL RECEIVABLES (CONTD.)**

Amounts of takaful receivables have been offset against the amounts due to the same counterparties are as follows:

	<b>Gross amount carrying amount RM'000</b>	<b>Gross amount offset in the Statement of Financial Position RM'000 (Note 17)</b>	<b>Net amounts in the Statement of Financial Position RM'000</b>
<b>General Takaful fund/Company</b>			
<b>2019</b>			
Due contributions including agents/ brokers, cedants and co-takaful balances*	99,588	(14,165)	85,423
Due from retakaful operators	7,467	(64)	7,403
	<u>107,055</u>	<u>(14,229)</u>	<u>92,826</u>
<b>2018</b>			
Due contributions including agents/ brokers, cedants and co-takaful balances*	104,193	(8,988)	95,205
Due from retakaful operators	7,874	(20)	7,854
	<u>112,067</u>	<u>(9,008)</u>	<u>103,059</u>

\* Included in due contributions are balances due from related parties amounting to RM7,674,000 (2018 : RM7,037,000).

The carrying amounts are reasonable approximations of fair values at the reporting date due to the relatively short-term maturity of these balances.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**10. OTHER ASSETS**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
Sundry receivables, deposits and prepayments	2,340	6	2,346
Allowance for impairment losses (Note 37 (i))	(362)	-	(362)
	<u>1,978</u>	<u>6</u>	<u>1,984</u>
Wakalah receivables	27,531	-	27,531
Allowance for impairment losses (Note 37 (i))	(1,043)	-	(1,043)
	<u>26,488</u>	<u>-</u>	<u>26,488</u>
Income and profit due and accrued**	12,826	21,853	34,679
Amounts due from General Takaful fund*	56,816	-	-
Amounts due from stockbrokers	36	-	36
	<u>98,144</u>	<u>21,859</u>	<u>63,187</u>
<b>2018</b>			
Sundry receivables, deposits and prepayments	3,472	153	3,625
Allowance for impairment losses (Note 37 (i))	-	-	-
	<u>3,472</u>	<u>153</u>	<u>3,625</u>
Wakalah receivables	21,421	-	21,421
Allowance for impairment losses (Note 37 (i))	(634)	-	(634)
	<u>20,787</u>	<u>-</u>	<u>20,787</u>
Income and profit due and accrued**	8,590	17,072	25,662
Amounts due from General Takaful fund*	65,716	-	-
Amounts due from stockbrokers	719	2,344	3,063
	<u>99,284</u>	<u>19,569</u>	<u>53,137</u>

\* The amounts due from the General Takaful fund are non-trade in nature, unsecured, not subject to any profit elements and repayable in the short term.

\*\* Included in income and profit due and accrued are balances due from other related companies amounting to RM129,000 (2018: RM239,000).

The carrying amounts (other than prepayments) are reasonable approximations of fair values due to the relatively short-term maturity of these balances.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**11. SHARE CAPITAL**

	No. of shares '000	Amount RM'000
<b>Shareholder's fund/Company</b>		
<b>2019</b>		
<b>Issued and fully paid:</b>		
<u>Ordinary shares</u>		
At 1 January 2019/31 December 2019	<u>870,000</u>	<u>870,000</u>
<b>2018</b>		
<b>Issued and fully paid:</b>		
<u>Ordinary shares</u>		
At 18 July 2017 (date of incorporation)	- *	- *
Issued during the period**	<u>870,000</u>	<u>870,000</u>
At 31 December 2018	<u>870,000</u>	<u>870,000</u>

\* Representing RM1

\*\* The Company was incorporated on 18 July 2017 with a share capital of RM1 comprising 1 ordinary share. On 20 December 2017, the company increased its share capital to RM870,000,000 by the issuance of 869,999,999 ordinary shares.

**12. RESERVES**

	Note	2019 RM'000	2018 RM'000
<b>Shareholder's fund/Company</b>			
<b>Non-distributable:</b>			
FVOCI reserves	(i)	47,714	5,230
<b>Distributable:</b>			
Retained profits	(ii)	<u>308,692</u>	<u>153,156</u>
		<u>356,406</u>	<u>158,386</u>

(i) The FVOCI reserves of the Company arose from changes in the fair values of the investment assets of the Shareholder's fund.

(ii) The entire distributable retained profits may be distributed to the shareholder under the single-tier system.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**13. PARTICIPANTS' FUND**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General Takaful fund/Company</b>		
Accumulated surplus (Note (i))	182,124	172,167
FVOCI reserves (Note (ii))	40,393	(8,322)
	<u>222,517</u>	<u>163,845</u>
 (i) Accumulated surplus		
At 1 January 2019/18 July 2017 (date of incorporation)	172,167	-
Transferred from EFTB	-	196,302
Effect of adopting MFRS 9	-	(1,552)
At 1 January 2019/1 January 2018	<u>172,167</u>	<u>194,750</u>
Surplus arising during the year/period	54,729	76,658
Surplus paid to participants during the year/period	(44,772)	(99,241)
At 31 December 2019/31 December 2018	<u>182,124</u>	<u>172,167</u>
 (ii) FVOCI reserves		
At 1 January 2019/18 July 2017 (date of incorporation)	(8,322)	-
Transferred from EFTB	-	(12,753)
Effect of adopting MFRS 9	-	1,164
At 1 January 2019/1 January 2018	<u>(8,322)</u>	<u>(11,589)</u>
Fair value changes	57,199	1,985
Realised gain transferred to income statement (Note 23)	6,900	2,314
Deferred tax on fair value changes (Note 16)	(15,384)	(1,032)
At 31 December 2019/31 December 2018	<u>40,393</u>	<u>(8,322)</u>



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**14. TAKAFUL CERTIFICATE LIABILITIES**

**General Takaful fund/Company**

	←----- 2019 -----→			←----- 2018 -----→		
	<b>Gross RM'000</b>	<b>Retakaful RM'000 (Note 8)</b>	<b>Net RM'000</b>	<b>Gross RM'000</b>	<b>Retakaful RM'000 (Note 8)</b>	<b>Net RM'000</b>
Claims liabilities (i)	981,381	(207,844)	773,537	869,254	(188,007)	681,247
Contribution liabilities (ii)	725,313	(31,947)	693,366	634,309	(44,166)	590,143
	<u>1,706,694</u>	<u>(239,791)</u>	<u>1,466,903</u>	<u>1,503,563</u>	<u>(232,173)</u>	<u>1,271,390</u>

**(i) Claims liabilities**

At 1 January 2019/18 July 2017 (date of incorporation)	869,254	(188,007)	681,247	-	-	-
Transferred from EFTB	-	-	-	932,653	(217,094)	715,559
Claims incurred in the current accident year/period	946,499	(32,880)	913,619	725,826	(26,665)	699,161
Movements in claims incurred in prior accident year/period	(41,408)	(9,638)	(51,046)	(43,133)	18,764	(24,369)
Claims paid during the year/period	(789,424)	22,013	(767,411)	(728,707)	32,733	(695,974)
Movements in Provision of Risk Margin for Adverse Deviation ("PRAD")	(3,540)	668	(2,872)	(17,385)	4,255	(13,130)
At 31 December 2019/31 December 2018	<u>981,381</u>	<u>(207,844)</u>	<u>773,537</u>	<u>869,254</u>	<u>(188,007)</u>	<u>681,247</u>

**(ii) Contribution liabilities**

At 1 January 2019/18 July 2017 (date of incorporation)	634,309	(44,166)	590,143	-	-	-
Transferred from EFTB	-	-	-	574,447	(45,074)	529,373
Contributions written during the year/period (Note 20)	1,604,793	(121,226)	1,483,567	1,309,375	(120,395)	1,188,980
Contributions earned during the year/period (Note 20)	(1,513,789)	133,445	(1,380,344)	(1,249,513)	121,303	(1,128,210)
At 31 December 2019/31 December 2018	<u>725,313</u>	<u>(31,947)</u>	<u>693,366</u>	<u>634,309</u>	<u>(44,166)</u>	<u>590,143</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**15. EXPENSE LIABILITIES**

<b>Shareholder's fund/Company</b>	<b>2019</b> <b>RM'000</b>	<b>2018</b> <b>RM'000</b>
Unearned wakalah fee (UWF) of General Takaful fund	148,713	127,590
At 1 January 2019/18 July 2017 (date of incorporation)	127,590	-
Transferred from EFTB	-	137,916
Wakalah fee received during the year/period (Note 21)	514,135	411,769
Wakalah fee earned during the year/period	(493,012)	(422,095)
Movement in UWF	21,123	(10,326)
At 31 December 2019/31 December 2018	148,713	127,590

**16. DEFERRED TAXATION**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
At 1 January 2019	(919)	6,983	6,064
Recognised in:			
Income statement (Note 30)	220	-	220
Tax borne by participants (Note 30)	-	(11)	(11)
Other comprehensive income/ participants' fund	(13,416)	(15,384)	(28,800)
At 31 December 2019	(14,115)	(8,412)	(22,527)
<b>2018</b>			
At 18 July 2017 (date of incorporation)	-	-	-
Transferred from EFTB	-	5,069	5,069
Effect of adopting MFRS 9	-	122	122
	-	5,191	5,191
Recognised in:			
Income statement (Note 30)	732	-	732
Tax borne by participants (Note 30)	-	2,824	2,824
Other comprehensive income/ participants' fund	(1,651)	(1,032)	(2,683)
Tax borne by participants (Note 30)	-	-	-
At 31 December 2018	(919)	6,983	6,064

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**16. DEFERRED TAXATION (CONTD.)**

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 income taxes relate to the same fiscal authority. The deferred tax disclosed in the statement of financial position is presented on a net basis after offsetting as follows:

<b>Shareholder's fund/ Company</b>	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
Deferred tax assets	952	732
Deferred tax liabilities	(15,067)	(1,651)
	<u>(14,115)</u>	<u>(919)</u>

The components and movements of deferred tax assets and liabilities of the Shareholder's fund during the financial year/period prior to offsetting are as follows:

**(i) Deferred tax assets**

	<b>Fair value adjustment</b>	<b>Impairment of FVOCI financial assets</b>	<b>Net amortisation of premiums on investments</b>	<b>Impairment of receivables</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>2019</b>					
At 1 January 2019	429	162	141	-	732
Recognised in:					
Income statement	(125)	(22)	117	250	220
At 31 December 2019	<u>304</u>	<u>140</u>	<u>258</u>	<u>250</u>	<u>952</u>
<b>2018</b>					
At 18 July 2017 (date of incorporation)	-	-	-	-	-
Recognised in:					
Income statement	429	162	141	-	732
At 31 December 2018	<u>429</u>	<u>162</u>	<u>141</u>	<u>-</u>	<u>732</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**16. DEFERRED TAXATION (CONTD.)**

The components and movements of deferred tax assets and liabilities of the Shareholder's fund during the financial year/period prior to offsetting are as follows (contd.):

**(ii) Deferred tax liabilities**

	<b>FVOCI reserves RM'000</b>	<b>Total RM'000</b>
<b>2019</b>		
At 1 January 2019	(1,651)	(1,651)
Recognised in:		
Other comprehensive income (Note 30)	(13,416)	(13,416)
At 31 December 2019	<u>(15,067)</u>	<u>(15,067)</u>
<b>2018</b>		
At 18 July 2017 (date of incorporation)	-	-
Recognised in:		
Other comprehensive income (Note 30)	(1,651)	(1,651)
At 31 December 2018	<u>(1,651)</u>	<u>(1,651)</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**16. DEFERRED TAXATION (CONTD.)**

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 income taxes relate to the same fiscal authority. The deferred tax disclosed in the statement of financial position is presented on a net basis after offsetting as follows:

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General Takaful fund/ Company</b>		
Deferred tax assets	4,142	6,983
Deferred tax liabilities	(12,554)	-
	<u>(8,412)</u>	<u>6,983</u>

The components and movements of deferred tax assets and liabilities of the General Takaful fund during the financial year/period prior to offsetting are as follows:

**(i) Deferred tax assets**

	<b>Net amortisation of premiums on investments RM'000</b>	<b>Fair value adjustment RM'000</b>	<b>Impairment of takaful receivables RM'000</b>	<b>FVOCI reserves RM'000</b>	<b>Impairment of investments RM'000</b>	<b>Takaful certificate liabilities RM'000</b>	<b>Total RM'000</b>
<b>2019</b>							
At 1 January 2019	1,186	509	1,552	2,953	736	47	6,983
Recognised in:							
Tax borne by participants	(278)	(509)	963	-	(17)	(47)	112
Other comprehensive income	-	-	-	(2,953)	-	-	(2,953)
At 31 December 2019	<u>908</u>	<u>-</u>	<u>2,515</u>	<u>-</u>	<u>719</u>	<u>-</u>	<u>4,142</u>
<b>2018</b>							
At 18 July 2017 (date of incorporation)	-	-	-	-	-	-	-
Transferred from EFTB	952	-	-	4,028	887	26	5,893
Effect of adopting MFRS 9	-	43	122	(43)	-	-	122
	<u>952</u>	<u>43</u>	<u>122</u>	<u>3,985</u>	<u>887</u>	<u>26</u>	<u>6,015</u>
Recognised in:							
Tax borne by participants	234	466	1,430	-	(151)	21	2,000
Other comprehensive income	-	-	-	(1,032)	-	-	(1,032)
At 31 December 2018	<u>1,186</u>	<u>509</u>	<u>1,552</u>	<u>2,953</u>	<u>736</u>	<u>47</u>	<u>6,983</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**16. DEFERRED TAXATION (CONTD.)**

The components and movements of deferred tax assets and liabilities of the General Takaful fund during the financial year/period prior to offsetting are as follows (contd.):

**(ii) Deferred tax liabilities**

	<b>Fair value adjustment RM'000</b>	<b>FVOCI reserves RM'000</b>	<b>Takaful certificate liabilities RM'000</b>	<b>Others RM'000</b>	<b>Total RM'000</b>
<b>2019</b>					
At 1 January 2019	-	-	-	-	-
Recognised in:					
Tax borne by participants	(109)	-	(14)	-	(123)
Other comprehensive income	-	(12,431)	-	-	(12,431)
At 31 December 2019	<u>(109)</u>	<u>(12,431)</u>	<u>(14)</u>	<u>-</u>	<u>(12,554)</u>
<b>2018</b>					
At 18 July 2017 (date of incorporation)				-	-
Transferred from EFTB				<u>(824)</u>	<u>(824)</u>
Recognised in:				<u>(824)</u>	<u>(824)</u>
Tax borne by participants				<u>824</u>	<u>824</u>
At 31 December 2018				<u>-</u>	<u>-</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**17. TAKAFUL PAYABLES**

