Notes to the financial statements - 31 March 2017

1. Corporate information

The Company is principally engaged in the underwriting of all classes of general reinsurance and general retakaful businesses. The Company commenced underwriting of general retakaful business via its Retakaful Division during the financial year on 14 April 2016 pursuant to license granted by Bank Negara Malaysia on 13 April 2016.

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

The holding and ultimate holding company is MNRB Holdings Berhad ("MNRB"), a company incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad.

The number of employees in the Company at the end of the financial year was 168 (2016: 153). The employees of the holding company performed certain administration functions of the Company 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 14 June 2017.

2. Significant accounting policies

2.1 Basis of preparation

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 Companies Act, 2016 (“New Act”) was enacted to replace the Companies Act, 1965 in Malaysia with the objectives of creating a legal and regulatory structure that will facilitate business and promote accountability as well as protection of corporate directors and shareholders, taking into consideration the interest of other stakeholders. The New Act was passed on 4 April 2016 by the Dewan Rakyat (House of Representatives) and gazetted on 15 September 2016. On 26 January 2017, the Minister of Domestic Trade, Co-operatives and Consumerism announced that the date on which the New Act comes into operation, except section 241 and Division 8 of Part III of the New Act, was 31 January 2017.

Amongst the key changes introduced in the New Act which affect the financial statements of the Company are:

2. Significant accounting policies (cont'd.)

2.1 Basis of preparation (cont'd.)

(a) Removal of the authorised share capital; and

(b) Shares of the Company will cease to have par or nominal value.

The application of the New Act does not have any financial impact on the Company as the effect of the New Act will mainly will be on the disclosures to the financial statements of the Company.

At the beginning of the current financial year, the Company had adopted the amended MFRS and new MFRS applicable for annual financial periods beginning on or after 1 January 2016, as described fully in Note 2.28.

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

As at the reporting date, the Company has met the minimum capital requirements as prescribed by the Risk-Based Capital ("RBC") and Risk-Based Capital for Takaful ("RBCT") Frameworks issued by Bank Negara Malaysia ("BNM").

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

Retakaful operations and its fund

Under the concept of retakaful, participants 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 retakaful operator, the Company manages the general retakaful fund in line with the principles of Wakalah (agency), which is the business model used by the Company. Under the Wakalah model, the retakaful 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 ("IFSA"), 2013, the assets and liabilities of the retakaful funds are segregated from those of the retakaful 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 retakaful funds are consolidated with those of the retakaful operator to represent the control possessed by the retakaful operator over the respective funds. Upon consolidation, the related interfund balances and transactions are eliminated in full.

The separate statements of financial position and the statements of comprehensive income of the general retakaful fund, general reinsurance fund and the shareholder's fund are presented in Note 40 to the financial statements.

2. Significant accounting policies (cont'd.)

2.2 Accounting period

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

Underwriting income and outgo in respect of other business classes and all other income and expenditure are for the 12 months ended 31 March 2017.

2.3 Subsidiary, basis of non-consolidation and investment in associate

(a) Subsidiary

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

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

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

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

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

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

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

(ii) rights arising from other contractual arrangements; and

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

In the Company’s separate financial statements, investment in subsidiary is stated at cost less any accumulated impairment losses. On disposal of such investment, the difference between net disposal proceed and its carrying amount is included in the income statement.

2. Significant accounting policies (cont'd.)

2.3 Subsidiary, basis of non-consolidation and investment in associate (cont'd.)

(b) Basis of non-consolidation

In the previous year, in accordance with the exemption provisions provided under paragraph 4 of MFRS 10 Consolidated Financial Statements, the financial statements of the subsidiary are not consolidated as the Company is a wholly owned subsidiary of MNRB Holdings Berhad, a company incorporated and domiciled in Malaysia, and listed on the Main Market of Bursa Malaysia Securities Berhad which produces financial statements that are available for public use and which comply with MFRS and IFRSs. The financial statements of the subsidiary is consolidated in the holding company's financial statements. The subsidiary was wound up effective from 3 January 2017.

(c) Investment in associate

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

The Company's investment in associate is stated at cost less any accumulated impairment losses. Results of the associate are not equity accounted by virtue of the exemption described in Note 20.

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

2.4 General reinsurance/retakaful underwriting results

The general reinsurance and retakaful underwriting results of the Company are determined for each class of business after taking into account premiums/contributions, retrocessions, movements in premium/contribution liabilities and claim liabilities and acquisition costs.

The general retakaful fund is maintained in accordance with the IFSA, 2013 and consists of AFS reserves and any accumulated surplus/deficit. Any deficit will be made good by the shareholder's fund via a benevolent loan or Qard.

2. Significant accounting policies (cont'd.)

2.4 General reinsurance/retakaful underwriting results (cont'd.)

(a) Premium and contribution recognition

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

Inwards facultative reinsurance/retakaful premiums/contributions are recognised in the financial period in respect of the facultative risks assumed during the particular financial period following individual risks' inception dates.

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

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

(b) Premium and contribution liabilities

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

In accordance with the valuation methods prescribed under the RBC/RBCT Framework, premium/contribution liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR")/unearned contribution reserves ("UCR") respectively for all lines of business or the best estimate value of the unexpired risk reserves ("URR") at the end of the financial year and a provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the end of the financial year.

2. Significant accounting policies (cont'd.)

2.4 General reinsurance/retakaful underwriting results (cont'd.)

(b) Premium and contribution liabilities (cont'd.)

(i) Unexpired risk reserves

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

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

(ii) Unearned premium and contribution reserves

The UPR/UCR represent the portion of the net premiums of reinsurance contracts/net contributions of retakaful contracts written that relate to the unexpired periods of the contracts at the end of the financial year. The methods of computation of UPR/UCR are as follows:

- For inward proportional treaty business, UPR/UCR is computed on the 1/8th method commencing from the quarter corresponding to the reporting quarter of the treaty statement;

- For inward non-proportional treaty business, UPR/UCR is computed at 1/2 of the last quarter Minimum Deposit Premiums received; and

- For inward facultative policies, UPR/UCR is computed on the 1/8th method commencing from the date of inception.

(c) Claim liabilities

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

2. Significant accounting policies (cont'd.)

2.4 General reinsurance/retakaful underwriting results (cont'd.)

(d) Liability adequacy test

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

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

(e) Acquisition costs and commission expenses

The cost of acquiring and renewing reinsurance business net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

2.5 Shareholder's fund

(a) Commission expenses

The cost of acquiring and renewing retakaful business net of income derived from ceding retakaful contributions is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

(b) Expense liabilities of general retakaful fund

The expense liabilities of shareholder's fund consist of expense liabilities relating to the management of the general retakaful fund which are based on estimations performed by a qualified actuary. The expense liabilities is released over the term of the retakaful certificates and recognised in the statement of comprehensive income.

The expense liabilities are reported as the higher of the aggregate of the provision for Unearned Wakalah Fees ("UWF") for all lines of business and the best estimate value of Unexpired Expense Reserves ("UER") as at the end of the reporting date including a PRAD calculated at the 75% confidence level at the total fund level.

<u>**Unearned wakalah fees**</u>

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

2. Significant accounting policies (cont'd.)

2.5 Shareholder's fund (cont'd.)

(b) Expense liabilities of general retakaful fund (cont'd.)

Unexpired expense reserves

The UER is determined based on the expected future expenses payable from the shareholder's fund in managing the general retakaful fund for the full contractual obligation of unexpired retakaful certificates as at the end of the reporting date. The expected future expenses are determined for certificate management expenses and claims handling expenses, including a PRAD calculated at a 75% confidence level. The method used to value the UER is consistent with the method used to value the URR.

2.6 Property, plant and equipment and depreciation

(a) Recognition and measurement

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

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

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

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

2. Significant accounting policies (cont'd.)

2.6 Property, plant and equipment and depreciation (cont'd.)

(b) Subsequent costs

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

(c) Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated. 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. During the period in which the asset is not available for use, it is tested for impairment annually. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Building	3%
Computer equipment	10% to 33.3%
Furniture and fittings	10%
Office equipment	10% to 33.3%
Motor vehicles	20%

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

2.7 Investment properties

Investment properties are properties which are held to earn rental income and/or for capital appreciation.

Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

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

2. Significant accounting policies (cont'd.)

2.7 Investment properties (cont'd.)

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

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

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

2.8 Intangible assets

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

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

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

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.

2. Significant accounting policies (cont'd.)

2.8 Intangible assets (cont'd.)

(a) Software development in progress

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

(b) Computer software and licences

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

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

2.9 Non-current assets held for sale

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

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

2. Significant accounting policies (cont'd.)

2.10 Financial assets

(a) Initial recognition and measurement

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

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

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

(b) Classification and subsequent measurement

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

(i) Financial assets at FVTPL

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

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in the income statements. Net gains or net losses on financial assets at FVTPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised in the income statements as part of investment income.

2. Significant accounting policies (cont'd.)

2.10 Financial assets (cont'd.)

(b) Classification and subsequent measurement (cont'd.)

(ii) HTM investments

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

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

(iii) Loans and receivables

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

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

(iv) AFS financial assets

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

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

2. Significant accounting policies (cont'd.)

2.10 Financial assets (cont'd.)

(b) Classification and subsequent measurement (cont'd.)

(iv) AFS financial assets (cont'd.)

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less any accumulated impairment losses. The investment in wholesale unit trust fund which is deemed as investment in sudsidiary is classified as AFS. The basis of measurement of investment in subsidiary is as described in Note 2.3(a).

Financial assets also include cash and bank balances and insurance/takaful receivables. Further details are as described in Notes 2.15 and 2.18

(c) Derecognition

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

(d) Offsetting of financial instruments

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

2.11 Fair value measurement

The Company measures financial instruments, such as, financial assets at FVTPL, and non-financial assets such as investment properties and self-occupied properties, at fair value at each reporting date. The fair values of financial instruments measured at amortised cost are disclosed in Notes 21 and 39.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

2. Significant accounting policies (cont'd.)

2.11 Fair value measurement (cont'd.)

(i) In the principal market for the asset or liability, or

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

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

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

An annual valuation is performed to reflect the fair value of the Company’s self-occupied property and investment property. At the end of each financial year, Management appoints an accredited independent valuer having an appropriate recognised professional qualification to perform the annual valuation. The valuation techniques used by the accredited independent valuer are verified by the Management to ensure that they are in accordance with the requirements of MFRS 13 Fair Value Measurement. The valuation results are then presented to the Board of Directors.

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

2. Significant accounting policies (cont'd.)

2.12 Impairment of assets

(a) Financial assets

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

(i) Financial assets carried at amortised cost

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

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

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

(ii) AFS financial assets

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

2. Significant accounting policies (cont'd.)

2.12 Impairment of assets (cont'd.)

(a) Financial assets (cont'd.)

(ii) AFS financial assets (cont'd.)

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

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

(b) Non-financial assets

The carrying amounts of non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

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

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

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

2. Significant accounting policies (cont'd.)

2.12 Impairment of assets (cont'd.)

(b) Non-financial assets (cont'd.)

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

2.13 Measurement and impairment of Qard

Any deficit in the retakaful fund is made good via a loan, or Qard, granted by the shareholder's fund to the retakaful fund. The Qard is stated at cost less any impairment losses in the shareholder's fund. In the retakaful fund, the Qard is stated at cost. The Qard shall be repaid from future surpluses of the retakaful fund.

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

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

2.14 Share capital and dividend expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2. Significant accounting policies (cont'd.)

2.15 Cash and cash equivalents

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

2.16 Product classification

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

A reinsurance/retakaful contract is a contract under which the Company ("the reinsurer/retakaful operator") has accepted significant insurance risk from another party ("the cedant") by agreeing to compensate the cedant if a specified uncertain future event adversely affects the cedant. As a general guideline, the Company determines whether significant insurance/takaful risk has been accepted by comparing claims payable on the occurrence of the event with claims payable if the event had not occurred.

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

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

2.17 Reinsurance and retakaful

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

Reinsurance/retakaful arrangements entered into by the Company that meet the classification requirements of insurance/takaful contracts as described in Note 2.16 are accounted for as noted below.

Arrangements that do not meet these classification requirements are accounted for as financial assets. Reinsurance/retakaful assets represent amounts recoverable from reinsurers/retakaful operators for insurance/takaful contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers/retakaful operators are measured consistently with the amounts associated with the underlying insurance/takaful contract and the terms of the relevant reinsurance/retakaful arrangement.

2. Significant accounting policies (cont'd.)

2.17 Reinsurance and retakaful (cont'd.)

At each reporting date, the Company assesses whether objective evidence exists that reinsurance/retakaful assets are impaired. Objective evidence of impairment for reinsurance/retakaful assets are similar to those noted for insurance/takaful receivables as described in Note 2.12(a)(i). If any such evidence exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in the income statements.

Reinsurance/retakaful assets are derecognised when the contractual rights expire or are extinguished or when the contract is transferred to another party.

2.18 Insurance and takaful receivables

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

Insurance/takaful receivables are assessed at each reporting date for objective evidence of impairment. If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the insurance/takaful receivable's original effective interest rate. The impairment loss is recognised in the income statements. The basis for recognition of such impairment loss is as described in Note 2.12(a)(i).

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

2.19 Balances with related companies

Balances with related companies are stated at the amounts which these balances are due and expected to be settled. These balances are unsecured, interest-free and repayable on demand.

2. Significant accounting policies (cont'd.)

2.20 Leases

(a) Classification

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

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

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

(b) Finance leases - the Company as lessee

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.6(c).

2. Significant accounting policies (cont'd.)

2.20 Leases (cont'd.)

(c) Operating leases - the Company as lessee

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

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

(d) Operating leases - the Company as lessor

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

2.21 Financial liabilities

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

Financial liabilities, within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement ("MFRS 139")* , are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

(a) Financial liabilities at FVTPL

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

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

2. Significant accounting policies (cont'd.)

2.21 Financial liabilities (cont'd.)

(a) Financial liabilities at FVTPL (cont'd.)

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

(b) Other financial liabilities

The Company's other financial liabilities include borrowing, insurance payables and other payables. Borrowing, insurance payables and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method. The interest payable on borrowing are recognised as finance costs in the income statement in the period in which they are incurred.

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

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

2.22 Provisions

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

2.23 Income tax

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

2. Significant accounting policies (cont'd.)

2.23 Income tax (cont'd.)

Deferred tax is provided for, using the liability method, on temporary differences at the end of the financial year between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

2.24 Employee benefits

(a) Short-term benefits

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

(b) Defined contribution plan

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

2.25 Foreign currencies

The Company's financial statements are presented in Ringgit Malaysia (RM), which is also the Company’s functional currency. Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the reporting date are translated into Ringgit Malaysia at rates of exchange ruling at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. Significant accounting policies (cont'd.)

2.25 Foreign currencies (cont'd.)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statements for the period.

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

The principal exchange rate for every unit of United States Dollar ruling at the end of the financial year used is RM4.4265 (2016: RM3.9220).

2.26 Revenue recognition

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

(a) Premium/contribution income

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

(b) Interest and profit income

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

(c) Rental income

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

(d) Dividend income

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

(e) Management fees

Management fees are recognised when services are rendered.

(f) Wakalah fees

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

2. Significant accounting policies (cont'd.)

2.27 Zakat

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

2.28 Changes in accounting policies

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

Adoption of new MFRS and amendments/improvements to MFRS

At the beginning of the current financial year, the Company adopted the following amendments/improvements to MFRS mandatory for annual periods beginning on or after 1 January 2016 as follows:

MFRS 14 *Regulatory Deferral Accounts*
Amendments to MFRS 116 and MFRS 138 *Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to MFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*
Amendments to MFRS 127 *Equity Method in Separate Financial Statements*
Amendments to MFRS 101 *Disclosure Initiatives*
Amendments to MFRS 10, MFRS 12 and MFRS 128 *Investment Entities: Applying the Consolidation Exception*
Annual Improvements to MFRS 2012 - 2014 Cycle

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

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective

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

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

Description	Effective for annual beginning on or after
Amendment to MFRS 12 Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2017
MFRS 107 *Statement of Cash Flows* - Disclosures Initiatives (Amendments to MFRS 107)	1 January 2017
MFRS 112 *Income Taxes* - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Amendment to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2018
MFRS 2 *Share-based Payment* - Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 *Financial Instruments (IFRS 9 issued by IASB in July 2014)*	1 January 2018
Applying MFRS 9 *Financial Instruments* with MFRS 4 *Insurance Contracts* (Amendments to MFRS 4)	1 January 2018
Amendment to MFRS 128 *Investments in Associates and Joint Ventures* (Annual Improvements to MFRS Standards 2014 - 2016 Cycle)	1 January 2018
Transfer to *Investment Property* (Amendments to MFRS 140)	1 January 2018
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018
MFRS 15 *Revenue from Contracts with Customers*	1 January 2018
MFRS 16 *Leases*	1 January 2019
MFRS 10 *Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures: Sale or Contribution of Assets between an investor* and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	To be announced by MASB

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

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

MFRS 107 *Statement of Cash Flow - Disclosures Initiatives* (Amendments to MFRS 107)

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (for example foreign exchange movements and fair value changes).

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. Application of the amendment will result in additional disclosures to be provided by the Company.

MFRS 112 *Income Taxes* - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that deductible tax difference will arise from unrealised losses of debt instruments classified at fair value regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument.

In circumstances where tax law restricts the utilisation of tax losses such that an entity can only deduct the tax losses against income of a specified type, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments also clarify that when estimating taxable profit of future periods, an entity can assume that an asset will be recovered for more than its carrying amount if that recovery is probable and the asset is not impaired. All relevant facts and circumstances should be assessed when making this assessment.

In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with the future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences.

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

MFRS 112 *Income Taxes* - Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112) (cont'd.)

The amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. The amendments should be applied retrospectively. However, on initial application of the amendment, adjustment to the opening equity of the earliest comparative period may be recognised in opening retained earnings, without allocating the change between retained earnings and other components of equity. If this relief is applied, the entity must disclose this fact. The Company does not anticipate significant impact to the financial statements upon adoption of the amendments.

MFRS 9 *Financial Instruments*

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

The Company plans to adopt the new standard on the required effective date. The Company had performed a preliminary assessment on the gaps under all three aspects of MFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company. Overall, the Company does not anticipate significant impact to the financial statements except for the effect of potentially higher impairment losses under the expected credit loss model. The Company will perform a detailed assessment to determine the extent of the anticipated impacts.

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

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

(i) Classification and measurement

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

- The held-to-maturity (“HTM”) and available-for-sale (“AFS”) asset categories will be removed;

- A new asset category measured at fair value through other comprehensive income (“FVOCI”) is introduced. This applies to debt instruments with contractual cash flow characteristics that are solely payments of principle and interest and held in a model whose objective is achieved by both collecting contractual cash flows and selling financial assets;

- A new asset category for non-traded equity investments measured at FVOCI is introduced; and

- Classification of financial liabilities will remain largely unchanged, other than the fair value gains and losses attributable to changes in ‘own credit risk’ for financial liabilities designated and measured at FVTPL to be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

The Company does not expect a significant impact to the financial statements on applying the classification and measurement requirements.

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

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

MFRS 9 *Financial Instruments* (cont'd.)

(ii) Impairment

The MFRS 9 impairment requirements are based on an Expected Credit Loss (“ECL”) model that replaces the Incurred Loss model under the current accounting standard. The Company expects to recognise either a 12-month (Stage 1) or lifetime ECL (Stage 2 and 3), depending on whether there has been a significant increase in credit risk since initial recognition. The ECL model applies to financial assets measured at amortised cost or at FVOCI, irrevocable loan commitments and financial guarantee contracts, which will include loans, advances and financing and debt instruments held by the Company. The ECL model also applies to contract assets under MFRS 15 *Revenue from Contracts with Customers* and lease receivables under MFRS 117 *Leases*. Appropriate impairment methodology will be adopted for calculating allowances for impairment losses.

(iii) Hedge accounting

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

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

MFRS 15 *Revenue from Contracts with Customers*

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

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

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

MFRS 16 *Leases*

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

(i) Lessee

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

(ii) Lessor

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

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

2. Significant accounting policies (cont'd.)

2.29 Standards and amendments/improvements to published standards and intepretation that are issued but not yet effective (cont'd.)

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

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

The amendments introduce two alternative options for entities issuing contracts within the scope of MFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of MFRS 9 for annual periods beginning before 1 January 2021 at the latest whilst the overlay approach allows an entity applying MFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied MFRS 139 to these designated financial assets.

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

3. Significant accounting judgements and estimates

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

3.1 Critical judgements made in applying accounting policies

The following are the judgements made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3. Significant accounting judgements and estimates (cont'd.)

3.1 Critical judgements made in applying accounting policies (cont'd.)

Classification between investment property and property, plant and equipment

The Company has developed certain criteria based on MFRS 140 *Investment Property* in making judgement whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Company would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

Impairment of AFS financial assets

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

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

3.2 Key sources of estimation uncertainty

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

(a) Depreciation and amortisation

Depreciation and amortisation are based on management’s estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets respectively.

3. Significant accounting judgements and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(a) Depreciation and amortisation (cont'd.)

Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets and correspondingly, may result in future changes in depreciation or amortisation expenses.

Accordingly, at the end of each reporting period, the residual values and estimated useful lives of property, plant and equipment and intangible assets are assessed to determine that they continue to be consistent as disclosed in Notes 2.6 and 2.8 respectively.

As at the reporting date, management has determined that the estimated useful lives of property, plant and equipment and intangible assets of the Company remain consistent and the residual values are not expected to be material.

(b) General reinsurance/retakaful business

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

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

The estimates of premium/contribution and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of premium and claim liabilities may vary from the initial estimates. The sensitivity of these assumptions and their impact to results and the equity position of the Company is disclosed in Note 36(d).

3. Significant accounting judgements and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(b) General reinsurance/retakaful business (cont'd.)

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

(c) Impairment of non-financial assets

Assets are tested for impairment when indications of potential impairment exist. Indicators of impairment which could trigger an impairment review include evidence of obsolescence or physical damage, significant fall in market values, significant underperformance relative to historical or projected future operating results, significant changes in the use of assets or the strategy of the business or significant adverse industry or economic changes. Recoverable amounts of assets are based on management’s estimates and assumptions of the net realisable value, cash flows arising from the future operating performance and revenue generating capacity of the assets and CGUs, and future market conditions. Changes in circumstances may lead to changes in estimates and assumptions, and result in changes to the recoverable amounts of assets and impairment losses needed.