	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General Takaful fund/Company</b>		
Due to agents and brokers	73,597	63,736
Due to retakaful operators	41,045	38,291
	<u>114,642</u>	<u>102,027</u>

Amounts of takaful payables have been offset against the amount due from the same counterparties are as follows:

	<b>Gross carrying amount</b>	<b>Gross amount offset in the Statement of Financial Position</b>	<b>Net amounts in the Statement of Financial Position</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
		(Note 9)	
<b>General Takaful fund/Company</b>			
<b>2019</b>			
Due to agents and brokers	87,762	(14,165)	73,597
Due to retakaful operators	41,109	(64)	41,045
	<u>128,871</u>	<u>(14,229)</u>	<u>114,642</u>
<b>2018</b>			
Due to agents and brokers	72,724	(8,988)	63,736
Due to retakaful operators	38,311	(20)	38,291
	<u>111,035</u>	<u>(9,008)</u>	<u>102,027</u>

The carrying amounts are reasonable approximations of fair values at the reporting date due to the relatively short-term maturity of these balances.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**18. OTHER LIABILITIES**

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>2019</b>			
Amounts due to Shareholder's fund*	-	56,816	-
Unclaimed monies	-	42,483	42,483
Service tax payable	-	21,434	21,434
Surplus payable to participants	-	171,377	171,377
Withholding tax payable	-	8,623	8,623
Amount due to related companies (Note 34 (ii))*:			
- Ultimate holding company	1,543	-	1,543
- Immediate holding company	498	-	498
- Other related companies	6,316	27	6,343
Zakat payable	5,027	-	5,027
Provisions for expenses	3,733	-	3,733
Wakalah payables	-	27,531	27,531
Sundry payables and accrued liabilities**	41,934	4,374	46,308
	<u>59,051</u>	<u>332,665</u>	<u>334,900</u>
<b>2018</b>			
Amounts due to Shareholder's fund*	-	65,716	-
Unclaimed monies	-	29,608	29,608
Service tax payable	-	16,220	16,220
Surplus payable to participants	-	203,648	203,648
Withholding tax payable	-	7,989	7,989
Amount due to related companies (Note 34 (ii))*:			
- Ultimate holding company	1,348	-	1,348
- Immediate holding company	1,214	-	1,214
- Other related companies	11,040	63	11,103
Zakat payable	6,339	-	6,339
Provisions for expenses	3,941	-	3,941
Wakalah payables	-	21,421	21,421
Sundry payables and accrued liabilities**	28,218	4,436	32,654
	<u>52,100</u>	<u>349,101</u>	<u>335,485</u>

\* Amounts due to ultimate holding company, immediate holding company and other related companies and the Shareholder's fund are non-trade in nature, unsecured, not subject to any profit elements and are repayable in the short term.

\*\* Included in sundry payables and accrued liabilities are balances due to related parties amounting to RM2,327,000 (2018: RM970,000).

The carrying amounts are reasonable approximations of fair values at the reporting date due to the relatively short-term maturity of these balances.



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**19. OPERATING REVENUE**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>1 January 2019 to 31 December 2019</b>			
Gross contributions (Note 20)	-	1,604,793	1,604,793
Wakalah fees (Note 21)	514,135	-	-
Investment income (Note 22)	54,269	79,338	133,607
	<u>568,404</u>	<u>1,684,131</u>	<u>1,738,400</u>
<b>18 July 2017 to 31 December 2018</b>			
Gross contributions (Note 20)	-	1,309,375	1,309,375
Wakalah fees (Note 21)	411,769	-	-
Investment income (Note 22)	46,028	68,242	114,270
	<u>457,797</u>	<u>1,377,617</u>	<u>1,423,645</u>

**20. NET EARNED CONTRIBUTION**

	<b>1 January 2019 to 31 December 2019 RM'000</b>	<b>18 July 2017 to 31 December 2018 RM'000</b>
<b>General Takaful fund/Company</b>		
Gross contribution (Note 14 & 19)	1,604,793	1,309,375
Change in unearned contribution reserves	(91,004)	(59,862)
	<u>1,513,789</u>	<u>1,249,513</u>
Contributions ceded to retakaful operators (Note 14)	(121,226)	(120,395)
Change in unearned contribution reserves	(12,219)	(908)
	<u>(133,445)</u>	<u>(121,303)</u>
<b>Net earned contributions</b>	<u>1,380,344</u>	<u>1,128,210</u>

**21. FEE AND COMMISSION INCOME**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>1 January 2019 to 31 December 2019</b>			
Wakalah fee income from:			
General Takaful fund (Notes 15 & 19)	514,135	-	-
Retakaful commission income	-	7,267	7,267
Others	-	191	191
<b>Total fee and commission income</b>	<u>514,135</u>	<u>7,458</u>	<u>7,458</u>
<b>18 July 2017 to 31 December 2018</b>			
Wakalah fee income from:			
General Takaful fund (Notes 15 & 19)	411,769	-	-
Retakaful commission income	-	15,830	15,830
Others	-	467	467
<b>Total fee and commission income</b>	<u>411,769</u>	<u>16,297</u>	<u>16,297</u>

22. INVESTMENT INCOME

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>1 January 2019 to 31 December 2019</b>			
<b>Financial assets at FVTPL:</b>			
<b>- Designated upon initial recognition</b>			
Profit income	-	4,074	4,074
<b>- HFT</b>			
Dividend income:			
Quoted equity securities in Malaysia	570	501	1,071
Unit and property trusts	9	16	25
<b>Financial assets at FVOCI:</b>			
Profit income	50,617	70,810	121,427
<b>Financial assets at AC:</b>			
Profit income	4,158	5,576	9,734
Net amortisation of premiums	(849)	(1,285)	(2,134)
Investment related expenses	(236)	(354)	(590)
<b>Total investment income</b>	<b>54,269</b>	<b>79,338</b>	<b>133,607</b>
<b>18 July 2017 to 31 December 2018</b>			
<b>Financial assets at FVTPL:</b>			
<b>- Designated upon initial recognition</b>			
Profit income	-	3,438	3,438
<b>- HFT</b>			
Dividend income:			
Quoted equity securities in Malaysia	1,056	962	2,018
<b>Financial assets at FVOCI:</b>			
Profit income	42,215	61,302	103,517
<b>Financial assets at AC:</b>			
Profit income	3,627	4,651	8,278
Net amortisation of premiums	(642)	(1,711)	(2,353)
Investment related expenses	(228)	(400)	(628)
<b>Total investment income</b>	<b>46,028</b>	<b>68,242</b>	<b>114,270</b>

**23. REALISED GAINS/(LOSSES)**

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>1 January 2019 to 31 December 2019</b>			
<b>Financial assets at FVTPL</b>			
<b>- HFT</b>			
Realised losses:			
Quoted equity securities	(766)	(646)	(1,412)
	<u>(766)</u>	<u>(646)</u>	<u>(1,412)</u>
<b>Financial assets at FVOCI</b>			
Realised gains:			
Malaysian government papers	365	3,220	3,585
Unquoted debt securities	7,497	3,680	11,177
	<u>7,862</u>	<u>6,900</u>	<u>14,762</u>
<b>Total realised gains</b>	<u>7,096</u>	<u>6,254</u>	<u>13,350</u>
<b>18 July 2017 to 31 December 2018</b>			
<b>Financial assets at FVTPL</b>			
<b>- HFT</b>			
Realised losses:			
Quoted equity securities	(8,051)	(7,232)	(15,283)
	<u>(8,051)</u>	<u>(7,232)</u>	<u>(15,283)</u>
<b>Financial assets at FVOCI</b>			
Realised gains:			
Malaysian government papers	211	201	412
Unquoted debt securities	1,180	2,113	3,293
	<u>1,391</u>	<u>2,314</u>	<u>3,705</u>
<b>Total realised losses</b>	<u>(6,660)</u>	<u>(4,918)</u>	<u>(11,578)</u>

**24. FAIR VALUE GAINS/(LOSSES)**

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>1 January 2019 to 31 December 2019</b>			
<b>Financial assets at FVTPL:</b>			
- Designated upon initial recognition	-	2,574	2,574
- HFT	521	39	560
<b>Total fair value gains</b>	<u>521</u>	<u>2,613</u>	<u>3,134</u>
<b>18 July 2017 to 31 December 2018</b>			
<b>Financial assets at FVTPL:</b>			
- Designated upon initial recognition	-	(1,363)	(1,363)
- HFT	(1,783)	(357)	(2,140)
<b>Total fair value losses</b>	<u>(1,783)</u>	<u>(1,720)</u>	<u>(3,503)</u>

25. OTHER OPERATING INCOME/(LOSSES), NET

	Shareholder's fund RM'000	General Takaful fund RM'000	Company RM'000
<b>1 January 2019 to 31 December 2019</b>			
<b>Other income</b>			
Reversal of impairment losses on (Note 37 (i)):			
- Investments	94	65	159
Bad debts recovery	-	1,701	1,701
Sundry income	2,759	474	3,233
	<u>2,853</u>	<u>2,240</u>	<u>5,093</u>
<b>Other expenses</b>			
Allowance for impairment losses on (Note 37 (i)):			
- Takaful receivables	-	(3,300)	(3,300)
- Retakaful assets	-	(716)	(716)
- Other receivables	(771)	-	(771)
Realised loss on foreign exchange	-	(9)	(9)
Sundry expenditure	(1,781)	(649)	(2,430)
	<u>(2,552)</u>	<u>(4,674)</u>	<u>(7,226)</u>
<b>Total other operating income/(losses), net</b>	<u>301</u>	<u>(2,434)</u>	<u>(2,133)</u>
<b>18 July 2017 to 31 December 2018</b>			
<b>Other income</b>			
Reversal of impairment losses on (Note 37 (i)):			
- Investments	-	262	262
- Takaful receivables	-	211	211
- Retakaful assets	-	4	4
Bad debts recovery	-	1,212	1,212
Realised gain on foreign exchange	-	1	1
Sundry income	1,619	44	1,663
	<u>1,619</u>	<u>1,734</u>	<u>3,353</u>
<b>Other expenses</b>			
Allowance for impairment losses on (Note 37 (i)):			
- Investments	(121)	-	(121)
- Other receivables	(634)	-	(634)
Sundry expenditure	(690)	(14)	(704)
	<u>(1,445)</u>	<u>(14)</u>	<u>(1,459)</u>
<b>Total other operating income, net</b>	<u>174</u>	<u>1,720</u>	<u>1,894</u>

26. MANAGEMENT EXPENSES

	1 January 2019 to 31 December 2019 RM'000	18 July 2017 to 31 December 2018 RM'000
<b>Shareholder's fund/Company</b>		
Employee benefits expenses (Note 26 (a))	112,826	99,839
Directors' fee and remuneration (Note 27)	855	857
Shariah Committee's remuneration (Note 28)	88	197
Auditors' remuneration:		
- statutory audits	261	261
- regulatory services	19	19
- other services	119	-
Amortisation of intangible assets (Note 4)	242	251
Auto assist service	13,365	5,674
Bank and financing charges	11,922	11,415
Electronic data processing expenses	10,372	9,284
Entertainment expenses	225	155
Legal fees	391	660
Information technology outsourcing	7,713	6,232
Office facilities expenses	647	640
Other management fees	3,653	3,077
Postage and stamp duties	1,639	1,875
Printing and stationery	1,457	2,312
Professional fees	813	84
Promotional and marketing costs	41,515	30,068
Rental of offices/premises	6,287	5,810
Training expenses	1,118	1,001
Travelling expenses	1,770	580
Utilities, assessment and maintenance	2,166	1,587
Other expenses	14,636	7,440
<b>Total management expenses</b>	<b>234,099</b>	<b>189,318</b>

**26. MANAGEMENT EXPENSES (CONTD.)**

(a) Employee benefits expenses

	1 January 2019	18 July 2017
	to	to
	31 December 2019	31 December 2018
	RM'000	RM'000
<b>Shareholder's fund/Company</b>		
Wages, salaries and bonus	84,828	72,524
EPF	13,752	11,758
SOCSSO	630	552
Share based compensation	860	36
Other benefits	12,756	14,969
	<u>112,826</u>	<u>99,839</u>

(b) The details of CEO's remuneration during the year/period are as follows:

	1 January 2019	18 July 2017
	to	to
	31 December 2019	31 December 2018
	RM'000	RM'000
Salaries	600	540
Bonus	326	300
EPF	164	142
Share based compensation	85	36
Other emoluments	142	89
	<u>1,317</u>	<u>1,107</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**27. DIRECTORS' REMUNERATION**

	1 January 2019 to 31 December 2019 RM'000	18 July 2017 to 31 December 2018 RM'000
<b>Shareholder's fund/Company</b>		
Executive director:		
Fees	120	119
Other emoluments	16	13
	136	132
Non executive directors:		
Fees	628	650
Other emoluments	91	75
	719	725
<b>Total directors' remuneration</b>	855	857

The details of the remuneration of the directors of the Company are as follows:

	<b>Benefits Fees RM'000</b>	<b>Other Emoluments RM'000</b>	<b>Total RM'000</b>
<b>2019</b>			
Executive director:			
Dato' Mohamed Rafique			
Merican Mohd			
Wahiduddin Merican	120	16	136
	120	16	136
Non-executive directors:			
Dato' Majid Mohamad (Chairman)	180	22	202
Mr Philippe Pol Arthur Latour (Vice Chairman)	120	18	138
Dato' Johan Ariffin	120	20	140
Dr. Abdul Rahim Abdul Rahman	88	6	94
Mr. Koh Heng Kong	120	25	145
	628	91	719
<b>Total directors' remuneration</b>	748	107	855

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**27. DIRECTORS' REMUNERATION (CONTD.)**

The details of the remuneration of the directors of the Company are as follows (contd.):

	<b>Benefits Fees RM'000</b>	<b>Other Emoluments RM'000</b>	<b>Total RM'000</b>
<b>2018</b>			
Executive director:			
Dato' Mohamed Rafique Merican Mohd Wahiduddin Merican	119	13	132
	<u>119</u>	<u>13</u>	<u>132</u>
Non-executive directors:			
Dato' Majid Mohamad (Chairman)	174	15	189
Mr Philippe Pol Arthur Latour (Vice Chairman)	119	14	133
Dato' Johan Ariffin	119	15	134
Dr. Abdul Rahim Abdul Rahman	119	13	132
Mr. Koh Heng Kong	119	18	137
	<u>650</u>	<u>75</u>	<u>725</u>
<b>Total directors' remuneration</b>	<u>769</u>	<u>88</u>	<u>857</u>