(d) Impairment of unquoted equity investments

The Company follows the guidance of applicable MFRS in determining whether there is a decline that is other than temporary in the fair value of its unquoted equity investments. This determination requires significant judgement. In making this judgement, the Company evaluates the quantitative and qualitative factors affecting the market position of the investee including the regulatory support it receives and its longer term business outlook and financial standing. Appropriate considerations are given to the investee's financial performance, financial projections, business prospects and the proprietary technology involved.

It is also recognised that an initial decline in fair value of investments in new start-up investee companies, which is deemed temporary, may arise due to development and operational losses in the initial years. Based on an assessment performed at the reporting date, the Board of Directors and management of the Company are of the opinion that there is no indication of impairment in the Company's unquoted equity investments in corporations.

3. Significant accounting judgements and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(e) Impairment of insurance/takaful receivables and reinsurance/retakaful assets

The Company reviews its insurance/takaful receivables and reinsurance/retakaful assets on a regular basis to assess whether impairment losses should be recognised in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

These estimates are revisited by management on a frequent basis, at least once a year, to determine if certain assumptions continue to be reasonable. As at the reporting date, the cumulative impairment losses recognised on insurance receivables and reinsurance assets reflect the expected recoverable values of these assets.

(f) Deferred tax

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management’s estimates of future cash flows. These depend on estimates of future production volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgement is also required in the interpretation and application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statement of financial position and the amount of unrecognised temporary differences.

3. Significant accounting judgements and estimates (cont'd.)

3.2 Key sources of estimation uncertainty (cont'd.)

(f) Deferred tax (cont'd.)

The judgements and assumptions used in the estimation of deferred tax liabilities/assets are reassessed at least once a year to determine that they continue to be appropriate. As at the reporting date, recognised deferred tax liabilities reflect a fair estimate of the Company's taxable temporary differences.

(g) Expense liabilities

The expense liabilities of the shareholder's fund consist of expense liabilities of the general retakaful fund which are based on estimations performed by qualified actuaries. The estimation methods are explained in Note 2.5. The qualified actuaries estimate the expected management expenses required to manage the general retakaful contracts less any expected cash flows from future wakalah fee income based on the qualified actuaries' assumptions and observations of the actual experiences. The estimates of expense liabilities are therefore sensitive to various factors and uncertainties.

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

4. Net earned premiums/contributions

	Note	2017 RM'000	2016 RM'000
(a) Gross earned premiums/ contributions			
Insurance/takaful contracts	25(ii)	1,290,943	1,370,599
Change in premium/contribution liabilities		36,921	(29,085)
		1,327,864	1,341,514
(b) Premiums/contributions ceded to reinsurers/retakaful operators			
Insurance/takaful contracts	25(ii)	(130,892)	(148,374)
Change in premium/contribution liabilities		(3,508)	13,365
		(134,400)	(135,009)
Net earned premiums/contributions		1,193,464	1,206,505

5. Investment income

	2017 RM'000	2016 RM'000
HTM investments:		
Interest/profit income	7,842	7,862
AFS financial assets:		
Interest/profit income	48,997	44,251
Dividend income:		
- quoted shares in Malaysia	5,154	5,147
- unquoted shares in Malaysia	123	123
- wholesale unit trust fund	4,095	5,532
Loans and receivables:		
Interest/profit income	30,526	31,495
Dividend income from associate	2,692	-
Rental income from properties	6,595	6,759
Net amortisation of premiums on investments	(1,796)	(1,555)
Investment expenses	(2)	(5)
	104,226	99,609

6. Net realised (losses)/gains

	2017 RM'000	2016 RM'000
Financial assets at FVTPL:		
Realised gains on quoted shares in Malaysia	-	35
AFS financial assets:		
Realised (losses)/gains:		
Quoted shares in Malaysia	(1,848)	1,013
Unquoted corporate debt securities	1,526	1,920
Wholesale unit trust fund	126	-
	(196)	2,933
Other assets:		
Realised gains on disposals of property, plant and equipment	2	6
	(194)	2,974

7. Net fair value losses

	2017 RM'000	2016 RM'000
Fair value gains/(losses) on financial assets at FVTPL	4	(33)
Impairment losses on AFS financial assets	(6,544)	(16,998)
Writeback of impairment losses on AFS financial assets	5,660	-
Fair value gains on investment property	-	300
	(880)	(16,731)

8. Fee and commission income

	2017 RM'000	2016 RM'000
Reinsurance/retakaful commission	15,674	8,197
Wakalah fees from general retakaful fund	2,119	-
	17,793	8,197
Elimination on wakalah fees from general retakaful fund (Note 40(a))	(2,119)	-
	15,674	8,197

9. Other operating revenue

	2017 RM'000	2016 RM'000
Foreign exchange gains	15,942	-
Management fees from fellow subsidiaries	314	3,445
Non-operating interest income	381	347
Others	1,285	6,912
	17,922	10,704

10. Fee and commission expenses

	2017 RM'000	2016 RM'000
Commissions/brokerages paid	330,148	337,952
Wakalah fees expenses for general retakaful fund	2,119	-
	332,267	337,952
Elimination on wakalah fees expenses for general retakaful fund (Note 40(a))	(2,119)	-
	330,148	337,952

11. Management expenses

	2017 RM'000	2016 RM'000
Salaries, bonus and other related costs	18,011	17,748
Directors' and Group Shariah Committee members' remuneration (Note 12)	2,260	2,064
Pension costs - EPF	2,392	2,329
Social security costs	125	94
Retirement benefits	95	81
Short term accumulating compensated absences	13	22
Auditors' remuneration		
- statutory audit	325	295
- audit-related	32	24
- other services	231	64
Depreciation of property, plant and equipment	2,940	2,987
Amortisation of intangible assets	805	473
Tax on premiums	2,556	3,891
Marketing and promotional costs	1,383	1,977
Office rental	3,029	2,985

11. Management expenses (cont'd.)

	2017 RM'000	2016 RM'000
Professional and legal fees	3,671	4,307
Contributions and donations	10	611
Management fees to holding company	16,690	18,430
Management fees to fellow subsidiary	3,894	4,407
Other management expenses	3,724	4,492
	62,186	67,281

12. Directors' and Group Shariah Committee members' remuneration

	2017 RM'000	2016 RM'000
Executive director of the Company:		
Salary and bonus	960	900
Pension costs - EPF	163	153
Benefits-in-kind	45	31
Others	7	11
	1,175	1,095
Non-executive directors of the Company:		
Fees	845	782
Allowances	180	180
	1,025	962
Group Shariah Committee members:		
Fees	78	26
Allowances	27	12
	105	38
Total executive director’s and Group Shariah Committee members' remuneration excluding benefits-in-kind	1,235	1,102
Total directors' and Group Shariah Committee members' remuneration excluding benefits-in-kind (Note 11)	2,260	2,064

12. Directors' and Group Shariah Committee members' remuneration (cont'd.)

The number of directors of the Company, whose total remuneration during the financial year fell within the following bands, is analysed below:

	Number of directors	
	2017	**2016**
Executive director:		
Up to RM1,500,000	1	1
Non-executive directors:		
RM0 to RM50,000	1	1
RM50,001 to RM100,000	2	2
RM100,001 to RM150,000	6	6

12. Directors' and Group Shariah Committee members' remuneration (cont'd.)

2017	Salary and bonus RM'000	Fees RM'000	Pension cost RM'000	Benefits-in-kind RM'000	Allowances/ others RM'000	Total RM'000
Executive director:						
Zainudin bin Ishak (Chief Executive Officer)	960	-	163	45	7	1,175
Non-executive directors:						
Sharkawi bin Alis	-	92	-	-	14	106
Megat Dziauddin bin Megat Mahmud	-	121	-	-	25	146
Mohd Din bin Merican	-	106	-	-	26	132
Mustaffa bin Ahmad	-	116	-	-	25	141
Md Adnan bin Md Zain	-	109	-	-	24	133
Datin Zaimah binti Zakaria (Appointed with effect from 1 April 2016)	-	112	-	-	25	137
Arul Sothy Mylvaganam (Appointed with effect from 1 July 2016)		77			19	96
P. Raveenderen (Resigned with effect from 1 July 2016)	-	28	-	-	6	34
Yusoff bin Yaacob (Resigned with effect from 1 January 2017)		84			16	100
	-	845	-	-	180	1,025
Total Directors' remuneration	960	845	163	45	187	2,200
Group Shariah Committee members:						
Prof. Dr. Ahmad Hidayat Buang	-	12	-	-	4	16
Ir. Dr. Muhamad Fuad bin Abdullah	-	11	-	-	4	15
Datuk Nik Moustpha Nik Hassan	-	11	-	-	3	14
Dr. Syed Musa bin Syed Jaafar Alhabshi	-	11	-	-	4	15
Dr. Said Bouheraoua	-	11	-	-	4	15
Dr. Muhammad Naim Omar	-	11	-	-	4	15
Dr. Mohamed Fairooz Abdul Khir	-	11	-	-	4	15
Total Group Shariah Committee members' remuneration	-	78	-	-	27	105
Total Directors' and Group Shariah Committee members' remuneration	960	923	163	45	214	2,305

12. Directors' and Shariah Committee members' remuneration (cont'd.)

2016	Salary and bonus RM'000	Fees RM'000	Pension cost RM'000	Benefits-in-kind RM'000	Allowances/ others RM'000	Total RM'000
Executive director:						
Zainudin bin Ishak (Chief Executive Officer)	900	-	153	31	11	1,095
Non-executive directors:						
Sharkawi bin Alis	-	92	-	-	16	108
P.Raveenderen	-	111	-	-	31	142
Yusoff bin Yaacob	-	111	-	-	29	140
Megat Dziauddin bin Megat Mahmud	-	121	-	-	24	145
Mohd Din bin Merican	-	106	-	-	26	132
Mustaffa bin Ahmad (Appointed with effect from 1 June 2015)	-	87	-	-	21	108
Md Adnan bin Md Zain (Appointed with effect from 1 June 2015)	-	77	-	-	15	92
Dato' Syed Ariff Fadzillah bin Syed Awalluddin (Retired with effect from 1 October 2015)	-	58	-	-	13	71
Datuk Mohd Khalil bin Dato' Mohd Noor (Resigned with effect from 1 June 2015)	-	19	-	-	5	24
	-	782	-	-	180	962
Total Directors' remuneration	900	782	153	31	191	2,057
Group Shariah Committee members:						
Prof. Dr. Ahmad Hidayat Buang	-	4	-	-	2	6
Ir. Dr. Muhamad Fuad bin Abdullah	-	4	-	-	2	6
Datuk Nik Moustpha Nik Hassan	-	4	-	-	2	6
Dr. Syed Musa bin Syed Jaafar Alhabshi	-	4	-	-	2	6
Dr. Said Bouheraoua	-	3	-	-	1	4
Dr. Muhammad Naim Omar	-	4	-	-	2	6
Dr. Mohamed Fairooz Abdul Khir	-	3	-	-	1	4
Total Group Shariah Committee members' remuneration	-	26	-	-	12	38
Total Directors' and Group Shariah Committee members' remuneration	900	808	153	31	203	2,095

13. Other operating expenses

	2017 RM'000	2016 RM'000
Impairment losses on insurance/takaful receivables	1,146	87
Foreign exchange losses	-	1,891
Others	684	644
	1,830	2,622

14. Change in expense liabilities

	2017 RM'000	2016 RM'000
Expense liabilities for general retakaful fund:		
- Increase in provision for unearned wakalah fees (Note 26)	149	-
	149	-

15. Tax borne by participants

	2017 RM'000	2016 RM'000
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 23)	(15)	-
	(15)	-

Domestic income tax for the general retakaful business is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year. Income tax on the Company's offshore retakaful business is calculated at a tax rate of 5% (2016: 5%) of the estimated assessable profit of the Company's offshore retakaful business for the year.