**28. SHARIAH COMMITTEE'S REMUNERATION**

<b>Shareholder's fund/Company</b>	<b>1 January 2019 to 31 December 2019 RM'000</b>	<b>18 July 2017 to 31 December 2018 RM'000</b>
	Fees	57
Other emoluments	31	43
	88	197

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

	<b>Fees RM'000</b>	<b>Other Emoluments RM'000</b>	<b>Total RM'000</b>
<b>2019</b>			
Shariah committee:			
Assoc Prof Dr. Aznan Hasan (Chairman) ( w.e.f June 2019)	8	4	12
Dr. Ahcene Lahsasna (Ceased as Chairman May 2019)	5	3	8
Dr. Sarip Adul	9	5	14
Prof Dr. Rusni Hassan	9	5	14
Prof Dr Abdul Rahim Abdul Rahman	9	5	14
Prof Dato' Dr Mohd Azmi Omar	9	5	14
Dato' Dr. Anhar Opir (Ceased as member October 2019)	8	4	12
	57	31	88
<b>2018</b>			
Shariah committee:			
Dr. Ahcene Lahsasna (Chairman)	-	-	-
Dr. Ismail Mohd @ Abu Hassan	28	7	35
Dr. Mohammad Deen Mohd Napiah	9	3	12
Dr. Sarip Adul	9	3	12
Prof Dr. Rusni Hassan	24	7	31
Prof Dr. Abdul Rahim Abdul Rahman	24	7	31
Prof Dato' Dr Mohd Azmi Omar	24	7	31
Dato' Dr. Anhar Opir	18	4	22
	18	5	23
	154	43	197

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**29. FEE AND COMMISSION EXPENSES**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>1 January 2019 to 31 December 2019</b>			
Commission expenses	149,344	-	149,344
Wakalah fee expense	-	514,135	-
Others	-	210	210
	<u>149,344</u>	<u>514,345</u>	<u>149,554</u>
<b>18 July 2017 to 31 December 2018</b>			
Commission expenses	119,581	120	119,701
Wakalah fee expense	-	411,769	-
Others	-	35	35
	<u>119,581</u>	<u>411,924</u>	<u>119,736</u>

30. INCOME TAX EXPENSE

	1 January 2019 to 31 December 2019 RM'000	18 July 2017 to 31 December 2018 RM'000
<b><u>Income Statement</u></b>		
<b>Shareholder's fund/Company</b>		
Income tax:		
Tax expense for the year/period	58,382	52,602
Over provision of taxation in prior financial period	(107)	-
Deferred taxation:		
Relating to origination and reversal of temporary differences (Note 16)	(220)	(732)
	<u>58,055</u>	<u>51,870</u>
<b><u>Statement of Comprehensive Income</u></b>		
<b>Shareholder's fund/Company</b>		
Deferred income tax related to other comprehensive income		
- Fair value changes on FVOCI investments		
Shareholder's fund (Note 16)	13,416	1,651
General Takaful fund (Note 16)	15,384	1,032
	<u>28,800</u>	<u>2,683</u>

**30. INCOME TAX EXPENSE (CONTD.)**

**Reconciliation between tax expense and accounting profit**

The reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	<b>1 January 2019 to 31 December 2019 RM'000</b>	<b>18 July 2017 to 31 December 2018 RM'000</b>
<b>Shareholder's fund/Company</b>		
Profit before taxation	216,543	211,365
Taxation at Malaysian statutory tax rate of 24%	51,970	50,728
Income not subject to tax	(264)	(369)
Expenses not deductible for tax purposes	7,124	1,511
Effect of zakat deduction and approved donation	(668)	-
Over provision of taxation in prior financial period	(107)	-
Tax expense for the financial year/period	<u>58,055</u>	<u>51,870</u>

	<b>1 January 2019 to 31 December 2019 RM'000</b>	<b>18 July 2017 to 31 December 2018 RM'000</b>
--	--	--

**Tax Borne by Participants**

**Income Statement**

**General Takaful fund/Company**

Deferred taxation:

Relating to origination and reversal of temporary differences (Note 16)	11	(2,824)
Tax borne by participants recognised in Income Statement	<u>11</u>	<u>(2,824)</u>

The domestic income tax for Shareholder's and General Takaful fund are calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the financial year/period.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**31. EARNINGS PER SHARE**

Basic and diluted earnings per share ("EPS") is calculated by dividing the profit for the financial year/period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year/period.

	<b>1 January 2019 to 31 December 2019</b>	<b>18 July 2017 to 31 December 2018</b>
Profit attributable to ordinary equity holders (RM'000)	<u>155,536</u>	<u>153,156</u>
Weighted average number of ordinary shares in issue ('000) At 31 December 2019/31 December 2018	<u>870,000</u>	<u>617,684</u>
Basic and diluted earnings per share (sen)	<u>17.88</u>	<u>24.80</u>

There have been no other transactions involving ordinary shares between the reporting date and date of completion of these financial statements.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**32. SEGMENTAL INFORMATION ON CASH FLOW**

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>1 January 2019 to 31 December 2019</b>			
Net cash flow generated from/(used in):			
Operating activities	188,276	85,538	273,814
Investing activities	(194,813)	(114,392)	(309,205)
Financing activities	-	-	-
	<u>(6,537)</u>	<u>(28,854)</u>	<u>(35,391)</u>
Net (decrease)/increase in cash and cash equivalents:			
At 1 January 2019	18,115	62,114	80,229
At 31 December 2019	<u>11,578</u>	<u>33,260</u>	<u>44,838</u>
<b>18 July 2017 to 31 December 2018</b>			
Net cash flow generated from/(used in):			
Operating activities	127,526	101,348	228,874
Investing activities	(979,411)	(73,193)	(1,052,604)
Financing activities	870,000	-	870,000
	<u>18,115</u>	<u>28,155</u>	<u>46,270</u>
Net (decrease)/increase in cash and cash equivalents:			
At 18 July 2017 (date of incorporation)	-	-	-
Transferred from EFTB	-	33,959	33,959
At 31 December 2018	<u>18,115</u>	<u>62,114</u>	<u>80,229</u>

### **33. SHARE BASED COMPENSATION**

#### **ESGP and CESGP**

Maybank Group has implemented a new employee's share scheme named as the Maybank Group ESGP and the scheme was awarded to the participating companies within the Maybank Group who fulfil the eligibility criteria. The ESGP is governed by the ESGP By-Laws approved by the shareholders of Maybank at an Extraordinary General Meeting held on 6 April 2017. The ESGP was implemented on 14 December 2018 for a period of seven (7) years from the effective date and is administered by the ESGP Committee.

The ESGP consists of two (2) types of performance-based awards, i.e. ESGP Shares and CESGP. The ESGP Shares may be settled by way of issuance and transfer of new Maybank shares or by cash at the absolute discretion of Maybank Group ESGP Committee.

The ESGP Shares is a form of Restricted Share Units ("RSU") and the ESGP Committee may, from time to time during the ESGP period, make further ESGP grants designated as Supplemental ESGP to a selected group of eligible employees to participate in Supplemental ESGP. This selected group may consist of selected key executives, selected key retentions and selected senior external recruits, and such grants may contain terms and conditions which may vary from earlier ESGP grants made available to selected senior management.

The CESGP is a form of Cash-settled Performance-based Restricted Share Unit Scheme ("CRSU") and the ESGP Committee may, from time to time during the ESGP period, make further CESGP grants designated as Supplemental CESGP to a selected group of eligible employees to participate in the ESGP. This selected group may consist of senior management, selected key retentions and selected senior external recruits, and such Supplemental CESGP grants may contain terms and conditions which may vary from earlier CESGP grants made available to selected employees.

Other principal features of the ESGP are as follows:

- (i) The employees eligible to participate in the ESGP must be on the payroll of the Participating Maybank Group and has not served a notice of resignation or received a notice of termination. Participating Maybank Group includes Maybank and its overseas branches and subsidiaries, but excluding dormant subsidiaries.
- (ii) The entitlement under the ESGP for the Executive Directors, including any persons connected to the directors, is subject to the approval of the shareholders of Maybank in a general meeting.
- (iii) The ESGP shall be valid for a period of seven (7) years from the effective date.

Notwithstanding the above, Maybank may terminate the ESGP at any time during the duration of the scheme subject to consent of Maybank's shareholders at a general meeting, wherein at least a majority of the shareholders, present and voting, vote in favour of termination.

**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES**

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

Related parties also include key management personnel, defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes the Directors and the Chief Executive Officer of the Company.

The Company has related party relationships with its shareholder and their related companies, key management personnel and the subsidiaries and associates of a company with significant influence over its shareholder.

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

- (i) Significant transactions of the Company with related parties during the financial year/period were as follows:

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>Income/(expenses):</b>			
<b>1 January 2019 - 31 December 2019</b>			
Ultimate holding company:			
Gross contribution income	-	85	85
Commission and fee expenses	(29,479)	-	(29,479)
Bank charges	(600)	-	(600)
	<u>          </u>	<u>          </u>	<u>          </u>
Immediate holding company:			
Gross contribution income	-	289	289
Shared service costs	(8,001)	-	(8,001)
Claims paid	-	(34)	(34)
Remuneration of a seconded employee	(110)	-	(110)
	<u>          </u>	<u>          </u>	<u>          </u>



**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)**

- (i) Significant transactions of the Company with related parties during the financial year/period were as follows (contd.):

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>Income/(expenses) (contd.):</b>			
<b>1 January 2019 - 31 December 2019 (contd.)</b>			
Fellow subsidiaries within the MAHB Group:			
Gross contribution income	-	11	11
Rental expenses	(6,281)	-	(6,281)
Shared service costs	(92,410)	-	(92,410)
Other related companies within the Maybank Group:			
Gross contribution income	-	1,872	1,872
Profit income	613	971	1,584
Information technology outsourcing	(7,713)	-	(7,713)
Commission and fee expenses	(4,143)	-	(4,143)
Investment expenses	(236)	(354)	(590)
Claims paid	-	(2)	(2)
Companies with significant influence over the Maybank Group:			
Gross contribution income	-	6,157	6,157
Claims paid	-	(219)	(219)
<b>18 July 2017 - 31 December 2018</b>			
Ultimate holding company:			
Commission and fee expenses	(26,730)	-	(26,730)
Bank charges	(470)	-	(470)
Immediate holding company:			
Gross contribution income	-	41	41
Shared service costs	(7,919)	-	(7,919)

**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)**

- (i) Significant transactions of the Company with related parties during the financial year/period were as follows (contd.):

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>Income/(expenses) (contd.):</b>			
<b>18 July 2017 - 31 December 2018 (contd.)</b>			
Fellow subsidiaries within the MAHB Group:			
Gross contribution income	-	14	14
Rental expense	(5,087)	-	(5,087)
Shared service costs	(76,146)	-	(76,146)
	<hr/>	<hr/>	<hr/>
Other related companies within the Maybank Group:			
Gross contribution income	-	1,987	1,987
Profit income	816	996	1,812
Information technology outsourcing	(6,232)	-	(6,232)
Commission and fee expenses	(3,084)	-	(3,084)
Investment expenses	(239)	(390)	(629)
	<hr/>	<hr/>	<hr/>
Companies with significant influence over the Maybank Group:			
Gross contribution income	-	7,575	7,575
Claims paid	-	(105)	(105)
	<hr/>	<hr/>	<hr/>

**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)**

- (ii) Included in the statement of financial position of the Company are amounts due from/(to) related companies represented by the following:

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
Ultimate holding company:			
Bank balances	11,578	30,292	41,870
Outstanding contributions	-	7,674	7,674
Amount due to ultimate holding company (Note 18)	<u>(1,543)</u>	<u>-</u>	<u>(1,543)</u>
Immediate holding company:			
Amount due to immediate holding company (Note 18)	<u>(498)</u>	<u>-</u>	<u>(498)</u>
Fellow subsidiaries within the MAHB Group:			
Amount due to other related companies (Note 18)	(6,297)	-	(6,297)
Claim liabilities	<u>-</u>	<u>(5)</u>	<u>(5)</u>
Other related companies within the Maybank Group:			
Fixed and call deposits	30,013	75,524	105,537
Income and profit due and accrued (Note 10)	41	88	129
Claim liabilities	-	(10)	(10)
Amount due to other related companies (Note 18)	(19)	(27)	(46)
Sundry payables and accrued liabilities (Note 18)	<u>(2,327)</u>	<u>-</u>	<u>(2,327)</u>
Companies with significant influence over the Maybank Group:			
Claims liabilities	<u>-</u>	<u>(1,164)</u>	<u>(1,164)</u>

**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)**

- (ii) Included in the statement of financial position of the Company are amounts due from/(to) related companies represented by the following (contd.):

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2018</b>			
Ultimate holding company:			
Bank balances	18,433	57,083	75,516
Amount due to ultimate holding company (Note 18)	(1,348)	-	(1,348)
Outstanding contributions	-	7,037	7,037
Immediate holding company:			
Amount due to holding company (Note 18)	(1,214)	-	(1,214)
Fellow subsidiaries within the MAHB Group:			
Amount due to other related companies (Note 18)	(10,985)	-	(10,985)
Other related companies within the Maybank Group:			
Fixed and call deposits	107,710	20,331	128,041
Income and profit due and accrued (Note 10)	86	153	239
Amount due to other related companies (Note 18)	(55)	(63)	(118)
Sundry payables and accrued liabilities (Note 18)	(970)	-	(970)
Companies with significant influence over the Maybank Group:			
Claims liabilities	-	(956)	(956)

**34. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES DISCLOSURES (CONTD.)**

(iii) Key management personnel compensation

(a) The remuneration of key management personnel during the year/period were as follows:

	<b>1 January 2019 to 31 December 2019 RM'000</b>	<b>18 July 2017 to 31 December 2018 RM'000</b>
<b>Short-term employee benefits</b>		
- Salaries, allowances and bonuses	1,090	982
- Fees	748	769
- Share based compensation	85	36
- Other emoluments and benefits-in-kind	249	177
	<u>2,172</u>	<u>1,964</u>

(b) The movement in the number of RSU granted and vested to key management personnel were as follows:

	<b>2019 RM'000</b>	<b>2018 RM'000</b>
At 1 January	-	-
Appointment of key management personnel	-	67
Exercised	-	(67)
At 31 December	<u>-</u>	<u>-</u>

(c) The movement in the number of ESGP granted to key management personnel were as follows:

	<b>2019 '000</b>	<b>2018 '000</b>
At 1 January	132	-
Granted	132	132
At 31 December	<u>264</u>	<u>132</u>

The remuneration of other key management personnel, being the non-executive directors of the Company are as disclosed in Note 27 of the financial statements.

### **35. INTEGRATED RISK MANAGEMENT FRAMEWORK**

The Integrated Risk Management Framework ("IRMF") encapsulates the governance structure to support the risk management process and to ensure strong risk management. It defines the risk related roles and responsibilities of the different Boards, Committees and Departments for the legal entities within Maybank Ageas Holdings Berhad ("MAHB"), Etiqa Family Takaful Berhad ("EFTB"), Etiqa Life Insurance Berhad ("ELIB"), Etiqa General Insurance Berhad ("EGIB"), Etiqa General Takaful Bhd ("EGTB") and Etiqa Insurance Pte. Ltd. ("EIPL"), collectively known as the Group.

Seven (7) key building blocks have been set which serve as the foundation for risk management and executed in accordance with the standards and risk appetite set by the Board.



The overall risk management process is viewed in a structured and disciplined approach to align strategies, policies, processes, people and technology with the specific purpose of evaluating all risk types in line with enhancing shareholder value.

#### **Principles**

The approach to risk management is premised on the following seven (7) broad principles:

- Establish risk appetite and strategy
- Assign adequate capital
- Ensure governance and oversight function
- Promote strong risk culture
- Establish adequate risk framework and policies
- Establish risk management practices and processes
- Ensure sufficient resources and system infrastructures

### **35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

#### **Risk Appetite and Strategy**

The establishment of the Group's risk appetite is a critical component of a robust risk management framework and should be driven by both top-down Board leadership and bottom-up involvement of management at all levels. The risk appetite should enable the Board of Directors ("the Board") and Senior Management to communicate, understand and assess the types and level of risks that they are willing to accept in pursuit of their business objectives.

Developing and setting the risk appetite must be integrated into the strategic planning process and should be dynamic and responsive to changing business and market conditions. Over and above this, the budgeting process should be aligned to the risk appetite to ensure that the projected revenues arising from business transactions are consistent with the risk profile and risk appetite established.

#### **Governance and Risk Oversight**

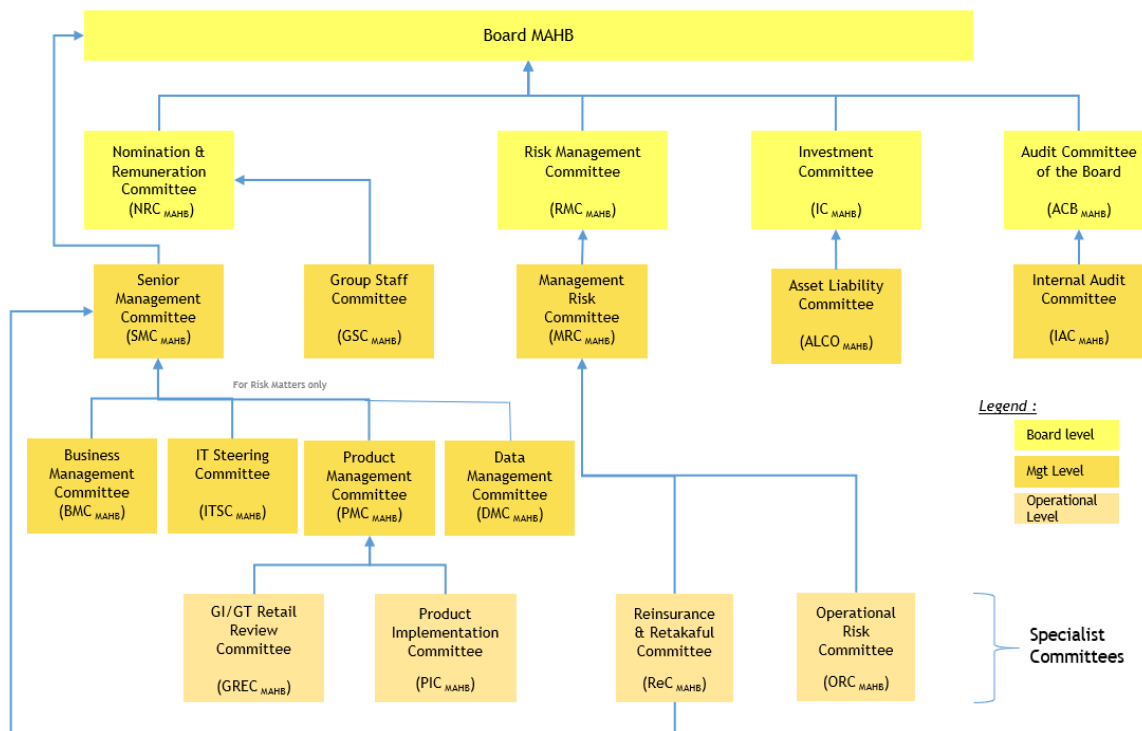
The Group continuously enhances its integrated risk management approach towards effective management of enterprise-wide risks. The management of risk broadly takes place at different hierarchical levels and is emphasised through various levels of committees, business lines, control and reporting functions.

The risk governance model provides a formalised, transparent and effective governance structure which promotes active involvement of the Board and Senior Management in the risk management process to ensure a uniform view of risk across the Group.

The risk governance structure outlines the organisation, hierarchy and the scope of responsibilities of all the governance bodies involved in the risk management function. The Risk Management function is built around a number of Boards and Committees that have been set-up, including the Boards, the Risk Management Committee ("RMC") and the Management Risk Committee ("MRC").

**35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

**Governance and Risk Oversight (contd.)**



Note: The risk matters that can't be adequately addressed in management committees will be tabled to Management Risk Committee for further deliberation and review.

The risk governance structure in place aims to ensure appropriate accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three (3) lines of defence which include the risk taking units, risk control units and internal audit.

**Board**

The MAHB Board, together with the ELIB, EFTB, EGIB, EGTB and EIPL Boards, have the final responsibility for all business activities, including risk management. The Boards have delegated specific matters to sub-Boards Committees, such as Shariah matters to Shariah Committee ("SC"), risk matters to the Risk Management Committee ("RMC"), Audit matters to the Audit Committee of the Board ("ACB") and investment matters to the Investment Committee ("IC").



## **35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

### **Board (contd.)**

Board Oversight Committee of Innovation and Technology ("BOC IT") was implemented by Board in third quarter of 2019 to oversee the innovations enabled by technology; Financial and Operational Excellence ("FOX") opportunities enabled by technology; critical innovation and technology projects including regulatory changes; and, ensure the relevant initiatives are adequately funded and resourced. The Terms of Reference of the relevant Committees as well as Integrated Risk Management Framework ("IRMF") are to be reviewed in 2020.

The following management level committees are established to support the Board in terms of risk governance on the business activities:

#### **i. Senior Management Committee ("SMC")**

The SMC is responsible to assure the Board that the Group take adequate decisions regarding risks and return and to make sure adequate controls exist and are fully operational; and, ensure that the management of risk is in line with the approved risk appetite, strategy, risk frameworks, policies, procedures and risk management practices and processes established.

#### **ii. Management Risk Committee ("MRC")**

The MRC is the advisor to the RMC concerning all risk related topics, including limits, exposures and methodologies.

#### **iii. Asset Liability Committee ("ALCO")**

The ALCO is responsible for the investment strategy and operations. It will carry out its responsibilities within the limits set by the MRC taking into consideration the Risk Appetite and Asset Liability Management ("ALM") constraints.

#### **iv. Internal Audit Committee ("IAC")**

The IAC is responsible to deliberate the audit findings highlighted in the internal and external auditors' reports as well as internal investigation reports; to deliberate and ensure adequacy and timeliness of the remedial actions; and, to support ACB in all audit related matters.

#### **v. Product Management Committee ("PMC")**

The PMC's prime objective is to oversee, coordinate and manage the whole process of product development and product management for specific product lines. PMC monitor the implementation, and post implementation performance of the Insurance and Takaful products.

### **35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

The following management level committees are established to support the Board in terms of risk governance on the business activities (contd.):

#### **vi. Data Management Committee ("DMC")**

DMC is to ensure effective group wide implementation of related Data Management policies and procedures, with proper execution of the actions and activities stipulated for every operating entity/subsidiary.

#### **vii. Information Technology Steering Committee ("ITSC")**

ITSC is to establish, review and approve IT initiatives as well as long term IT strategies and plans; identify potential IT strategies for the improvement of business operating model; ensure the alignment of IT initiatives and business strategies; ensure adequacy of IT infrastructure to support business-as-usual and new projects, and addressing risks of technology obsolescence.

The following Operational Level Committees are established to support the Management level committees at MAHB level in the discharge of their duties:

#### **viii. Operational Risk Committee ("ORC")**

ORC serves as the advisor to MRC concerning group wide operational risk related topics in day-to-day activities and practices, ensuring sound risk governance standards through effective implementation of Operational Risk Policy and other risk governing documents.

#### **ix. General Reinsurance & Retakaful Committee ("GReC")**

GReC acts as the risk governance body in relation to the reinsurance management of the General Insurance & Takaful policies. The scope of the GReC covers General Reinsurance, Inwards and Outwards Reinsurance for the Insurance and Takaful Group.

Motor and Fire Committees were implemented at entity level to deliberate and formulate action plans on the management of Motor and Fire businesses respectively.

### **Risk Culture**

Risk culture is a vital component in strengthening the Group's risk governance structure and forms a fundamental tenet of strong risk culture management. It serves as the foundation upon which a strong enterprise wide risk management structure is built.

It stems from the conduct of staff, businesses and the organisation as a whole in ensuring that customers, either internal or external, are treated fairly and their interest upheld at all times.

**35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

**Risk Culture (contd.)**

Risk culture aligns the businesses objectives and attitude towards risk taking and risk management through risk appetite by establishing the way in which risks are identified, measured, controlled, monitored and reported.

The risk culture can be strengthened by a strong tone from the top that establishes the expected risk behaviour, and then operationalised by the tone from the middle. Both levels are responsible to articulate and exemplify the underlying values that support the desired risk culture. This is driven by a clear vision for an effective approach to risk, ingrained at all levels and built into the behaviour of each individual.

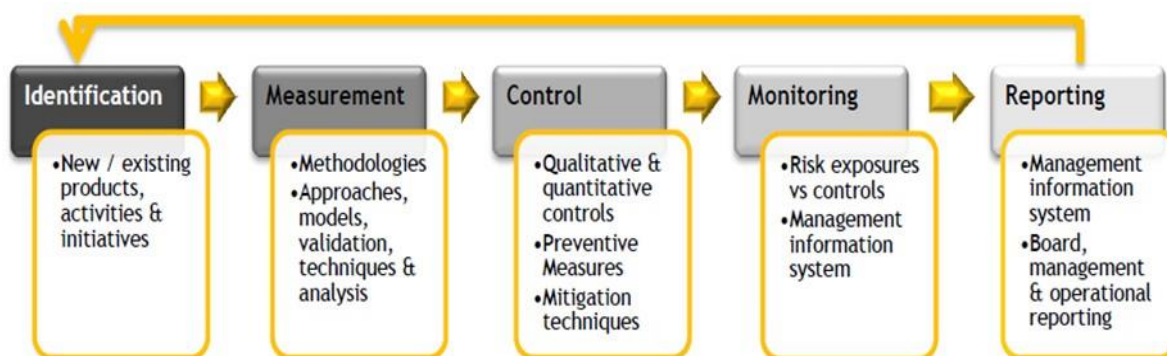
In line with the evolving market environment and dynamics within the Group and across industries, a strong risk culture requires constant attention to ensure that the material risk developments are appropriately identified, properly understood, actively discussed and strategically acted upon.

**Risk Management Practices and Processes**

Risk management practices and processes are a fundamental component of the risk principles. It is essential in enabling systematic identification, measurement, control, monitoring and reporting of risk exposures.

To enable an effective execution of risk management practices and processes, a common risk language is an imperative pre-requisite in facilitating a consistent and uniform approach in reference to risks across the Group. The standard classification of risks are detailed as part of Maybank Group Risk Universe.

There are five (5) main stages of the risk management process which form a continuous cycle are as follows:



### **35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

#### **Resource and System Infrastructure**

Appropriate system infrastructure and resources are the foundation and enabler to effective risk management practices and processes. As a result, the Group should equip itself with necessary resources, infrastructures and support to perform its roles efficiently.

#### **Resources**

To execute the risk principles, objectives, strategies and processes at the various hierarchical levels within the governance model, all risk functions that are in place must be adequately staffed with the relevant personnel to carry out their responsibilities independently and effectively.

The personnel within risk management department should possess the requisite skills, qualifications, experience and competencies compatible with the nature, scale and complexity of the Group's business activities.

The personnel should be equipped with the required knowledge to understand the various activities and risk profile of businesses and challenge these in all facets of risk taking activities. The risk management function should be given full access to internal systems and information for the purpose of performing its roles.

#### **System Infrastructure**

With the current complexity of business operations and activities, it is critical to have a comprehensive and integrated system infrastructure to support an enterprise-wide or consolidated view of risks. The system infrastructure should be able to provide adequate and effective data aggregation capabilities at all times, with accurate, complete, timely and adaptable data to facilitate effective risk management practices and processes.

Through the established infrastructure, the roles and responsibilities required for the effective management of risk can be performed appropriately.