16. Taxation

	2017 RM'000	2016 RM'000
Malaysian income tax:		
Tax expense for the year	17,208	6,029
Under/(over) provision of tax in previous years	1,742	(97)
	18,950	5,932
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 23)	(961)	(1,466)
	17,989	4,466

Domestic income tax for the general reinsurance business and the shareholder's fund are calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year. Income tax on the Company's offshore reinsurance business is calculated at a tax rate of 5% (2016: 5%) of the estimated assessable profit of the Company's offshore reinsurance business for the year.

A 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:

	2017 RM'000	2016 RM'000
Profit before taxation	100,438	7,011
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	24,105	1,683
Effects of different tax rate in respect of offshore reinsurance	(932)	(76)
Income not subject to tax	(10,889)	(5,178)
Expenses not deductible for tax purposes	3,963	8,134
Under/(over) provision of tax in previous years	1,742	(97)
Tax expense for the year recognised in the income statement	17,989	4,466

17. Property, plant and equipment

	Freehold land RM'000	Building RM'000	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
2017						
Valuation/Cost						
At 1 April 2016	36,000	82,800	739	12,285	731	132,555
Additions	-	225	-	6	-	231
Revaluation surplus	800	348	-	-	-	1,148
Elimination of accumulated depreciation on revaluation	-	(2,485)	-	-	-	(2,485)
Adjustments	-	(488)	-	-	-	(488)
Disposals	-	-	(198)	-	(8)	(206)
At 31 March 2017	36,800	80,400	541	12,291	723	130,755
Accumulated depreciation						
At 1 April 2016	-	-	739	10,019	463	11,221
Charge for the year	-	2,485	-	315	140	2,940
Elimination of accumulated depreciation on revaluation	-	(2,485)	-	-	-	(2,485)
Disposals	-	-	(198)	-	(8)	(206)
At 31 March 2017	-	-	541	10,334	595	11,470
Net carrying amount						
At 31 March 2017	36,800	80,400	-	1,957	128	119,285

17. Property, plant and equipment (cont'd.)

2016	Freehold land RM'000	Building RM'000	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Motor vehicles RM'000	Total RM'000
Valuation/Cost						
At 1 April 2015	34,000	81,300	731	11,099	731	127,861
Additions	-	696	8	1,515	-	2,219
Revaluation surplus	2,000	3,246	-	-	-	5,246
Elimination of accumulated depreciation on revaluation	-	(2,442)	-	-	-	(2,442)
Disposals	-	-	-	(329)	-	(329)
At 31 March 2016	36,000	82,800	739	12,285	731	132,555
Accumulated depreciation						
At 1 April 2015	-	-	679	9,997	329	11,005
Charge for the year	-	2,442	60	351	134	2,987
Elimination of accumulated depreciation on revaluation	-	(2,442)	-	-	-	(2,442)
Disposals	-	-	-	(329)	-	(329)
At 31 March 2016	-	-	739	10,019	463	11,221
Net carrying amount						
At 31 March 2016	36,000	82,800	-	2,266	268	121,334

17. Property, plant and equipment (cont'd.)

Revaluation of freehold land and building

Freehold land and building have been revalued based on valuation performed by an accredited independent valuer having an appropriate recognised professional qualification. The valuation is based on the income approach and is effective on 31 March 2017.

The income approach entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. Description of the fair value hierarchy for freehold land and building and the significant inputs used in the valuation are provided in Note 39.

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

	Freehold land RM'000	Buildings RM'000	Total RM'000
Cost			
At 1 April 2015	15,596	79,325	94,921
Additions	-	696	696
At 31 March 2016	15,596	80,021	95,617
Additions	-	225	225
Adjustments	-	(488)	(488)
At 31 March 2017	15,596	79,758	95,354
Accumulated depreciation			
At 1 April 2015	-	22,774	22,774
Charge for the year	-	2,423	2,423
At 31 March 2016	-	25,197	25,197
Charge for the year	-	2,485	2,485
At 31 March 2017	-	27,682	27,682
Net carrying amount			
At 31 March 2016	15,596	54,824	70,420
At 31 March 2017	15,596	52,076	67,672

18. Investment property

	2017 RM'000	2016 RM'000
At beginning of year	7,400	7,100
Fair value gains (Note 7)	-	300
At end of year	7,400	7,400

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

	2017 RM'000	2016 RM'000
Rental income	280	286
Operating expenses	(31)	(20)
	249	266

The investment property is stated at fair value as determined based on valuations performed by an accredited independent professional valuer with recent experience in the location and category of the property being valued. The valuation is based on the income approach and is effective on 31 March 2017. The fair value gains are recognised in the income statement. Description of the fair value hierarchy for investment property and the significant inputs used in the valuation are provided in Note 39.

19. Intangible assets

2017	Software development in progress RM'000	Computer software and licences RM'000	Total RM'000
Cost			
At 1 April 2016	861	17,444	18,305
Additions	692	770	1,462
Disposal	-	(34)	(34)
At 31 March 2017	1,553	18,180	19,733
Accumulated amortisation			
At 1 April 2016	-	11,449	11,449
Amortisation for the year	-	805	805
Disposal	-	(34)	(34)
At 31 March 2017	-	12,220	12,220
Net carrying amount			
At 31 March 2017	1,553	5,960	7,513

19. Intangible assets (cont'd.)

	Software development in progress RM'000	Computer software and licences RM'000	Total RM'000
2016			
Cost			
At 1 April 2015	3,665	12,992	16,657
Additions	1,490	158	1,648
Reclassification	(4,294)	4,294	-
At 31 March 2016	861	17,444	18,305
Accumulated amortisation			
At 1 April 2015	-	10,976	10,976
Amortisation for the year	-	473	473
At 31 March 2016	-	11,449	11,449
Net carrying amount			
At 31 March 2016	861	5,995	6,856

20. Investment in associate

	2017 RM'000	2016 RM'000
Unquoted shares in Malaysia, at cost	75,658	75,658

The associate is Labuan Reinsurance (L) Ltd., a company incorporated in the Federal Territory of Labuan, Malaysia. The Company's proportion of ownership interest and voting power in its associate is 20% (2016: 20%). The associate is principally engaged in the underwriting of all classes of general reinsurance and general retakaful business pursuant to a licence given under the Labuan Financial Services and Securities Act, 2010. Its financial year end is 31 December.

20. Investment in associate (cont'd.)

The results of the associate are not equity accounted as the holding company, MNRB Holdings Berhad, produces financial statements that are available for public use and which comply with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The summarised financial information of the associate is as follows:

	2017 RM'000	2016 RM'000
Assets and liabilities		
Current assets	2,270,516	2,077,381
Non-current assets	62,072	51,181
Total assets	2,332,588	2,128,562
Current liabilities	65,694	173,055
Non-current liabilities	1,541,411	1,342,544
Total liabilities	1,607,105	1,515,599
Equity	725,483	612,963
Results		
Revenue	704,534	652,546
Profit for the year	39,509	62,147

21. Financial assets

The following tables summarise the fair values and carrying values of financial assets of the Company other than cash and bank balances and insurance/takaful receivables:

	2017		2016	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial assets at FVTPL	191	191	187	187
HTM investments	188,260	185,898	188,778	189,871
AFS financial assets	1,499,974	1,499,974	1,392,775	1,392,775
Loans and receivables	966,629	966,629	905,050	905,050
	2,655,054	2,652,692	2,486,790	2,487,883
Malaysian government securities	206,314	204,115	128,852	128,681
Government investment issues	281,372	281,195	169,832	171,070
Unquoted corporate debt securities	1,034,239	1,034,253	953,396	953,422
Equity securities	153,438	153,438	165,694	165,694
Real estate investment trusts	13,062	13,062	14,511	14,511
Wholesale unit trust fund	-	-	149,455	149,455
Fixed and call deposits	77,164	77,164	711,806	711,806
Islamic investment accounts	827,905	827,905	124,379	124,379
Other loans and receivables	61,560	61,560	68,865	68,865
	2,655,054	2,652,692	2,486,790	2,487,883

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

	2017 RM'000	2016 RM'000
(a) Financial assets at FVTPL		
At fair value:		
Quoted Shariah approved equities in Malaysia	191	187

Equity securities classified as financial assets at FVTPL are held for trading.

21. Financial assets (cont'd.)

(b) HTM investments

	2017 RM'000	2016 RM'000
At amortised cost:		
Malaysian government securities	78,308	78,525
Unquoted corporate debt securities	5,002	5,003
Government investment issues	104,950	105,250
	188,260	188,778
At fair value:		
Malaysian government securities	76,109	78,354
Unquoted corporate debt securities	5,016	5,029
Government investment issues	104,773	106,488
	185,898	189,871

(c) AFS financial assets

	2017 RM'000	2016 RM'000
At cost:		
Unquoted shares in Malaysia [(i)]	44,503	44,503
Wholesale unit trust fund [(ii)]	-	149,455
	44,503	193,958
At fair value:		
Unquoted corporate debt securities	1,029,237	948,393
Government investment issues	176,422	64,582
Malaysian government securities	128,006	50,327
Quoted shares in Malaysia:		
Shariah approved equities	55,980	57,374
Others	52,764	63,630
Real estate investment trusts	13,062	14,511
	1,455,471	1,198,817
Total AFS financial assets	1,499,974	1,392,775

The investments in unquoted shares are measured at cost and their fair values are not disclosed as they cannot be measured reliably based on available information.

During the year the Company recognised impairment losses of RM6.5 million (2016: impairment losses of RM17.0 million) in respect of its quoted shares in Malaysia, as these securities have met the significant or prolonged impairment criteria as described in Note 3.1.

21. Financial assets (cont'd.)

(c) AFS financial assets (cont'd.)

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

	2017 RM'000	2016 RM'000
27,500,000 ordinary shares of RM1.00 each of Financial Park (Labuan) Sdn. Bhd. ("FPL"), representing an equity shareholding of 9%.	28,283	28,283
Less: Impairment loss	(4,759)	(4,759)
	23,524	23,524
20,000,000 redeemable preference shares of RM1.00 each of FPL	20,569	20,569
	44,093	44,093
410,000 ordinary shares of Malaysian Rating Corporation Berhad ("MARC") of RM1.00 each, representing an equity shareholding of 4%.	410	410
Total unquoted shares in Malaysia	44,503	44,503

(ii) The pertinent information of the investment in wholesale unit trust fund which was considered a subsidiary of the Company are as follows:

Name of fund	Principal activities	2017	2016
AmIslamic Cash 1	Investment in money market instruments and Sukuk	0%*	100%

* The wholesale unit trust fund was wound up effective from 3 January 2017, and ceased to be a subsidiary as of that date.

21. Financial assets (cont'd.)

(d) Loans and receivables

	2017 RM'000	2016 RM'000
At amortised cost/fair value:		
Fixed and call deposits with licensed:		
Commercial banks	77,164	315,500
Investment banks	-	396,306
Islamic investment accounts with licensed:		
Co-operative bank	129,611	40,577
Islamic banks	698,294	83,802
Secured staff loans:		
Receivable within 12 months	116	147
Receivable after 12 months	2,543	3,012
Due from insurance Pool accounts	4,406	13,698
Income due and accrued	25,096	26,303
Due from related companies*:		
Holding company	4,227	2,965
Fellow subsidiaries	32	4,113
Other receivables and deposits**	25,140	18,627
	966,629	905,050

* The amounts due from the holding company and fellow subsidiaries are unsecured, interest-free and repayable upon demand.

** The other receivables and deposits includes amounts due from the Retakaful Division which were eliminated to arrive at the Company level balances as disclosed under Note 40(b). The amounts eliminated were the following:

	2017 RM'000	2016 RM'000
Seed capital of the Retakaful Division	34,277	-
Qard due from the Retakaful Division	398	-
Amount due from Retakaful Division[#]	4,527	-
	39,202	-

\# The amount due from Retakaful Division is unsecured, interest-free and repayable upon demand.

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

22. Insurance/takaful receivables

	2017 RM'000	2016 RM'000
Due from brokers and ceding companies	234,056	277,662
Allowance for impairment losses	(5,883)	(4,737)
	228,173	272,925

	2017 RM'000	2016 RM'000
Offsetting insurance/takaful receivables and payables		
Gross amounts of recognised insurance/takaful receivables	328,389	504,099
Less:		
Gross amounts of recognised insurance/takaful payables set off in the statement of financial position	(94,333)	(226,437)
Net amounts of recognised insurance/takaful receivables	234,056	277,662

Included in amounts due from brokers and ceding companies are balances amounting to RM407,174 (2016: RM1,857,058), RM143,995 (2016: RM41,328) and RM202,493 due from an associate, Labuan Reinsurance (L) Ltd. and fellow subsidiaries, MNRB Retakaful Berhad and Takaful Ikhlas Berhad respectively. The amounts receivable are subject to settlement terms stipulated in the reinsurance/retakaful contracts.

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

23. Deferred taxation

	2017 RM'000	2016 RM'000
2017		
At beginning of the year	3,490	1,432
Recognised in:		
Participants' fund (Notes 15)	(15)	-
Income statement (Notes 16)	(961)	(1,466)
Other comprehensive income	(360)	3,524
At end of the year	2,154	3,490

Presented after appropriate offsetting as follows:

	2017 RM'000	2016 RM'000
2017		
Deferred tax liabilities	8,996	9,139
Deferred tax assets	(6,842)	(5,649)
	2,154	3,490

23. Deferred taxation (cont'd.)

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

Deferred tax liabilities

	Fair value of AFS financial assets RM'000	Accelerated capital allowances RM'000	Premium/ contri-bution liabilities RM'000	Revalua-tion of land and buildings RM'000	Total RM'000
At 1 April 2015	(1,617)	302	140	5,935	4,760
Recognised in:					
Income statement	-	677	178	-	855
Other comprehensive income	2,745	-	-	779	3,524
At 31 March 2016	1,128	979	318	6,714	9,139
Recognised in:					
Participants' fund	-	-	(15)	-	(15)
Income statement	-	57	175	-	232
Other comprehensive income	(444)	-	-	84	(360)
At 31 March 2017	684	1,036	478	6,798	8,996

Deferred tax assets

	Fair value of financial assets at FVTPL RM'000	Impairment losses on investments RM'000	Expense liabilities RM'000	Others RM'000	Total RM'000
At 1 April 2015	(3)	(1,899)	-	(1,426)	(3,328)
Recognised in:					
Income statement	-	(1,568)	-	(753)	(2,321)
At 31 March 2016	(3)	(3,467)	-	(2,179)	(5,649)
Recognised in:					
Income statement	(1)	(288)	(36)	(868)	(1,193)
At 31 March 2017	(4)	(3,755)	(36)	(3,047)	(6,842)

24. Borrowing

	2017 RM'000	2016 RM'000
Medium Term Notes ("MTN")	1,000	1,000

On 1 September 2015, the Company issued RM1,000,000 nominal value subordinated medium term notes ("MTN") which qualifies as Tier-2 capital under the RBC Framework issued by BNM. The subordinated MTN carries a tenure of ten years from issue date on a 10 non-callable 5 basis with an interest rate of 4.95% per annum payable semi-annually in arrears.

25. Insurance/takaful contract liabilities

	2017			2016		
	Gross RM'000	Reinsurance/ retakaful RM'000	Net RM'000	Gross RM'000	Reinsurance/ retakaful RM'000	Net RM'000
Claim liabilities (i)	1,799,204	(276,341)	1,522,863	1,752,155	(286,507)	1,465,648
Premium/contribution liabilities (ii)	248,835	(15,606)	233,229	285,756	(19,114)	266,642
Participants' fund (iii)	(398)	-	(398)	-	-	-
	2,047,641	(291,947)	1,755,694	2,037,911	(305,621)	1,732,290
i. Claim liabilities						
At beginning of year	1,752,155	(286,507)	1,465,648	1,482,771	(190,928)	1,291,843
Adjustment to claims incurred:						
- Outstanding reserves for current underwriting year	91,999	-	91,999	96,877	-	96,877
- Movements in outstanding reserve from prior underwriting years	730,188	(34,394)	695,794	843,107	(134,587)	708,520
- Movement in IBNR and PRAD	50,417	(2,386)	48,031	102,883	(11,917)	90,966
- Claims paid during the year	(825,555)	46,946	(778,609)	(773,483)	50,925	(722,558)
At end of year	1,799,204	(276,341)	1,522,863	1,752,155	(286,507)	1,465,648
ii. Premium/contribution liabilities						
At beginning of year	285,756	(19,114)	266,642	256,671	(5,749)	250,922
Premiums/contributions written during the year	1,290,943	(130,892)	1,160,051	1,370,599	(148,374)	1,222,225
Premiums/contributions earned during the year	(1,327,864)	134,400	(1,193,464)	(1,341,514)	135,009	(1,206,505)
At end of year	248,835	(15,606)	233,229	285,756	(19,114)	266,642
ii. Participants' fund						
Accumulated deficit						
At beginning of year	-	-	-	-	-	-
Deficit attributable to participants (Note 40(a))	(398)	-	(398)	-	-	-
At end of year	(398)	-	(398)	-	-	-

The accumulated deficit includes Qard due from the Retakaful Division which were eliminated to arrive at the Company level balances as disclosed under Note 40(b).

26. Expense liabilities

	2017 RM'000	2016 RM'000
Expense liabilities of general retakaful fund	149	-

	General retakaful fund
At 1 April 2016	-
Wakalah fee received during the year	2,119
Wakalah fee earned during the year	(1,970)
Movement in UWF	149
At 31 March 2017	149

27. Insurance/takaful payables

	2017 RM'000	2016 RM'000
Due to brokers and retrocessionaires	119,736	96,379

<u>Offsetting insurance/takaful receivables and payables</u>

	2017 RM'000	2016 RM'000
Gross amounts of recognised insurance payables	214,069	322,816
Less: Gross amounts of recognised insurance receivables set off in the statement of financial position	(94,333)	(226,437)
Net amounts of recognised insurance payables	119,736	96,379

Included in amounts due to brokers and retrocessionaires as at 31 March 2017 are balances amounting to RM216,644 (2016: RM6,321), RM120,888 (2016: RM1,889,627) and nil (2016:RM859) due to the Company's associate, Labuan Reinsurance (L) Ltd., and its fellow subsidiaries, MNRB Retakaful Berhad and Takaful Ikhlas Berhad respectively. The amounts payable are subject to settlement terms stipulated in the reinsurance/retakaful contracts.

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

28. Other payables and provisions

	2017 RM'000	2016 RM'000
Due to fellow subsidiaries *	1,175	-
Provisions	6,691	5,090
Sundry payables and accruals**	22,134	17,360
	30,000	22,450

* The amounts due to fellow subsidiaries are unsecured, interest-free and repayable upon demand.

** The sundry payables and accruals includes amounts owing by the Retakaful Division which were eliminated to arrive at the Company level balances as disclosed under Note 40(b). The amounts eliminated were the following:

	2017 RM'000	2016 RM'000
Seed capital of the Retakaful Division	34,277	-
Amount owing by Retakaful Division[#]	4,527	-
	38,804	-

The amount owing by the Retakaful Division is unsecured, interest-free and repayable upon demand.

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

29. Share capital

	Number of ordinary shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Issued and fully paid:				
At beginning/end of the year	510,000	510,000	510,000	510,000

30. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net profit for the year by the number of ordinary shares in issue during the year as follows:

	2017	2016
Net profit for the year (RM'000)	82,449	2,545
Number of ordinary shares in issue ('000)	510,000	510,000
Basic and diluted earnings per share (sen)	16.17	0.50

There was no dilutive potential ordinary shares at the end of the current and previous financial years.

31. Dividend

	Amount		Net dividend per share	
	2017	2016	2017	2016
	RM'000	RM'000	Sen	Sen
Recognised during the year:				
Dividend paid in respect of the financial year ended 31 March 2015:				
First and final single-tier dividend of 19.6%	-	100,000	-	19.6

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

32. Operating lease arrangements

(a) The Company as lessee

The Company has entered into non-cancellable operating lease agreement for the use of office premises. These leases are for a period of 5 years and subject to review every 2 years. There are no restrictions placed upon the Company by entering into these leases.

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

	2017	2016
	RM'000	RM'000
Not later than 1 year	2,737	3,063
Later than 1 year and not later than 5 years	5,474	12,252
	8,211	15,315

(b) The Company as lessor

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

32. Operating lease arrangements (cont'd.)

(b) The Company as lessor (cont'd.)

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

	2017 RM'000	2016 RM'000
Not later than 1 year	7,190	6,591
Later than 1 year and not later than 5 years	9,695	3,273
	16,885	9,864

33. Capital commitments

	2017 RM'000	2016 RM'000
Capital expenditure		
Approved and contracted for:		
Intangible assets	1,083	325
	1,083	325
Approved but not contracted for:		
Property, plant and equipment	-	5,166
Intangible assets	-	1,800

34. Significant related party disclosures

For the purposes 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.

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

34. Significant related party disclosures (cont'd.)

The significant related party transactions during the year are as follows:

	2017 RM'000	2016 RM'000
Income/(expenses):		
Transactions with AmIslamic Cash 1, a former subsidiary:		
Net dividend received	4,095	5,532
Transactions with Labuan Reinsurance (L) Ltd., an associate:		
Reinsurance inward (net of claims)	361	736
Net dividend received	2,692	-
Transactions with Takaful Ikhlas Berhad, a fellow subsidiary:		
Gross contribution paid for takaful cover	(362)	(223)
Retakaful inward (net of commission)	923	232
Transactions with MNRB Holdings Berhad, the holding company:		
Management fees	(16,690)	(18,430)
Interest paid	(50)	(29)
Net dividend paid	-	(100,000)
Rental income from property	1,393	1,612
Transactions with MMIP Services Sdn. Bhd., a fellow subsidiary:		
Management fees	-	2,945
Rental income from property	324	277
Transactions with Malaysian Re (Dubai) Ltd., a fellow subsidiary:		
Management fees for marketing activities	(3,894)	(4,407)
Transactions with MNRB Retakaful Berhad, a fellow subsidiary:		
Retakaful inward (net of claims)	(17)	172
Retakaful outward (net of claims)	81	144
Management fees	314	500
Rental income from property	19	56

The Directors are of the opinion that all the transactions above (other than dividend received/paid) have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties. Balances with related parties as at 31 March 2017 are as disclosed in Notes 21, 22 and 27.