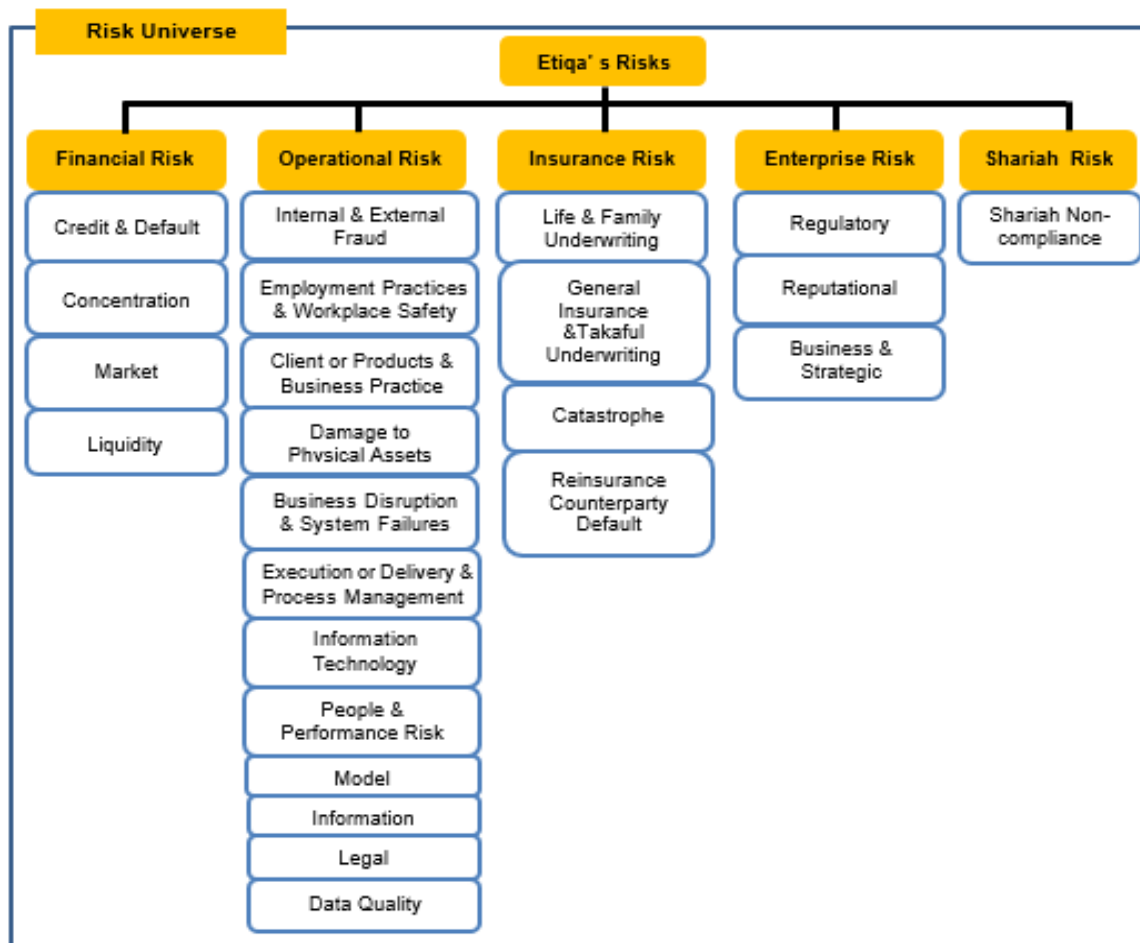
In addition, effective measures and systems must be in place to facilitate the generation and exchange of information within the Group. This is important to ensure a swift response to changes in the operating environment and developments in business strategies.

#### **Risk Universe**

The major risk clusters are listed in the Risk Universe which consists of Financial, Insurance, Operational, Enterprise and Shariah Risk. The following chart illustrates the risk types that are applicable to the businesses and operations.

**35. INTEGRATED RISK MANAGEMENT FRAMEWORK (CONTD.)**

**Risk Universe (contd.)**



Risk Management Department works hand-in-hand with Compliance Department, Legal Department and Shariah Management department on risk related matters.

### **36. TAKAFUL RISK**

Takaful risk relates to the inherent risk associated with the underwriting activities of general takaful business. Such risks include pricing, reserving, product, underwriting, catastrophe and retakaful counterparty default. Analyses are performed to ensure that takaful risks remain within the company's risk appetite. Recommendations are provided to relevant stakeholders after identifying and evaluating significant trends.

Retakaful offers financial protection to takaful operators against large and catastrophic events. It allows efficient use of capital to support future business growth, whilst reducing the volatility of financial results and solvency. Risks associated with retakaful companies are the counterparty risk of retakaful operators failing to honor their obligations. The Company monitors the retakaful operators creditworthiness on a monthly basis.

The Company has established appropriate policies and monitoring metrics combined with authority limits as part of risk mitigation activities embedded in the business operations. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

#### **(i) General takaful underwriting risk**

General takaful underwriting risk reflects the adverse changes in the level, trend or volatility/fluctuation of claims settlement experience in terms of timing, frequency and severity of insured events that are different compared to expectations/best estimate assumptions, either from pricing or reserving, therefore affecting the profitability of the general takaful portfolio.

#### **(ii) Catastrophe risk**

Catastrophe risk is the risk of loss or adverse changes in the value of takaful liabilities due to over-exposures to extreme or exceptional events (e.g. pandemic outbreaks, flood and etc.), which can cause an accumulated loss or single large loss.

#### **(iii) Counterparty default risk**

The counterparty default risk reflects possible losses due to unexpected default of counterparties and debtors. The scope of the counterparty default risk category includes risk-mitigating contracts, such as retakaful arrangements, securitisations and derivatives, and receivables from intermediaries. It does not include the defaults for financial instruments, which are covered under Credit & Default risk.

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund**

The table below discloses contributions written by type of business:

	<b>2019</b>		
	<b>Gross RM'000</b>	<b>Retakaful RM'000</b>	<b>Net RM'000</b>
Motor	1,173,888	(7,610)	1,166,278
Fire	192,965	(50,037)	142,928
Marine, Aviation, Cargo and Transit	14,985	(11,398)	3,587
Miscellaneous	222,955	(52,181)	170,774
	<u>1,604,793</u>	<u>(121,226)</u>	<u>1,483,567</u>
	<b>2018</b>		
	<b>Gross RM'000</b>	<b>Retakaful RM'000</b>	<b>Net RM'000</b>
Motor	912,271	(6,328)	905,943
Fire	195,868	(56,503)	139,365
Marine, Aviation, Cargo and Transit	13,866	(11,570)	2,296
Miscellaneous	187,370	(45,994)	141,376
	<u>1,309,375</u>	<u>(120,395)</u>	<u>1,188,980</u>

**(i) Key assumptions and methods**

The estimation of the claim liabilities of the General Takaful fund is based on BNM/RH/GL 004-21 *Guidelines on Valuation Basis for Liabilities of General Takaful Business* as issued by BNM. It requires all General Takaful operators to calculate booked claim provisions at the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The claim liabilities are estimated by using a range of standard actuarial claims projection methodologies, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and the ultimate costs of claims. Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by type of coverage.

## **36. TAKAFUL RISK (CONTD.)**

### **General Takaful fund (contd.)**

#### **(i) Key assumptions and methods (contd.)**

The assumptions used in the projection methodologies, including future rates of claims inflation are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public perspective towards claiming, legislative changes, judicial decisions and economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

The inherent uncertainties in estimating liabilities can arise from a variety of factors such as the range and quality of data available, underlying assumptions made and random volatility in future experience. The uncertainties involved in estimating liabilities are explicitly allowed for in the reserving process by adding in a PRAD for the best estimate of the cost of future claim payments.

The methodology used in deriving the provision for expenses is consistent with the prior year. Loadings are applied directly to the central estimate of claim liabilities, the central estimate of URR and the UCR, to derive the expense liabilities.

#### **(ii) Sensitivity analysis**

Using the methods described above, the claims development is extrapolated for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historical claims.

Illustrative results of sensitivity testing for the General Takaful fund's claim liabilities are set out below. The cumulative effect of all possible factors that affect the assumptions in the projection would ultimately impact the claims liabilities and, consequently, the observed net claims ratio for the financial year. Therefore, the sensitivity analysis has been performed based on reasonably possible movements in the net claims ratio with all other assumptions or key factors held constant, showing the impact on gross and net claim liabilities, profit before tax and participants' fund.



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(ii) Sensitivity analysis (contd.)**

	<b>% change in key assumptions</b>	<b>Impact on gross liabilities RM'000</b>	<b>Impact on net liabilities RM'000</b>	<b>Impact on profit before tax RM'000</b>	<b>Impact on participants' fund RM'000</b>
<b>2019</b>					
Incurring Claims Ratio	+ 5%	75,690	69,017	69,017	69,017
	- 5%	(75,690)	(69,017)	(69,017)	(69,017)
<b>2018</b>					
Incurring Claims Ratio	+ 5%	62,476	56,411	56,411	56,411
	- 5%	(62,476)	(56,411)	(56,411)	(56,411)

**(iii) Claims development table**

The following tables show the estimated incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date. The management of the Company believes the estimate of total claims liabilities as at the financial year end are adequate. 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.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Analysis of claims development - Gross Takaful Certificate Liabilities**

	Before	As at 31 December							Total
	2013	2013	2014	2015	2016	2017	2018	2019	
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At the end of accident year		565,662	589,933	660,739	783,911	724,824	725,826	946,499	
1 year later		554,495	617,750	639,081	816,040	723,792	698,316		
2 years later		564,434	608,081	608,828	817,518	713,777			
3 years later		569,810	601,915	616,600	826,331				
4 years later		575,192	592,831	615,472					
5 years later		545,569	592,733						
6 years later		538,217							
<b>Estimate of gross cumulative claims to date (A)</b>		538,217	592,733	615,472	826,331	713,777	698,316	946,499	

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Analysis of claims development - Gross Takaful Certificate Liabilities**

Accident year	Before	As at 31 December							
	2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
At the end of accident year		238,771	231,130	264,533	310,865	345,399	343,275	452,201	
1 year later		405,337	470,575	461,390	578,438	569,587	547,544		
2 years later		463,144	532,800	544,056	657,527	649,221			
3 years later		488,313	557,757	585,241	691,344				
4 years later		500,352	572,230	594,240					
5 years later		522,387	576,534						
6 years later		524,380							
<b>Gross cumulative claims paid to date (B)</b>		524,380	576,534	594,240	691,344	649,221	547,544	452,201	
Best estimate gross claim liabilities (A) - (B)	12,847	13,837	16,199	21,232	134,987	64,556	150,772	494,298	908,728
PRAD (C)									72,653
Gross takaful certificate liabilities as at 31 December 2019 (A) - (B) + (C)									<u>981,381</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Net analysis of claims development for 2019:**

	Before	As at 31 December							
	2013 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000	Total RM'000
Accident year									
At the end of accident year		506,657	532,858	630,670	708,666	699,503	699,161	913,619	
1 year later		477,414	506,414	610,264	664,057	699,550	671,700		
2 years later		486,131	496,700	586,008	664,219	689,778			
3 years later		488,639	490,130	589,008	660,648				
4 years later		492,758	483,011	586,707					
5 years later		483,230	482,964						
6 years later		479,101							
<b>Estimate of net cumulative claims to date (A)</b>		479,101	482,964	586,707	660,648	689,778	671,700	913,619	

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Net analysis of claims development for 2019 (contd.):**

	Before	As at 31 December							Total	
	2013	2013	2014	2015	2016	2017	2018	2019		
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At the end of accident year		235,297	227,238	259,797	307,415	340,963	340,369	450,254		
1 year later		383,436	386,400	449,210	521,478	559,277	538,219			
2 years later		433,014	435,687	525,894	599,827	632,054				
3 years later		456,352	458,229	562,333	628,770					
4 years later		466,121	471,323	571,010						
5 years later		472,146	475,518							
6 years later		474,234								
<b>Net cumulative claims paid to date (B)</b>		474,234	475,518	571,010	628,770	632,054	538,219	450,254		
Best estimate net claim liabilities (A) - (B)		6,400	4,867	7,446	15,697	31,878	57,724	133,481	463,365	720,858
PRAD (C)										52,679
Net takaful certificate liabilities as at 31 December 2019 (A) - (B) + (C)										<u>773,537</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Analysis of claims development - Gross Takaful Certificate Liabilities**

	Before	As at 31 December							Total
	2012	2012	2013	2014	2015	2016	2017	2018	
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At the end of accident year		479,285	565,662	589,933	660,739	783,911	724,824	725,826	
1 year later		466,666	554,495	617,750	639,081	816,040	723,792		
2 years later		458,241	564,434	608,081	608,828	817,518			
3 years later		463,180	569,810	601,915	616,600				
4 years later		459,482	575,192	592,831					
5 years later		462,151	545,569						
6 years later		455,204							
<b>Estimate of gross cumulative claims to date (A)</b>		455,204	545,569	592,831	616,600	817,518	723,792	725,826	

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Analysis of claims development - Gross Takaful Certificate Liabilities**

Accident year	Before	As at 31 December							
	2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At the end of accident year		187,973	238,771	231,130	264,533	310,865	345,399	343,275	
1 year later		366,008	405,337	470,575	461,390	578,438	569,587		
2 years later		413,088	463,144	532,800	544,056	657,527			
3 years later		432,662	488,313	557,757	585,241				
4 years later		440,634	500,352	572,230					
5 years later		446,638	522,387						
6 years later		448,828							
<b>Gross cumulative claims paid to date (B)</b>		448,828	522,387	572,230	585,241	657,527	569,587	343,275	
Best estimate gross claim liabilities (A) - (B)	14,796	6,376	23,182	20,601	31,359	159,991	154,205	382,551	793,061
PRAD (C)									76,193
Gross takaful certificate liabilities as at 31 December 2018 (A) - (B) + (C)									<u>869,254</u>

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Net analysis of claims development for 2018:**

	Before	As at 31 December							
	2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
Accident year									
At the end of accident year		456,465	506,657	532,858	630,670	708,666	699,503	699,161	
1 year later		447,504	477,414	506,414	610,264	664,057	699,550		
2 years later		441,755	486,131	496,700	586,008	664,219			
3 years later		446,237	488,639	490,130	589,008				
4 years later		442,678	492,758	483,011					
5 years later		444,549	483,230						
6 years later		438,822							
<b>Estimate of net cumulative claims to date (A)</b>		438,822	483,230	483,011	589,008	664,219	699,550	699,161	



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**36. TAKAFUL RISK (CONTD.)**

**General Takaful fund (contd.)**

**(iii) Claims development table (contd.)**

**Net analysis of claims development for 2018 (contd.):**

Accident year	Before	As at 31 December							
	2012 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000	2018 RM'000	Total RM'000
At the end of accident year		186,608	235,297	227,238	259,797	307,415	340,963	340,369	
1 year later		356,576	383,436	386,400	449,210	521,478	559,277		
2 years later		399,389	433,014	435,687	525,894	599,827			
3 years later		417,899	456,352	458,229	562,333				
4 years later		425,427	466,121	471,323					
5 years later		430,113	472,146						
6 years later		432,413							
<b>Net cumulative claims paid to date (B)</b>		432,413	472,146	471,323	562,333	599,827	559,277	340,369	
Best estimate net claim liabilities (A) - (B)	6,383	6,409	11,084	11,688	26,675	64,392	140,273	358,792	625,696
PRAD (C)									55,551
Net takaful certificate liabilities as at 31 December 2018 (A) - (B) + (C)									<u>681,247</u>

### **37. FINANCIAL RISKS**

#### **(i) Credit risk**

Credit risk refers to risk of loss of principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms. It stems primarily from lending, underwriting, trading and investment activities from both on- and off-balance sheet transactions, if any.