34. Significant related party disclosures (cont'd.)

Details of the compensation granted to key management personnel are as follows:

	2017 RM'000	2016 RM'000
Non-executive director's remuneration (Note 12):		
Fees	845	782
Meeting allowances	180	180
Group Shariah Committee members' remuneration (Note 12):		
Fees	78	26
Meeting allowances	27	12
Executive director's remuneration (Note 12):		
Salaries and bonus	960	900
Pension costs - EPF	163	153
Benefits-in-kind	45	31
Others	7	11
Other key management personnel:		
Salaries and bonus	3,194	3,041
Pension costs - EPF	480	477
Social security cost	7	4
Benefits-in-kind	201	341
Allowances	34	63
	6,221	6,021

35. Risk management framework

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

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

The key objectives of the risk management framework are to:

(i) provide information on risk governance and accountabilities;
(ii) provide guidance on a standard approach to managing risks;
(iii) create and promote risk-aware culture; and
(iv) enhance professionalism and increase profitability and value for stakeholders.

35. Risk management framework (cont'd.)

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

(a) Risk management governance

The Risk Management governance structure is as follows:

(i) The Board had established a dedicated Board Committee known as the Risk Management Committee of the Board (“RMCB”) at the Company level to oversee the implementation of an enterprise-wide risk management framework;

(ii) The Board had established a dedicated Investment Committee to further oversee risks associated with investments and assets allocation strategies;

(iii) The Operational Risk Management Committee ("ORMC") which comprises the President & Chief Executive Officer and Senior Management, implements the risk management processes, provides assurance to the Board that the processes have been carried out effectively and inculcates a risk management and compliance culture on an enterprise-wide basis;

(iv) The Group Chief Risk Officer (“GCRO”) and Group Risk Management & Compliance Division establish the infrastructure and facilitate the risk management and compliance process in the Company through the adoption of the MNRB Group’s risk management framework;

(v) At the operational level, the implementation of risk management and compliance process in the day to day operations of the Company is consistent with the risk management framework; and

(vi) The Line Managers of each department in the Company are responsible for using the various components of the risk management framework as an integral part of the processes and procedures.

The Company has put in place the following policies to ensure the proper risk management:

(i) Underwriting Policy where the Company's underwriting strategy is to have an acceptable mix and spread of business portfolio by:
- observing underwriting guidelines and limits;
- setting prudent claims provisions; and
- applying prudential standards in the assessment of security of its key reinsures/retakaful operators.

In this respect, the Company complies with the relevant regulatory guidelines in the underwriting of risks.

35. Risk management framework (cont'd.)

(a) Risk management governance (cont'd.)

(ii) Claims reserving policy where claim liabilities are determined based on historical claims trends, existing knowledge of events, terms and conditions of certificates and assessment of circumstances. Particularly relevant is past experience with similar events, historical claims development trends, legislative changes, judicial decisions and economic conditions.

(iii) Investment Policy where the Company's investment strategy is towards capital preservation, returns maximisation and liquidity management. These are managed by investing in low-risk assets, deposits with licensed financial institutions, debt securities and other marketable securities.

(b) Capital management objectives, policies and approach

The Capital Management Plan ("CMP") is designed and implemented to ensure an effective management of the Company's capital. The CMP is expected to maximise the Company's value by optimising capital structure and enhancing capital efficiency.

Under the CMP, the Company measures and monitors its capital position mainly via the Capital Adequacy Ratio ("CAR").

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

The Company’s prevailing Individual Target Capital Level ("ITCL") is above the stipulated capital levels determined under the RBC and RBCT Frameworks.

Capital management objectives

The main objective of capital management is to monitor and maintain, at all times, an appropriate level of capital which is commensurate with the Company's business operation and the resultant risk profile.

The key objective of the CMP is to trigger appropriate action plans to be taken by the Board and management of the Company in the event of internal capital levels falling below the internal target requirement. This includes remedial actions that must be undertaken by the Company's Board and management to improve the capital position.

35. Risk management framework (cont'd.)

(b) Capital management objectives, policies and approach (cont'd.)

Capital management policies

The key capital management policies are as follows:

(i) Ensure the Company has adequate capital, expressed as the CAR, within a range that supports stakeholders' objectives; and

(ii) Establish the responsibility of management and the Board in developing an internal capital adequacy assessment process and setting capital targets that are commensurate with its risk profile and control environment.

Approach to capital management

The Company conducts stress tests on its CAR in compliance with BNM/RH/PD 029-7 *Stress Testing*. The impact of the adverse scenarios on the capital position of the Company is assessed on a quarterly basis, focusing on short to medium term views.

(c) Regulatory framework

The Company had policies and procedures in place in order to comply with the Financial Services Act, 2013 and the Islamic Financial Services Act, 2013 which are administered by BNM.

The total capital available of the Company as at 31 March 2017, as prescribed and reported under the RBC and RBCT Framework, is provided below:

	2017 RM'000	2016 RM'000
Eligible Tier 1 Capital		
Share capital	510,000	510,000
Reserves, including retained profits	676,566	594,532
	1,186,566	1,104,532
Tier 2 Capital		
Revaluation reserves	42,730	41,666
AFS reserves	4,077	3,324
Subordinated term debt	1,000	1,000
	47,807	45,990
Deductions	(8,039)	(12,128)
Total Capital Available	1,226,334	1,138,394

36. Insurance/takaful risk

(a) Underwriting risk

The Company principally underwrites general reinsurance and retakaful contracts by the following main classes of business: Fire, Motor, Marine, and Miscellaneous. Risks under these contracts usually cover a twelve month duration other than some long term contracts which may cover up to 3 years or more. For general reinsurance/retakaful, the most significant risk arises from adverse development of loss ratios and catastrophic loss events. These risks vary significantly in relation to economic conditions and territories from which the risks are underwritten.

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

The Company also manages its loss exposure through the use of retrocession programmes which are reviewed annually by the ORMC and RMCB, and subsequently approved by the Board. Prudent standards are applied in selection of the Company's key retrocessionaires.

(b) Concentration of risk by type of business

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

	Gross RM'000	Re-insurance/ retakaful RM'000	Net RM'000
2017			
Fire	870,681	(72,890)	797,791
Motor	338,246	(4,677)	333,569
Marine	434,382	(176,268)	258,114
Miscellaneous	404,730	(38,112)	366,618
	2,048,039	(291,947)	1,756,092
Local	1,113,068	(229,360)	883,708
Overseas	934,971	(62,587)	872,384
	2,048,039	(291,947)	1,756,092
Reinsurance	2,041,209	(291,969)	1,749,240
Retakaful	6,830	22	6,852
	2,048,039	(291,947)	1,756,092

36. Insurance/takaful risk (cont'd.)

(b) Concentration of risk by type of business (cont'd.)

2016	Gross RM'000	Re-insurance/ retakaful RM'000	Net RM'000
Fire	863,657	(98,494)	765,163
Motor	367,811	(8,500)	359,311
Marine	415,058	(161,928)	253,130
Miscellaneous	391,385	(36,699)	354,686
	2,037,911	(305,621)	1,732,290
Local	1,294,096	(248,343)	1,045,753
Overseas	743,815	(57,278)	686,537
	2,037,911	(305,621)	1,732,290
Reinsurance	2,037,911	(305,621)	1,732,290
Retakaful	-	-	-
	2,037,911	(305,621)	1,732,290

(c) Reserving risk

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

At each reporting date, the Company performs a test on the adequacy of its liabilities via the services of an independent qualified external actuary engaged for the purpose of ensuring that claim and premium liabilities are objectively assessed and adequately provided for. Any deficiency is recognised in the income statement.

(d) Impact on liabilities, profit and equity

Key assumptions

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

36. Insurance/takaful risk (cont'd.)

(d) Impact on liabilities, profit and equity (cont'd.)

Key assumptions (cont'd.)

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.

Sensitivity analysis

As a general reinsurer/retakaful operator, the insurance/takaful contract liabilities of the Company are sensitive to various key factors which are both internal and external. External factors to which the Company is sensitive to include:

(i) Claims practices of ceding companies;
(ii) Frequency and severity of claims incurred by cedants;
(iii) Changes in premium/contribution rates in insurance/takaful and reinsurance/ retakaful markets; and
(iv) Legislative and regulatory changes.

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

	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity * RM'000
2017	<------- Increase	------->	<------ Decrease	------>
Fire	16,230	16,230	16,230	13,520
Marine	4,076	3,152	3,152	2,810
Motor	8,307	8,307	8,307	6,397
Miscellaneous	9,370	9,370	9,370	7,664
	37,983	37,059	37,059	30,391
2016				
Fire	18,091	18,074	18,074	15,338
Marine	6,417	5,474	5,474	4,928
Motor	8,454	8,441	8,441	6,545
Miscellaneous	7,199	7,194	7,194	5,991
	40,161	39,183	39,183	32,802

* The impact on equity reflects the after tax impact.

This analysis assumes that other factors relevant, but not significant, to the valuation of claim liabilities remain constant. A change in the assumption in the opposite direction would result in opposite but equivalent impact. The method use in performing the sensitivity analysis is consistent with the prior year.

36. Insurance/takaful risk (cont'd.)

(e) Claims development table

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

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

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

Beginning 1 April 2009, the methodology used in the valuation of general reinsurance liabilities was changed. This change involved a more granular segregation of the business of the Company into specific portfolios with the intention of achieving greater accuracy in the estimation process. Accordingly, data pertaining to the gross general reinsurance liabilities prior to financial year ended 31 March 2009 was not available and hence only developments in gross general reinsurance liabilities for financial year ended 31 March 2009 onwards are disclosed.

36. Insurance/takaful risk (cont'd.)

(e) Claims development table (cont'd.)

Gross general reinsurance/retakaful liabilities for 2017:

Underwriting Year	**Before 2009 RM'000**	**2009 RM'000**	**2010 RM'000**	**2011 RM'000**	**2012 RM'000**	**2013 RM'000**	**2014 RM'000**	**2015 RM'000**	**2016 RM'000**	**Sub Total RM'000**
At the end of underwriting year		573,070	640,777	643,911	663,610	712,406	690,348	736,158	684,421	
One year later		570,029	603,851	722,113	642,522	746,746	718,599	776,819	-	
Two years later		573,383	671,472	794,395	645,558	780,517	724,699	-	-	
Three years later		633,549	674,073	841,767	680,531	889,089	-	-	-	
Four years later		633,211	669,536	874,635	692,982	-	-	-	-	
Five years later		627,195	680,333	882,859	-	-	-	-	-	
Six years later		631,330	675,779	-	-	-	-	-	-	
Seven years later		625,823	-	-	-	-	-	-	-	
Current estimate of booked ultimate claims incurred (a)		**625,398**	**674,636**	**878,997**	**686,488**	**833,916**	**703,375**	**711,208**	**407,338**	
At the end of underwriting year		92,548	81,664	72,602	45,707	65,738	50,329	48,141	51,629	
One year later		301,430	304,808	457,413	322,956	439,662	384,784	467,078	-	
Two years later		430,566	489,316	650,735	461,369	596,034	513,905	-	-	
Three years later		544,944	569,484	758,933	551,145	664,220	-	-	-	
Four years later		574,075	617,380	810,994	602,086	-	-	-	-	
Five years later		594,717	636,513	839,994	-	-	-	-	-	
Six years later		607,841	647,353	-	-	-	-	-	-	
Seven years later		609,932	-	-	-	-	-	-	-	
Cumulative payments to-date (b)		**609,932**	**647,353**	**839,994**	**602,086**	**664,220**	**513,905**	**467,078**	**51,629**	
Expected claim liabilities (a) - (b)	24,805	15,466	27,283	39,003	84,402	169,696	189,470	244,130	355,709	1,149,964

	RM'000
Other portfolios	516,052
Retakaful Division	4,037
Best estimate of claim liabilities	1,670,053
Claim handling expenses	7,926
Fund PRAD at 75% confidence interval	121,225
Gross general reinsurance/retakaful claim liabilities	1,799,204

36. Insurance/takaful risk (cont'd.)

(e) Claims development table (cont'd.)

Net general reinsurance/retakaful liabilities for 2017:

Underwriting Year	Before 2009 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	Sub Total RM'000
At the end of underwriting year		537,097	579,366	556,166	631,329	706,648	685,728	703,964	852,211	
One year later		546,681	557,852	707,118	624,620	731,426	692,643	877,687	-	
Two years later		549,676	626,114	779,122	617,389	764,024	742,890	-	-	
Three years later		593,617	627,273	827,433	648,398	810,863	-	-	-	
Four years later		597,410	628,890	858,119	691,076	-	-	-	-	
Five years later		599,731	638,953	883,912	-	-	-	-	-	
Six years later		608,900	636,893	-	-	-	-	-	-	
Seven years later		608,351	-	-	-	-	-	-	-	
Current estimate of booked ultimate claims incurred (a)		**607,889**	**634,691**	**866,556**	**655,408**	**773,853**	**671,865**	**698,038**	**402,150**	
At the end of underwriting year		91,038	70,948	72,009	45,218	65,738	50,329	48,141	51,629	
One year later		296,382	291,065	451,089	319,123	435,537	384,664	467,060	-	
Two years later		415,719	471,728	642,608	454,603	591,654	510,235	-	-	
Three years later		526,099	545,602	748,462	543,078	671,440	-	-	-	
Four years later		554,187	578,564	799,487	584,481	-	-	-	-	
Five years later		574,402	597,046	829,122	-	-	-	-	-	
Six years later		587,321	609,680	-	-	-	-	-	-	
Seven years later		593,541	-	-	-	-	-	-	-	
Cumulative payments to-date (b)		**593,541**	**609,680**	**829,122**	**584,481**	**671,440**	**510,235**	**467,060**	**51,629**	
Expected claim liabilities (a) - (b)	19,351	14,348	25,011	37,434	70,927	102,413	161,630	230,978	350,521	1,012,613
Other portfolios										426,756
Retakaful Division										4,037
Best estimate of claim liabilities										1,443,406
Claim handling expenses										7,926
Fund PRAD at 75% confidence interval										101,067
Less: Retrocession recoveries										(29,536)
Net general reinsurance/retakaful claim liabilities										1,522,863

36. Insurance/takaful risk (cont'd.)

(e) Claims development table (cont'd.)

Gross general reinsurance/retakaful liabilities for 2016:

Underwriting Year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Sub Total RM'000
At the end of underwriting year		418,389	573,070	640,777	643,911	663,610	712,406	690,348	736,158	
One year later		496,009	570,029	603,851	722,113	642,522	746,746	718,599	-	
Two years later		493,161	573,383	671,472	794,395	645,558	780,517	-	-	
Three years later		492,705	633,550	674,073	841,767	680,531	-	-	-	
Four years later		576,942	633,211	669,536	874,635	-	-	-	-	
Five years later		571,554	627,195	680,333	-	-	-	-	-	
Six years later		564,373	631,330	-	-	-	-	-	-	
Seven years later		581,142	-	-	-	-	-	-	-	
Current estimate of booked ultimate claims incurred (a)		**580,586**	**630,399**	**677,801**	**869,001**	**667,089**	**755,831**	**641,705**	**423,111**	
At the end of underwriting year		63,614	92,548	81,664	72,602	45,707	65,738	50,329	48,141	
One year later		256,339	301,430	304,808	457,413	322,956	439,662	384,784	-	
Two years later		358,844	430,566	489,316	650,735	461,369	596,034	-	-	
Three years later		411,516	544,944	569,484	758,933	551,145	-	-	-	
Four years later		515,279	574,075	617,380	810,994	-	-	-	-	
Five years later		529,417	594,717	636,513	-	-	-	-	-	
Six years later		539,381	607,841	-	-	-	-	-	-	
Seven years later		567,520	-	-	-	-	-	-	-	
Cumulative payments to-date (b)		**567,520**	**607,841**	**636,513**	**810,994**	**551,145**	**596,034**	**384,784**	**48,141**	
Expected claim liabilities (a) - (b)	25,440	13,066	22,558	41,288	58,007	115,944	159,797	256,921	374,970	1,067,991

	RM'000
Other portfolios	551,575
Best estimate of claim liabilities	1,619,566
Claim handling expenses	6,930
Fund PRAD at 75% confidence interval	125,659
Gross general reinsurance/retakaful claim liabilities	1,752,155

Malaysian Reinsurance Berhad
(Incorporated in Malaysia)

36. Insurance/takaful risk (cont'd.)

(e) Claims development table (cont'd.)

Net general reinsurance/retakaful liabilities for 2016:

Underwriting Year	Before 2008 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Sub Total RM'000
At the end of underwriting year		496,557	537,097	579,366	556,166	631,329	706,648	685,728	703,964	
One year later		480,442	546,681	557,852	707,118	624,620	731,426	692,643	-	
Two years later		476,158	549,676	626,114	779,122	617,389	764,024	-	-	
Three years later		479,882	593,617	627,273	827,433	648,398	-	-	-	
Four years later		546,688	597,410	628,890	858,119	-	-	-	-	
Five years later		546,771	599,731	638,953	-	-	-	-	-	
Six years later		546,212	606,579	-	-	-	-	-	-	
Seven years later		563,610	-	-	-	-	-	-	-	
Current estimate of booked ultimate claims incurred (a)		**563,164**	**605,749**	**636,725**	**852,660**	**637,654**	**741,887**	**622,767**	**417,098**	
At the end of underwriting year		62,609	91,038	70,948	72,009	45,218	65,738	50,329	48,141	
One year later		251,249	296,382	291,065	451,089	319,123	435,537	384,664	-	
Two years later		350,613	415,719	471,728	642,608	454,603	591,654	-	-	
Three years later		402,025	526,099	545,602	748,462	543,078	-	-	-	
Four years later		501,521	554,187	578,564	799,487	-	-	-	-	
Five years later		515,394	574,402	597,046	-	-	-	-	-	
Six years later		525,129	587,321	-	-	-	-	-	-	
Seven years later		551,316	-	-	-	-	-	-	-	
Cumulative payments to-date (b)		**551,316**	**587,321**	**597,046**	**799,487**	**543,078**	**591,654**	**384,664**	**48,141**	
Expected claim liabilities (a) - (b)	18,294	11,848	18,428	39,679	53,173	94,576	150,233	238,103	368,957	993,291

Other portfolios	386,878
Best estimate of claim liabilities	1,380,169
Claim handling expenses	6,930
Fund PRAD at 75% confidence interval	110,298
Less: Retrocession recoveries	(31,749)
Net general reinsurance/retakaful claim liabilities	1,465,648

37. Financial risk

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

The following table summarises the financial and insurance/takaful assets and liabilities of the Company by their classifications, including their carrying values and fair values, which are considered by management in monitoring and managing risks.

	2017		2016	
	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Financial and insurance/takaful assets				
Financial assets at FVTPL (Note 21)	191	191	187	187
HTM investments (Note 21)	188,260	185,898	188,778	189,871
AFS financial assets (Note 21)	1,499,974	1,499,974	1,392,775	1,392,775
Loans and receivables:				
Loans and receivables * (Note 21)	966,629	966,629	905,050	905,050
Insurance/takaful receivables *	228,173	228,173	272,925	272,925
Reinsurance/retakaful assets **	291,947	291,947	305,621	305,621
Cash and bank balances	28,805	28,805	15,310	15,310
	3,203,979	3,201,617	3,080,646	3,081,739
Financial and insurance/takaful liabilities				
Insurance/takaful contract liabilities **	2,047,641	2,047,641	2,037,911	2,037,911
Other liabilities:				
Borrowing	1,000	1,007	1,000	1,007
Insurance/takaful payables *	119,736	119,736	96,379	96,379
Other payables	23,309	23,309	17,360	17,360
	2,191,686	2,191,693	2,152,650	2,152,657

* The carrying values of loans and receivables and other liabilities approximate their fair values due to their short term nature.

** Being insurance/takaful assets and liabilities

37. Financial risk (cont'd.)

(a) Credit risk

Credit risk is the risk of financial loss resulting from the failure of counterparties to reinsurance/retakaful and investment transactions to meet their contractual obligations.

Credit risk includes the following major elements:

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

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

(iii) A reinsurance/retakaful counterparty risk which is the risk of financial loss arising from a retrocessionaire's default, or the deterioration of the retrocessionaire's solvency position.

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

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

(i) as a result of recoveries owing from retrocessionaires for claims of the Company;

(ii) from amounts due from ceding companies; and

(iii) as a result of reserves held by reinsurers which would have to be met by the Company in the event of default.

The reinsurers'/retakaful operators' share of unearned premiums/contributions have been excluded from the analysis as they are not contractual obligations.

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Management of credit risk

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

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

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

(iii) The Company's investment portfolio is managed to ensure diversification and focuses on high quality investment grade fixed income securities. For the financial year ended 31 March 2017, the average credit quality of the Company's rated investment portfolio was rated AAA as determined by Rating Agency Malaysia ("RAM") or Malaysian Rating Corporation Berhad ("MARC"); and

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

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposures of the Company by classiying financial and insurance/takaful assets according to the credit ratings of counterparties. The reinsurers'/retakaful operators' share of unearned premiums/contributions have been excluded from the analysis as they are not contractual obligations.

2017	Government guaranteed RM'000	AAA to BBB RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Financial assets at FVTPL					
Shariah approved equities in Malaysia	-	-	191	-	191
HTM investments					
Malaysian government securities	78,308	-	-	-	78,308
Unquoted corporate debt securities	5,002	-	-	-	5,002
Government investment issues	104,950	-	-	-	104,950
AFS financial assets					
Unquoted shares in Malaysia	-	-	44,503	-	44,503
Unquoted corporate debt securities	252,878	776,359	-	-	1,029,237
Government investment issues	176,422	-	-	-	176,422
Malaysian government securities	128,006	-	-	-	128,006
Quoted shares in Malaysia:					
Shariah approved equities	-	-	55,980	-	55,980
Others	-	-	52,764	-	52,764
Real estate investment trusts	-	-	13,062	-	13,062

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

2017 (cont'd.)	Government guaranteed RM'000	AAA to BBB RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Loans and receivables					
Fixed and call deposits with licensed:					
Commercial banks	-	77,164	-	-	77,164
Islamic investment accounts with licensed					
Co-operative bank	-	129,611	-	-	129,611
Islamic banks	-	698,294	-	-	698,294
Secured staff loans:					
Receivable within 12 months	-	-	-	116	116
Receivable after 12 months	-	-	-	2,543	2,543
Due from insurance Pool accounts	-	-	-	4,406	4,406
Income due and accrued	-	-	-	25,096	25,096
Due from holding company	-	-	-	4,227	4,227
Due from fellow subsidiaries	-	-	-	32	32
Other receivables and deposits	-	-	-	25,140	25,140
Reinsurance/retakaful assets*	-	83,466	-	192,875	276,341
Insurance/takaful receivables*	-	71,790	-	156,383	228,173
Cash and bank balances	-	28,805	-	-	28,805
Financial and insurance/takaful assets	745,566	1,865,489	166,500	410,818	3,188,373

* Non-rated balances primarily relate to balances due/recoverable from local insurers and/or takaful operators licensed under the FSA and IFSA 2013 respectively.