Credit or spread risk and ultimately default risk result from the intrinsic quality of the issuer of debt securities and the impact it has on the value of these instruments. Changes in the level or in the volatility of both spreads as a result of changes in the underlying credit quality define the risk of investment default.

Credit risk arises when a borrower or counterparty is no longer able to pay their debt. The Company's exposure to credit risk arises mainly from fixed income investment activities.

The Company measures and manages credit risk following the philosophy and principles below:

- (a) The Risk Management and Investment Management Department, actively aim to prevent undue concentration by ensuring its credit portfolio is diversified and marketable credit portfolio;
- (b) The asset management research team adopts a prudent position in the selection of fixed income investments;
- (c) The Risk Management Department establishes limits on maximum credit exposures. The credit limit for a counterparty is based on the counterparty's credit quality and aligned to the risk appetite; and
- (d) The Risk Management Department uses key risk indicators ("KRI") to alert the management to impending problems in a timely manner.

**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Credit exposure**

The table below shows the maximum exposure to credit risk for the components of the statements of financial position which are subject to credit risk and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreement.

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2019</b>			
<b>Financial assets at FVTPL:</b>			
<b>- Designated upon initial recognition</b>			
Unquoted debt securities in Malaysia	-	25,374	25,374
<b>Financial assets at FVOCI:</b>			
Malaysian government papers	64,166	214,215	278,381
Unquoted debt securities in Malaysia	1,145,430	1,489,518	2,634,948
<b>Financial assets at AC:</b>			
Islamic investment accounts with:			
Licensed financial institutions	83,547	197,263	280,810
Others	38,325	55,878	94,203
Financing receivables	252	-	252
Retakaful assets*	-	207,128	207,128
Takaful receivables	-	83,063	83,063
Other assets	96,293	21,858	61,335
Cash and bank balances	11,578	33,260	44,838
	<u>1,439,591</u>	<u>2,327,557</u>	<u>3,710,332</u>

\* Excluding contribution liabilities.

**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Credit exposure (contd.)**

The table below shows the maximum exposure to credit risk for the components of the statements of financial position which are subject to credit risk and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreement. (contd.)

	<b>Shareholder's fund RM'000</b>	<b>General Takaful fund RM'000</b>	<b>Company RM'000</b>
<b>2018</b>			
<b>Financial assets at FVTPL:</b>			
<b>- Designated upon initial recognition</b>			
Unquoted debt securities in Malaysia	-	8,272	8,272
Structured product	-	48,365	48,365
<b>Financial assets at FVOCI:</b>			
Malaysian government papers	2,003	334,707	336,710
Unquoted debt securities in Malaysia	948,124	1,142,988	2,091,112
<b>Financial assets at AC:</b>			
Islamic investment accounts with:			
Licensed financial institutions	105,111	109,311	214,422
Others	42,441	23,400	65,841
Retakaful assets*	-	188,007	188,007
Takaful receivables	-	96,596	96,596
Other assets	96,132	19,568	49,984
Cash and bank balances	18,115	62,114	80,229
	<b>1,211,926</b>	<b>2,033,328</b>	<b>3,179,538</b>

\* Excluding contribution liabilities.

**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Credit quality of financial assets**

The four risks categories as set out and defined below, from very low to high describe the credit quality of the Company's financial assets. These information sources are first used to determine whether an instrument has had a significant increase in credit risk.

<b>Risk Category</b>	<b>Probability of default ("PD") grade</b>	<b>External credit ratings based on S&amp;P's ratings</b>	<b>External credit ratings based on RAM's ratings</b>
Very low	1 – 5	AAA to A-	AAA to AA1
Low	6 – 10	BBB+ to BB+	AA1 to A3
Medium	11 – 15	BB+ to B+	A3 to BB1
High	16 – 21	B+ to CCC	BB1 to C

Risk category is as described below:

**Very low** : Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.

**Low** : Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.

**Medium** : Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.

**High** : Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

**Impaired/ defaulted** : Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 2.2(vi)(a).

**Unrated** : Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of ratings models.

**Sovereign** : Refer to obligors which are governments and/or government-related agencies.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Credit exposure by rating (contd.)**

The table below provides information regarding the credit quality of the Company by classifying financial and takaful assets according to the Company's risk category.

**Shareholder's fund**

	<b>Sovereign RM'000</b>	<b>Very low RM'000</b>	<b>Low RM'000</b>	<b>Medium RM'000</b>	<b>High RM'000</b>	<b>Unrated RM'000</b>	<b>Total RM'000</b>
<b>2019</b>							
<b>Financial assets at FVOCI:</b>							
Malaysian government papers	64,166	-	-	-	-	-	64,166
Debt securities	390,332	305,656	439,459	9,983	-	-	1,145,430
<b>Financial assets at AC:</b>							
Islamic investment accounts with:							
Licensed financial institutions	-	63,547	20,000	-	-	-	83,547
Other	-	3,059	35,266	-	-	-	38,325
Financing receivables	-	-	-	-	-	252	252
Other assets	5,222	2,570	4,991	24	-	83,486	96,293
Cash and bank balances	-	11,578	-	-	-	-	11,578
	<b>459,720</b>	<b>386,410</b>	<b>499,716</b>	<b>10,007</b>	<b>-</b>	<b>83,738</b>	<b>1,439,591</b>
<b>2018</b>							
<b>Financial assets at FVOCI:</b>							
Malaysian government papers	2,003	-	-	-	-	-	2,003
Debt securities	257,217	306,502	384,405	-	-	-	948,124
<b>Financial assets at AC:</b>							
Islamic investment accounts with:							
Licensed financial institutions	-	105,111	-	-	-	-	105,111
Other	-	-	42,441	-	-	-	42,441
Other assets	31	2,665	3,447	-	-	89,989	96,132
Cash and bank balances	-	18,115	-	-	-	-	18,115
	<b>259,251</b>	<b>432,393</b>	<b>430,293</b>	<b>-</b>	<b>-</b>	<b>89,989</b>	<b>1,211,926</b>

ETIQA GENERAL TAKAFUL BERHAD  
201701025031 (1239197-A)  
(Incorporated in Malaysia)

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

Credit quality of financial assets (contd.)

General Takaful fund

	Sovereign RM'000	Very low RM'000	Low RM'000	Medium RM'000	High RM'000	Unrated RM'000	Total RM'000
<b>2019</b>							
<b>Financial assets at FVTPL:</b>							
<b>(i) Designated upon initial recognition</b>							
Debt securities and structured deposit	-	-	16,446	8,928	-	-	25,374
<b>Financial assets at FVOCI:</b>							
Malaysian government papers	214,215	-	-	-	-	-	214,215
Debt securities	252,257	415,621	770,576	51,064	-	-	1,489,518
<b>Financial assets at AC:</b>							
Islamic investment accounts with:							
Licensed financial institutions	-	159,877	37,386	-	-	-	197,263
Other	-	45,820	10,058	-	-	-	55,878
Retakaful assets*	-	53,180	82,789	63,678	-	7,481	207,128
Takaful receivables	-	372	4,484	1,666	-	76,541	83,063
Other assets	6,055	6,477	8,959	339	-	28	21,858
Cash and bank balances	-	30,292	2,289	-	-	679	33,260
	<u>472,527</u>	<u>711,639</u>	<u>932,987</u>	<u>125,675</u>	<u>-</u>	<u>84,729</u>	<u>2,327,557</u>

\* Excluding contribution liabilities.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Credit quality of financial assets (contd.)**

**General Takaful fund (contd.)**

	<b>Sovereign RM'000</b>	<b>Very low RM'000</b>	<b>Low RM'000</b>	<b>Medium RM'000</b>	<b>High RM'000</b>	<b>Unrated RM'000</b>	<b>Total RM'000</b>
<b>2018</b>							
<b>Financial assets at FVTPL:</b>							
<b>(i) Designated upon initial recognition</b>							
Debt securities and structured deposits	-	48,365	-	8,272	-	-	56,637
<b>Financial assets at FVOCI:</b>							
Malaysian government papers	334,707	-	-	-	-	-	334,707
Debt securities	91,008	471,181	555,525	25,274	-	-	1,142,988
<b>Financial assets at AC:</b>							
Islamic investment accounts with:							
Licensed financial institutions	-	87,073	22,238	-	-	-	109,311
Other	-	3,000	20,400	-	-	-	23,400
Retakaful assets*	-	-	2,474	7,364	-	178,169	188,007
Takaful receivables	-	3,104	-	1,144	727	91,621	96,596
Other assets	3,678	6,118	6,060	224	-	3,488	19,568
Cash and bank balances	-	57,083	2,992	-	-	2,039	62,114
	<b>429,393</b>	<b>675,924</b>	<b>609,689</b>	<b>42,278</b>	<b>727</b>	<b>275,317</b>	<b>2,033,328</b>

\* Excluding contribution liabilities.



### **37. FINANCIAL RISKS (CONTD.)**

#### **(i) Credit risk (contd.)**

##### **Financial assets - reconciliation of allowance account**

##### **Significant increase in credit risk**

The Company applies the general approach or 'three-stage' approach which is based on the change in credit quality of financial instruments since initial recognition to assess the impairment for investment assets. In particular, recognition of ECL is dependent on which of the three stages a particular financial instrument is assigned to. Assets move through the three stages as credit quality changes and the stages dictate how the Company measures impairment losses and applies the effective interest rate ("EIR") method with the forward looking element to compute the ECL.

The Company has considered both quantitative and qualitative parameters in the assessment of credit risk status from the initial recognition of the securities and at the reporting date. These include the establishment of staging criteria to each stage, debt rating deterioration threshold and a waterfall approach are to determine the credit rating as at origination date and as at reporting date in accordance to the Maybank Group's ECL model for debt securities portfolio.

##### **Expected credit loss**

The Company assesses the possible default events within 12 months for the calculation of the 12-month ECL in Stage 1. Given the impairment policy, the probability of default for new instruments acquired is generally determined to be minimal, in addition to the exception rule to apply zero loss given default ratio to specified financial assets which is applicable to the Company. A newly purchased or originated financial assets will be subject to ECL upon recognition in Stage 1.

To estimate the lifetime ECL for financial instruments classified in Stage 2, the Company is required to estimate the probability of default occurring in the 12 month after the reporting date and in each subsequent year throughout the expected life of the financial instruments. The lifetime ECL allowance that is measured for the Company during the year is mostly due to the debt security which has been classified as Watchlist ("WL") or downgraded bond whichever it is assessed at the reporting date.

The determination of whether a financial asset is credit-impaired debt security under Stage 3, the ECL calculation will be based on objective evidence of impairment.

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

**Financial assets - reconciliation of allowance account (contd.)**

**Reconciliation of allowance account**

The table below shows the fair value of the Company's financial assets measured by credit risk, based on the risk categories.

**Shareholder's fund**

Stage 1	Stage 2	Stage 3	Total ECL RM'000
12-month ECL RM'000	Lifetime ECLs- not credit impaired RM'000	Lifetime ECLs- credit impaired RM'000	

**2019**

**Financial assets at FVOCI**

Sovereign	436,381	18,117	-	454,498
Very low	239,102	66,554	-	305,656
Low	439,459	-	-	439,459
Medium	9,983	-	-	9,983
<b>Total carrying amount</b>	<b>1,124,925</b>	<b>84,671</b>	<b>-</b>	<b>1,209,596</b>

**Total ECL**

(531) (54) - (585)

**2018**

**Financial assets at FVOCI**

Sovereign	242,949	16,271	-	259,220
Very low	231,802	74,700	-	306,502
Low	384,405	-	-	384,405
<b>Total carrying amount</b>	<b>859,156</b>	<b>90,971</b>	<b>-</b>	<b>950,127</b>

**Total ECL**

(572) (107) - (679)

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

**Financial assets - reconciliation of allowance account (contd.)**

The table below shows the fair value of the Company's financial assets measured by credit risk, based on the risk categories. (contd.)

**Reconciliation of allowance account (contd.)**

**General Takaful fund**

Stage 1	Stage 2	Stage 3	Total ECL RM'000
12-month ECL RM'000	Lifetime ECLs- not credit impaired RM'000	Lifetime ECLs- credit impaired RM'000	

**2019**

**Financial assets at FVOCI**

Sovereign	466,472	-	-	466,472
Very low	410,513	5,108	-	415,621
Low	770,576	-	-	770,576
Medium	51,064	-	-	51,064
<b>Total carrying amount</b>	<b>1,698,625</b>	<b>5,108</b>	<b>-</b>	<b>1,703,733</b>

<b>Total ECL</b>	<b>(1,019)</b>	<b>(4)</b>	<b>-</b>	<b>(1,023)</b>
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**2018**

**Financial assets at FVOCI**

Sovereign	425,715	-	-	425,715
Very low	446,196	24,985	-	471,181
Low	550,477	5,048	-	555,525
Medium	25,274	-	-	25,274
<b>Total carrying amount</b>	<b>1,447,662</b>	<b>30,033</b>	<b>-</b>	<b>1,477,695</b>

<b>Total ECL</b>	<b>(1,030)</b>	<b>(58)</b>	<b>-</b>	<b>(1,088)</b>
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**37. FINANCIAL RISKS (CONTD.)**

**(i) Credit risk (contd.)**

**Financial assets - reconciliation of allowance account (contd.)**

Movements in allowance for impairment losses for financial assets are as follows:

<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	
	<b>Lifetime ECLs-not credit impaired</b>	<b>Lifetime ECLs-credit impaired</b>	<b>Total ECL</b>
<b>12-month ECL</b>			
<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>

**Shareholder's fund**

**2019**

**Financial assets at FVOCI**

At 1 January 2019	572	107	-	679
Net adjustment of loss allowance	(133)	(39)	-	(172)
New financial assets originated at purchased	235	-	-	235
Financial assets derecognised during the year	(143)	(14)	-	(157)
At 31 December 2019	<u>531</u>	<u>54</u>	<u>-</u>	<u>585</u>

**2018**

**Financial assets at FVOCI**

At 18 July 2017 (date of incorporation)	-	-	-	-
Effect of adopting MFRS 9	411	147	-	558
	<u>411</u>	<u>147</u>	<u>-</u>	<u>558</u>
Amount written off	(16)	(4)	-	(20)
New financial assets originated at purchased	261	13	-	274
Financial assets derecognised during the period	(84)	(49)	-	(133)
At 31 December 2018	<u>572</u>	<u>107</u>	<u>-</u>	<u>679</u>

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

Financial assets - reconciliation of allowance account (contd.)

The movements in allowance for impairment losses for financial assets are as follows (contd.):

Stage 1	Stage 2	Stage 3	Total ECL RM'000
12-month ECL RM'000	Lifetime ECLs- not credit impaired RM'000	Lifetime ECLs- credit impaired RM'000	

**General Takaful fund**

**2019**

**Financial assets at FVOCI**

At 1 January 2019	1,030	58	-	1,088
Net adjustment of loss allowance	(325)	(3)	-	(328)
New financial assets originated at purchased	449	-	-	449
Financial assets derecognised during the year	(136)	(50)	-	(186)
At 31 December 2019	1,018	5	-	1,023

**2018**

**Financial assets at FVOCI**

At 18 July 2017 (date of incorporation)	-	-	-	-
Effect of adopting MFRS 9	1,033	317	-	1,350
	1,033	317	-	1,350
Amount written off	(15)	(2)	-	(17)
New financial assets originated at purchased	388	23	-	411
Financial assets derecognised during the period	(376)	(280)	-	(656)
At 31 December 2018	1,030	58	-	1,088

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

**Other financial assets - reconciliation of allowance account**

The Company apply Simplified Approach where the ECL is measured at initial recognition of the receivables using a provision matrix based on historical data or also known as roll rate approach. Estimation of credit losses will use a provision matrix where takaful and retakaful receivables are grouped based on different sales channels and different retakaful contribution type's arrangement respectively with forward looking element being applied to it.

Movements in allowance for impairment losses for other financial and retakaful assets are as follows:

	<b>Other assets RM'000 (Note 10)</b>	<b>Total RM'000</b>
<b>Shareholder's fund</b>		
<b>2019</b>		
At 1 January 2019	634	634
Allowance for impairment losses during the year	771	771
At 31 December 2019	<u>1,405</u>	<u>1,405</u>
<b>2018</b>		
At 18 July 2017 (date of incorporation)	-	-
Allowance for impairment losses during the period	634	634
At 31 December 2018	<u>634</u>	<u>634</u>

	<b>Financing receivables RM'000 (Note 7)</b>	<b>Retakaful assets RM'000 (Note 8)</b>	<b>Takaful receivables RM'000 (Note 9)</b>	<b>Total RM'000</b>
<b>General Takaful fund</b>				
<b>2019</b>				
At 1 January 2019	3,331	-	6,463	9,794
Allowance for impairment losses during the year (Note 25)	-	716	3,300	4,016
At 31 December 2019	<u>3,331</u>	<u>716</u>	<u>9,763</u>	<u>13,810</u>

37. FINANCIAL RISKS (CONTD.)

(i) Credit risk (contd.)

**Other financial assets - reconciliation of allowance account (contd.)**

Movements in allowance for impairment losses for other financial and retakaful assets are as follows (contd.):

	<b>Financing receivables RM'000 (Note 7)</b>	<b>Retakaful assets RM'000 (Note 8)</b>	<b>Takaful receivables RM'000 (Note 9)</b>	<b>Total RM'000</b>
<b>General Takaful fund (contd.)</b>				
<b>2018</b>				
At 18 July 2017 (date of incorporation)	-	-	-	-
Transferred from EFTB	3,331	4	6,164	9,499
Effect of adopting MFRS 9	-	-	510	510
	<u>3,331</u>	<u>4</u>	<u>6,674</u>	<u>10,009</u>
Reversal of impairment losses during the period (Note 25)	-	(4)	(211)	(215)
At 31 December 2018	<u>3,331</u>	<u>-</u>	<u>6,463</u>	<u>9,794</u>

**Financial effect of collateral held**

The main type of collateral held as security by the Company to mitigate credit risk are as follows:

<b>Type of financing receivables</b>	<b>Type of collaterals</b>
Secured staff loans	Charges over residential properties and vehicles
Corporate loans	Charges over properties, lands being financed and bank guarantees

### **37. FINANCIAL RISKS (CONTD.)**

#### **(i) Credit risk (contd.)**

##### **Financial effect of collateral held (contd.)**

The quantification of the extent to which collateral and other credit enhancement mitigate credit risk (referred to as "the financial effect of collateral") is described below.

##### **Shareholder's fund**

The financial effect of collateral held for financing receivables of the fund is 100% as at 31 December 2019 (2018: NIL). The financing receivables include staff loans which amounted to RM 252,000 as at 31 December 2019. (2018: NIL)

#### **(ii) Liquidity risk**

Liquidity risk is the risk of an adverse impact to the Company's financial condition or overall safety and soundness that could arise from its inability (or perceived inability) or unexpected higher cost to meet its obligations.

The objective of liquidity risk management is to have sufficient cash availability to meet policyholders' liabilities, such as surrenders, withdrawal, claims and maturity benefits, and other contract holders without endangering the business financials due to constraints on liquidating assets.

The Company measures and manages liquidity risk following the philosophy and principles below:

- (a) The Risk Management and Investment Management Departments actively monitor the cash flows associated and derived from assets and liabilities of the Company through the ALCO platform;
- (b) The Investment Management department ensures that the established investment limits set takes care of reasonable liquidity requirements at all times; and
- (c) The Risk Management Department uses Key Risk Indicators ("KRI") to alert the management to impending problems in a timely manner.

##### **Maturity profiles**

The following table summarises the maturity profile of the financial and takaful assets and liabilities of the Company based on remaining undiscounted contractual obligations, including profit payable and receivable. For takaful certificates liabilities and retakaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful liabilities.

Contribution liabilities, the retakaful's share of contribution liabilities and expense liabilities relating to general takaful have been excluded from the analysis as there are no contractual obligations to make payments on those liabilities.



**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**37. FINANCIAL RISKS (CONTD.)**

**(ii) Liquidity risk (contd.)**

**Maturity profiles (contd.)**

	<b>Carrying value RM'000</b>	<b>Up to a year RM'000</b>	<b>1 - 5 years RM'000</b>	<b>&gt; 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>Shareholder's fund</b>						
<b>2019</b>						
Financial investments:						
FVOCI	1,209,596	59,609	551,197	1,161,093	-	1,771,899
AC	121,872	121,872	-	-	-	121,872
FVTPL	24,088	-	-	-	24,088	24,088
Financing receivables	252	59	193	-	-	252
Other assets	96,293	96,293	-	-	-	96,293
Cash and bank balances	11,578	-	-	-	11,578	11,578
<b>Total assets</b>	<b>1,463,679</b>	<b>277,833</b>	<b>551,390</b>	<b>1,161,093</b>	<b>35,666</b>	<b>2,025,982</b>
Other liabilities	59,051	59,051	-	-	-	59,051
<b>Total liabilities</b>	<b>59,051</b>	<b>59,051</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,051</b>
<b>2018</b>						
Financial investments:						
FVOCI	950,127	158,186	436,764	762,179	-	1,357,129
AC	147,552	147,552	-	-	-	147,552
FVTPL	26,070	-	-	-	26,070	26,070
Other assets	96,132	96,132	-	-	-	96,132
Cash and bank balances	18,115	-	-	-	18,115	18,115
<b>Total assets</b>	<b>1,237,996</b>	<b>401,870</b>	<b>436,764</b>	<b>762,179</b>	<b>44,185</b>	<b>1,644,998</b>
Other liabilities	52,100	52,100	-	-	-	52,100
<b>Total liabilities</b>	<b>52,100</b>	<b>52,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>52,100</b>

*Other non-financial assets and liabilities of the Company are generally expected to be recovered or settled more than twelve months after the reporting date (non-current in nature).*

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**37. FINANCIAL RISKS (CONTD.)**

**(ii) Liquidity risk (contd.)**

**Maturity profiles (contd.)**

	<b>Carrying value RM'000</b>	<b>Up to a year RM'000</b>	<b>1 - 5 years RM'000</b>	<b>&gt; 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>General Takaful fund</b>						
<b>2019</b>						
Financial investments:						
FVOCI	1,703,733	209,060	782,186	1,364,397	-	2,355,643
AC	253,141	253,141	-	-	-	253,141
FVTPL	46,916	1,356	6,778	24,694	21,542	54,370
Retakaful assets*	207,128	184,734	23,096	14	-	207,844
Takaful receivables	83,063	83,063	-	-	-	83,063
Other assets	21,858	21,858	-	-	-	21,858
Cash and bank balances	33,260	-	-	-	33,260	33,260
<b>Total assets</b>	<b>2,349,099</b>	<b>753,212</b>	<b>812,060</b>	<b>1,389,105</b>	<b>54,802</b>	<b>3,009,179</b>
Participants' fund**	182,124	182,124	-	-	-	182,124
Takaful certificate liabilities*	981,381	678,817	300,458	2,106	-	981,381
Takaful payables	114,642	114,642	-	-	-	114,642
Other liabilities	332,665	332,665	-	-	-	332,665
<b>Total liabilities</b>	<b>1,610,812</b>	<b>1,308,248</b>	<b>300,458</b>	<b>2,106</b>	<b>-</b>	<b>1,610,812</b>

\* Excluding contribution liabilities and retakaful operators' share of contribution liabilities

\*\* Excluding FVOCI reserves.

**ETIQA GENERAL TAKAFUL BERHAD**  
**201701025031 (1239197-A)**  
**(Incorporated in Malaysia)**

**37. FINANCIAL RISKS (CONTD.)**

**(ii) Liquidity risk (contd.)**

**Maturity profiles (contd.)**

	<b>Carrying value RM'000</b>	<b>Up to a year RM'000</b>	<b>1 - 5 years RM'000</b>	<b>&gt; 5 years RM'000</b>	<b>No maturity date RM'000</b>	<b>Total RM'000</b>
<b>General Takaful fund</b>						
<b>2018</b>						
Financial investments:						
FVOCI	1,477,695	158,749	1,032,004	690,487	-	1,881,240
AC	132,711	132,711	-	-	-	132,711
FVTPL	86,812	508	2,540	59,778	30,175	93,001
Retakaful assets*	188,007	150,514	37,469	24	-	188,007
Takaful receivables	96,596	96,596	-	-	-	96,596
Other assets	19,568	19,568	-	-	-	19,568
Cash and bank balances	62,114	-	-	-	62,114	62,114
<b>Total assets</b>	<b>2,063,503</b>	<b>558,646</b>	<b>1,072,013</b>	<b>750,289</b>	<b>92,289</b>	<b>2,473,237</b>
Participants' fund**	172,167	172,167	-	-	-	172,167
Takaful certificate liabilities*	869,254	582,527	285,009	1,718	-	869,254
Takaful payables	102,027	102,027	-	-	-	102,027
Other liabilities	349,101	349,101	-	-	-	349,101
<b>Total liabilities</b>	<b>1,492,549</b>	<b>1,205,822</b>	<b>285,009</b>	<b>1,718</b>	<b>-</b>	<b>1,492,549</b>

\* Excluding contribution liabilities and retakaful operators' share of contribution liabilities

\*\* Excluding FVOCI reserves.

*Other non-financial assets and liabilities of the Company are generally expected to be recovered or settled more than twelve months after the reporting date (non-current in nature).*

### **37. FINANCIAL RISKS (CONTD.)**

#### **(iii) Market risk**

Market risk is the risk of loss or of adverse changes in the Company's financial situation resulting, directly or indirectly, from fluctuations or volatility of market prices of financial instruments.

Market risk comprises of three (3) types of risk:

- (a) foreign exchange rates (currency risk)
- (b) market profit rates; and
- (c) equity price risk.

The Company has three main key features in its market risk management practices and policies:

- (a) The Company's policies on asset allocation, portfolio limit structure and diversification benchmarks have been set in line with the Company's risk management policy after taking cognisance of regulatory requirements in respect of the maintenance of assets and solvency.
- (b) Compliance with the policies is monitored and exposures and breaches are reported as soon as practical.
- (c) Strict controls exist over derivative transactions; such transactions are only permitted for hedging purposes and not for speculative purposes.

The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of the assets in the funds.

#### **(a) Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM") and its exposure to foreign exchange risk arises principally with respect to US Dollar.

### **37. FINANCIAL RISKS (CONTD.)**

#### **(iii) Market risk (contd.)**

##### **(a) Currency risk (contd.)**

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Financial Services Act 2013, and hence, primarily denominated in the same currency (the local RM) as its takaful certificate liabilities.

The Company's main foreign exchange risk from recognised assets and liabilities arises from retakaful transactions for which the balances are expected to be settled and realised in less than a year. Accordingly, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

##### **(b) Profit rate risk**

Profit rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

Profit rate risks arise from exposures to profit rate related assets and liabilities. It is also known as asset-liability mismatch ("ALM") risk. It is mainly driven by the volatility of future cash flows. The quantum is also proxied to the duration mismatch between the assets and the liabilities of the Company.

The Company measures and manages profit rate risk mainly based on the following three philosophies and principles, as below:

- (a) Risk Management Department sets the limits for asset duration in line with the Company's risk appetite;
- (b) Investment Management Department actively aim to match the asset duration with the liability duration, without compromising credit quality; and
- (c) Use Key Risk Indicators ("KRI") to alert the organisation to impending problems in a timely manner.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant.

37. FINANCIAL RISKS (CONTD.)

(iii) Market risk (contd.)

(b) Profit rate risk (contd.)

		<u>2019</u>	
		Impact on profit before tax RM'000	Impact on equity* RM'000
Funds	Changes in variables		
Shareholder's	+100 basis points	(105)	(74,336)
	-100 basis points	105	74,336
General Takaful	+100 basis points	(877)	(40,094)
	-100 basis points	877	40,094
		<u>2018</u>	
		Impact on profit before tax RM'000	Impact on equity* RM'000
Funds	Changes in variables		
Shareholder's	+100 basis points	(97)	(46,656)
	-100 basis points	97	46,656
General Takaful	+100 basis points	(1,636)	(25,028)
	-100 basis points	1,636	25,028

\* Impact on equity is computed after tax of 24%.

(c) Equity price risk

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

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, which principally comprise all investment securities.

The Company's risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector, and market, having regard to also such limits stipulated by BNM. A cut loss mechanism is also put in place to minimise the loss that may incur over time.

37. FINANCIAL RISKS (CONTD.)

(iii) Market risk (contd.)

(c) Equity price risk (contd.)

Market Indices - Bursa Malaysia

		<u>2019</u>	
		Impact on profit before tax RM'000	Impact on equity* RM'000
		Changes in variables	
<b>Funds</b>			
Shareholder's	+10%	2,409	1,831
	-10%	(2,409)	(1,831)
General Takaful	+10%	969	737
	-10%	(969)	(737)
		<u>2018</u>	
		Impact on profit before tax RM'000	Impact on equity* RM'000
		Changes in variables	
<b>Funds</b>			
Shareholder's	+10%	2,607	1,981
	-10%	(2,607)	(1,981)
General Takaful	+10%	1,358	1,032
	-10%	(1,358)	(1,032)

\* Impact on equity is computed after tax of 24%.

(iv) Concentration risk

Concentration risk refers to the risk associated with the potential losses associated with a particular single or group of counterparties that are substantial enough to threaten the financial condition of the Company and its core operations (causing material adverse impact to the earnings, capital or total assets).

Concentration risk relates to non-diversified portfolios and arises due to excessive exposure to single company or an aggregate of exposures to a number of positively correlated companies for example within one sector or region.

The Company's risk policy requires it to manage such risks by setting and monitoring diversification plans and limits on investments in each country, sector, ratings, market and issuer, having regard also to such limits stipulated by BNM.

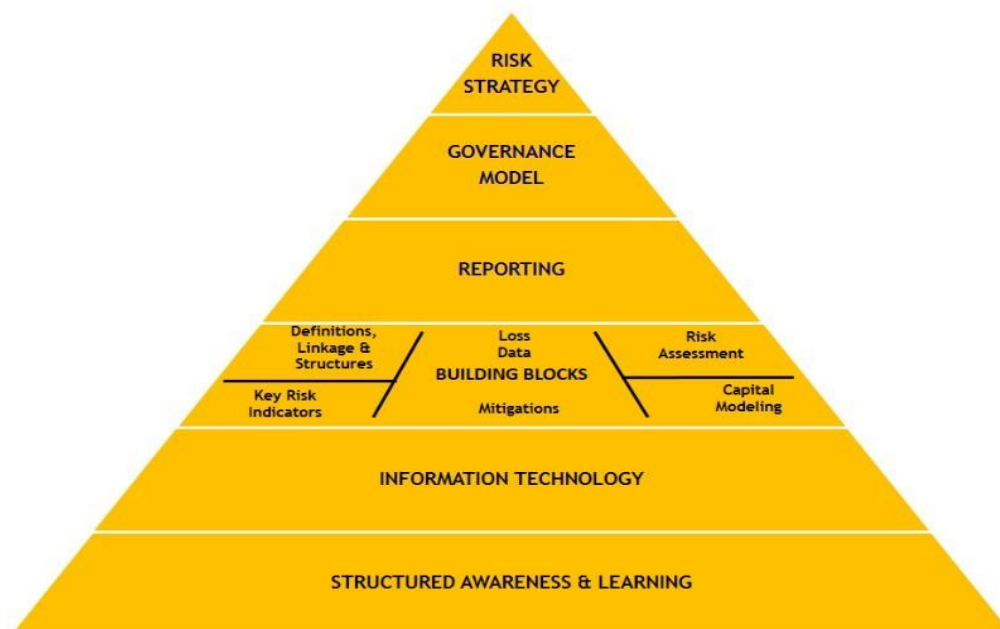
The Company complied with BNM stipulated limits during the financial year/period and had no significant concentration risk.

### **38. OPERATIONAL RISKS**

Operational Risk Management ("ORM") is the discipline of systematically identifying the causes of failures in the organisation's day-to-day operations, assessing the risk of loss and taking the appropriate action to minimise the impact of such loss.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The methodology and components adopted in operational risk are summarised in the diagram below.



The continuous review and monitoring of the risks and the control effectiveness are vital for an effective operational risk management. Hence, specific tools and methodologies to identify, assess, measure, control, monitor and report the operational risks that affect Etiqa are established. Those include among other things: Risk and Control Self-assessment, Key Risk Indicators, Incident Management & Data Collection, Information Technology and Cyber Risk related assessment through awareness and learning programme.

#### **Operational risk taxonomy**

##### **(i) Internal fraud**

Losses due to illegal acts (explicitly prohibited by the internal policies/guidelines or external regulations/law provisions) committed by employees. It also include fraudulent activities/theft perpetrated by employees or in collusion with external party against the company/organisation.



### **38. OPERATIONAL RISKS (CONTD.)**

#### **Operational risk taxonomy (contd.)**

##### **(ii) External fraud**

Losses due to fraudulent activities/theft perpetrated by third party against the company/organisation. External fraud could arise from system security risk, i.e. failure to provide a secure system platform or an activity/incident that can and will threaten the integrity of a system, which will in turn affect the reliability and privacy of data.

##### **(iii) Employment practices and workplace safety**

- (i) Employee relations - failure to maintain positive employer-employee relationships that contributes to unsatisfactory productivity, demotivation, and low morale;
- (ii) Safe environment - failure in the provision of a safe working environment from events that could endanger the safety of the employees; and
- (iii) Diversity & discrimination - failure to provide equalities in the employment practice.

##### **(iv) Client or products and business practices**

This risk covers information risk as well as conduct risk, and it is sub-divided into five risk types, namely suitability disclosure and fiduciary, improper business or market practices, product flaws, selection sponsorship and exposure, and advisory activities.

##### **(v) Damage to physical assets**

Damage to physical assets due to force of nature, or events which are not within due control of human. It also includes accidents and public safety that relates to failure in the provision of a safe environment from events that could endanger the safety of the general public from significant danger, injury/harm, or damage.

##### **(vi) Business disruption and system failures**

Failure in the provision of an effective information technology infrastructure (e.g. hardware, networks, software) to support the current and future needs of the business in an efficient, cost-effective and well controlled manner.

##### **(vii) Execution or delivery and process management**

The risk relates to transaction capture or execution and maintenance, monitoring and reporting, customer intake and documentation, customer or client account management, vendors and suppliers.

### **38. OPERATIONAL RISKS (CONTD.)**

#### **Operational risk taxonomy (contd.)**

##### **(viii) Information technology and cyber risk**

Risk which impacts confidentiality, availability and integrity of information and services related to information technology as well as cyber risk that can lead to losses due to cyber-crime and cyber terrorism.

##### **(ix) People and performance risk**

Inability to identify the suitable talent/personnel to deliver/manage and deliver/control business process/function/entity/business units, do not possess the necessary knowledge, skills and experience needed to ensure that critical business objectives are achieved and significant business risk are reduced to an acceptable level.

##### **(x) Model risk**

Risk of a model not performing the tasks or capture the risks it was designed to.

##### **(xi) Information risk**

Risk of loss of information from day-to-day operations could lead to financial risk, operational risk, reputational risk, legal risk and regulatory sanctions.

##### **(xii) Legal risk**

Risk of incurring actual or potential loss that arises due to interalia, flawed documentation, change in regulations/laws, new judicial decisions, legal jurisdiction of our counterparties and choice of governing law that threatens the capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

#### **Shariah non compliance risk**

“Shariah non-compliance risk” refers to the risk of legal or regulatory sanctions, financial loss or non-financial implications including reputational damage, which an Islamic financial institution may suffer arising from failure to comply with the rulings of the Shariah Advisory Council of Bank Negara Malaysia, standards on Shariah matters issued by Bank Negara Malaysia pursuant to section 29(1) of Islamic Financial Services Act 2013 or decisions or advice of the Shariah committee.

The end-to-end Shariah Compliant governance is executed through four (4) Lines of Defence that cater both pre-execution and post-execution matters. These are being managed by Business Unit ("1st Line"), Shariah Research & Advisory ("2nd Line"), Shariah Review & Shariah Risk Management function ("3rd Line"), and Shariah Audit ("4th Line").

### **39. ENTERPRISE RISK**

Risk of loss or adverse impact arising from business/strategic, industry, corporate governance and systemic risk. It covers external and internal factors that can impact the company ability to meet its current business plan for achieving ongoing growth and value creation. It includes changes in the external environment including regulatory, economic environment, competitive landscape or the way people (customers or staff) behave. It can also be due to poor internal decision making and management or due to loss of reputation. Enterprise Risk will be exacerbated when there is a disruption to financial services that is caused by an impairment of all or parts of the financial system, with the potential to have serious negative consequences to the real/entire economy.

### **40. FAIR VALUES MEASUREMENTS**

This disclosure provides information on fair value measurements for both financial instruments as well as non-financial assets and liabilities which is structured as follows:

- (a) Valuation principles;
- (b) Valuation techniques;
- (c) Fair value measurements and classification within the fair value hierarchy; and
- (d) Transfers between Level 1 and Level 2 in the fair value hierarchy.

#### **(a) Valuation principles**

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market as of the measurement date. The Company determines the fair value by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value. The Company has also established a framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

Valuation adjustment is also an integral part of the valuation process. Valuation adjustment is to reflect the uncertainty in valuations for products that are less standardised, less frequently traded and more complex in nature. In making a valuation adjustment, the Company follows methodologies that consider factors such as liquidity, bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

#### **40. FAIR VALUES MEASUREMENTS (CONTD.)**

##### **(a) Valuation principles (contd.)**

The Company continuously enhances its design, validation methodologies and processes to ensure the valuations are reflective and periodic reviews are performed to ensure the model remains suitable for its intended use.

The levels of the fair value hierarchy as defined by MFRS are an indication of the observability of prices or valuation input. It can be classified by the following hierarchies/levels:

- Level 1 : Active Market – Quoted price

Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on an exchange.

- Level 2 : No Active Market – Valuation techniques using observable input

Refers to inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Examples of Level 2 financial instruments include corporate and other government bonds, less liquid equities and over the counter ("OTC") derivatives.

- Level 3 : No Active Market – Valuation techniques using unobservable input

Refers to financial instruments where fair values are measured using unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates management's assumptions and data.

Examples of Level 3 instruments include corporate bonds in illiquid markets and private equity investments.

**40. FAIR VALUES MEASUREMENTS (CONTD.)**

**(b) Valuation techniques**

**(i) Cash and cash equivalents and other receivables/payables**

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

**(ii) Financing receivables**

Financing receivables are granted at profit rates which are comparable with the rates offered on similar instruments in the market and to counterparties with similar credit profiles. Accordingly, the carrying amount of the financing receivables approximate their fair values as the impact of discounting is not material.

**(iii) Takaful receivables and payables**

The carrying amounts are measured at amortised cost in accordance with the accounting policies as disclosed in Notes 2.2(viii) and Note 2.2(xvi). The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

**(iv) Investments**

Investments have been accounted for in accordance with the accounting policies as disclosed in Notes 2.2(iv) and Note 2.2(v). The carrying amounts and fair values of investments are disclosed in Note 5 of the financial statements.

40. FAIR VALUES MEASUREMENTS (CONTD.)

(c) Fair value measurements and classification within the fair value hierarchy

Shareholder's fund

	Valuation techniques using:			Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	Level 3 Significant Unobservable inputs RM'000	
<b>2019</b>				
<b><u>Assets</u></b>				
<b>Financial assets at FVTPL</b>				
<b>(i) Held for trading (HFT)</b>				
Equity securities	23,428	-	-	23,428
Unit and property trust funds	660	-	-	660
<b>Financial assets at FVOCI</b>				
Malaysian government papers	-	64,166	-	64,166
Debt securities	-	1,145,430	-	1,145,430
<b>Total assets</b>	<b>24,088</b>	<b>1,209,596</b>	<b>-</b>	<b>1,233,684</b>
<b>2018</b>				
<b><u>Assets</u></b>				
<b>Financial assets at FVTPL</b>				
<b>(i) Held for trading (HFT)</b>				
Equity securities	26,070	-	-	26,070
<b>Financial assets at FVOCI</b>				
Malaysian government papers	-	2,003	-	2,003
Debt securities	-	948,124	-	948,124
<b>Total assets</b>	<b>26,070</b>	<b>950,127</b>	<b>-</b>	<b>976,197</b>

40. FAIR VALUES MEASUREMENTS (CONTD.)

(c) Fair value measurements and classification within the fair value hierarchy (contd.)

General Takaful fund

	Valuation techniques using:			Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	Level 3 Non Observable inputs RM'000	
<b>2019</b>				
<b>Assets</b>				
<b>Financial assets at FVTPL</b>				
<b>(i) Designated upon initial recognition</b>				
Debt securities and structured products	-	25,374	-	25,374
<b>(ii) Held for trading (HFT)</b>				
Equity securities	20,698	-	-	20,698
Unit and property trust funds	844			844
<b>Financial assets at FVOCI</b>				
Malaysian government papers	-	214,215	-	214,215
Debt securities	-	1,489,518	-	1,489,518
<b>Total assets</b>	<b>21,542</b>	<b>1,729,107</b>	<b>-</b>	<b>1,750,649</b>
<b>2018</b>				
<b>Assets</b>				
<b>Financial assets at FVTPL</b>				
<b>(i) Designated upon initial recognition</b>				
Debt securities and structured products	-	56,637	-	56,637
<b>(ii) Held for trading (HFT)</b>				
Equity securities	30,175	-	-	30,175
<b>Financial assets at FVOCI</b>				
Malaysian government papers	-	334,707	-	334,707
Debt securities	-	1,142,988	-	1,142,988
<b>Total assets</b>	<b>30,175</b>	<b>1,534,332</b>	<b>-</b>	<b>1,564,507</b>

**40. FAIR VALUES MEASUREMENTS (CONTD.)**

**(d) Transfer between Level 1 and Level 2 in the fair value hierarchy**

Assets and liabilities of the Company are recognised in the financial statements on a recurring basis. The Company determine whether transfers have occurred between fair value hierarchy levels by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year. There were no transfers between Level 1 and Level 2 for the Company during the financial year ended 31 December 2019.

**41. REGULATORY CAPITAL REQUIREMENT**

The capital structure of the Company as at 31 December 2019 and 31 December 2018, as prescribed under the RBCT Framework, is provided below:

<b>Company</b>	<b>2019</b>	<b>2018</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Eligible Tier 1 Capital</b>		
Paid up share capital	870,000	870,000
Valuation surplus in takaful funds	182,124	172,167
Retained earnings	308,692	153,156
	<u>1,360,816</u>	<u>1,195,323</u>
<b>Tier 2 Capital</b>		
FVOCI reserves	88,107	(3,092)
	<u>88,107</u>	<u>(3,092)</u>
Amount deducted from capital	<u>(1,012)</u>	<u>(8,152)</u>
Total Capital Available	<u>1,447,911</u>	<u>1,184,079</u>