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

2016	Government guaranteed RM'000	AAA to BBB RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Financial assets at FVTPL					
Shariah approved equities in Malaysia	-	-	187	-	187
HTM investments					
Malaysian government securities	78,525	-	-	-	78,525
Unquoted corporate debt securities	5,003	-	-	-	5,003
Government investment issues	105,250	-	-	-	105,250
AFS financial assets					
Unquoted shares in Malaysia	-	-	44,503	-	44,503
Wholesale unit trust fund	-	-	149,455	-	149,455
Unquoted corporate debt securities	124,409	823,984	-	-	948,393
Government investment issues	64,582	-	-	-	64,582
Malaysian government securities	50,327	-	-	-	50,327
Quoted shares in Malaysia:					
Shariah approved equities	-	-	57,374	-	57,374
Others	-	-	63,630	-	63,630
Real estate investment trusts	-	-	14,511	-	14,511

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

2016 (cont'd.)	Government guaranteed RM'000	AAA to BBB RM'000	Not subject to credit risk RM'000	Not rated RM'000	Total RM'000
Loans and receivables					
Fixed and call deposits with licensed:					
Commercial banks	-	315,500	-	-	315,500
Investment banks	-	396,306	-	-	396,306
Islamic investment accounts with licensed					
Co-operative bank	-	40,577	-	-	40,577
Islamic banks	-	83,802	-	-	83,802
Secured staff loans:					
Receivable within 12 months	-	-	-	147	147
Receivable after 12 months	-	-	-	3,012	3,012
Due from insurance Pool accounts	-	-	-	13,698	13,698
Income due and accrued	-	-	-	26,303	26,303
Due from holding company	-	-	-	2,965	2,965
Due from fellow subsidiaries	-	-	-	4,113	4,113
Other receivables and deposits	-	-	-	18,627	18,627
Reinsurance assets *	-	167,017	-	119,490	286,507
Insurance receivables *	-	86,507	-	186,418	272,925
Cash and bank balances	-	15,310	-	-	15,310
Financial and insurance assets	428,096	1,929,003	329,660	374,773	3,061,532

* Non-rated balances primarily relate to balances due/recoverable from local insurers and/or takaful operators licensed under the FSA and IFSA 2013 respectively.

37. Financial risk (cont'd.)

(a) Credit risk (cont'd.)

Impaired financial assets

	Individually impaired RM'000	Collectively impaired RM'000	Total RM'000
2017			
Insurance/takaful receivables:			
At beginning of year	4,355	382	4,737
Impairment losses for the year	756	390	1,146
At end of year	5,111	772	5,883
2016			
Insurance receivables:			
At beginning of year	2,910	1,740	4,650
Impairment losses/(reversal of impairment losses) for the year	1,445	(1,358)	87
At end of year	4,355	382	4,737

(b) Liquidity risk

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

The Company assesses its liquidity risk by ensuring the following:

(i) the Company is able to meet its payment obligations under normal and stressed operating environments without suffering any loss;

(ii) additions/withdrawals from the Company’s investment funds are managed efficiently; and

(iii) appropriate measures are in place to respond to liquidity risk.

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

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

(i) daily cash flows;

(ii) minimum liquidity holdings;

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

(iv) the Company's reinsurance/retakaful funds.

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

Maturity profiles

The table below summarises the maturity profile of the financial and insurance/takaful assets and liabilities of the Company based on the remaining undiscounted contractual obligations, including interest/profit payable and receivable.

For insurance/takaful contracts liabilities and reinsurance/retakaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised insurance/takaful liabilities. Unearned premiums/contributions and the reinsurers'/retakaful operators' share of unearned premiums/contributions have been excluded from the analysis as they are not contractual obligations.

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

2017	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
Financial assets at FVTPL						
Shariah approved equities in Malaysia	191	-	-	-	191	191
HTM investments						
Malaysian government securities	78,308	3,277	13,115	96,516	-	112,908
Unquoted corporate debt securities	5,002	183	-	5,002	-	5,185
Government investment issues	104,950	4,365	12,296	105,036	-	121,697
AFS financial assets						
Unquoted shares in Malaysia	44,503	-	-	-	44,503	44,503
Unquoted corporate debt securities	1,029,237	43,892	121,701	1,096,836	-	1,262,429
Government investment issues	176,422	7,371	28,528	202,480	-	238,379
Malaysian government securities	128,006	5,142	19,885	151,808	-	176,835
Quoted shares in Malaysia:						
Shariah approved equities	55,980	-	-	-	55,980	55,980
Others	52,764	-	-	-	52,764	52,764
Real estate investment trusts	13,062	-	-	-	13,062	13,062

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2017 (cont'd.)						
Loans and receivables						
Fixed and call deposits with licensed:						
Commercial banks	77,164	77,402	-	-	-	77,402
Islamic investment accounts with licensed						
Co-operative bank	129,611	130,261	-	-	-	130,261
Islamic banks	698,294	702,791	-	-	-	702,791
Secured staff loans:						
Receivable within 12 months	116	116	-	-	-	116
Receivable after 12 months	2,543	-	2,543	-	-	2,543
Due from insurance Pool accounts	4,406	4,406	-	-	-	4,406
Income due and accrued	25,096	25,096	-	-	-	25,096
Due from holding company	4,227	4,227	-	-	-	4,227
Due from fellow subsidiaries	32	32	-	-	-	32
Other receivables and deposits	25,140	25,140	-	-	-	25,140
Reinsurance/retakaful assets	276,341	108,807	135,925	13,371	18,238	276,341
Insurance/takaful receivables	228,173	228,173	-	-	-	228,173
Cash and bank balances	28,805	28,805	-	-	-	28,805
Financial and insurance/takaful assets	3,188,373	1,399,486	333,993	1,671,049	184,738	3,589,266

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2017 (cont'd.)						
Borrowing	(1,000)	(50)	(198)	(1,169)	-	(1,417)
Insurance/takaful contract liabilities	(1,799,204)	(707,329)	(883,928)	(86,720)	(121,227)	(1,799,204)
Insurance/takaful payables	(119,736)	(119,736)	-	-	-	(119,736)
Other payables	(23,309)	(23,309)	-	-	-	(23,309)
Financial and insurance/takaful liabilities	(1,943,249)	(850,424)	(884,126)	(87,889)	(121,227)	(1,943,666)
Surplus/(deficit)	1,245,124	549,062	(550,133)	1,583,160	63,511	1,645,600

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2016						
Financial assets at FVTPL						
Shariah approved equities in Malaysia	187	-	-	-	187	187
HTM investments						
Malaysian government securities	78,525	3,277	13,115	100,009	-	116,401
Unquoted corporate debt securities	5,003	203	5,186	-	-	5,389
Government investment issues	105,250	4,365	46,728	75,269	-	126,362
AFS financial assets						
Unquoted shares in Malaysia	44,503	-	-	-	44,503	44,503
Wholesale unit trust fund	149,455	-	-	-	149,455	149,455
Unquoted corporate debt securities	948,393	80,977	721,498	336,700	-	1,139,175
Government investment issues	64,582	6,400	24,013	50,485	-	80,898
Malaysian government securities	50,327	1,869	17,191	43,875	-	62,935
Quoted shares in Malaysia:						
Shariah approved equities	57,374	-	-	-	57,374	57,374
Others	63,630	-	-	-	63,630	63,630
Real estate investment trusts	14,511	-	-	-	14,511	14,511

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2016 (cont'd.)						
Loans and receivables						
Fixed and call deposits with licensed:						
Commercial banks	315,500	320,468	-	-	-	320,468
Investment banks	396,306	398,341	-	-	-	398,341
Islamic investment accounts with licensed						
Co-operative bank	40,577	40,750	-	-	-	40,750
Islamic banks	83,802	84,353	-	-	-	84,353
Secured staff loans:						
Receivable within 12 months	147	147	-	-	-	147
Receivable after 12 months	3,012	-	3,012	-	-	3,012
Due from insurance Pool accounts	13,698	13,698	-	-	-	13,698
Income due and accrued	26,303	26,303	-	-	-	26,303
Due from holding company	2,965	2,965	-	-	-	2,965
Due from fellow subsidiaries	4,113	4,113	-	-	-	4,113
Other receivables and deposits	18,627	18,627	-	-	-	18,627
Reinsurance assets	286,507	111,373	145,041	12,768	17,325	286,507
Insurance receivables	272,925	272,925	-	-	-	272,925
Cash and bank balances	15,310	15,310	-	-	-	15,310
Financial and insurance assets	3,061,532	1,406,464	975,784	619,106	346,985	3,348,339

37. Financial risk (cont'd.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to 1 year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2016 (cont'd.)						
Borrowing	(1,000)	(50)	(198)	(1,218)	-	(1,466)
Insurance contract liabilities	(1,752,155)	(671,165)	(874,054)	(76,938)	(129,998)	(1,752,155)
Insurance payables	(96,379)	(96,379)	-	-	-	(96,379)
Other payables	(17,360)	(17,360)	-	-	-	(17,360)
Financial and insurance liabilities	(1,866,894)	(784,954)	(874,252)	(78,156)	(129,998)	(1,867,360)
Surplus	1,194,638	621,510	101,532	540,950	216,987	1,480,979

37. Financial risk (cont'd.)

(c) Market risk

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

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

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

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

Equity price risk

Equity price risk is the risk that the fair values or future cash flows of a financial instrument fluctuates because of changes in market prices (other than those arising from interest rate 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.

The Company's equity price 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, market and issuer, having regard also to such limits as stipulated by BNM. The Company complied with such limits as stipulated by BNM during the financial year and had no significant concentration of equity price risk.

Sensitivity analysis

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

37. Financial risk (cont'd.)

(c) Market risk (cont'd.)

2017	Changes in variable	Impact on profit before tax RM'000	Impact on equity* RM'000
Price	+5%	10	4,909
Price	-5%	(1,279)	(4,909)
2016			
Price	+5%	9	5,488
Price	-5%	(1,964)	(5,488)

* The impact on equity reflects adjustments for tax, where applicable.

Foreign exchange risk/currency risk

Currency risk is the risk that the fair value or 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 because of its foreign currency denominated underwriting revenues (such as premiums/contributions) and expenses (such as claims and commission expenses).

In respect of the Company's investment activities, investments are concentrated in RM denominated assets given that the Company's base currency is in RM.

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

Sensitivity analysis

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

37. Financial risk (cont'd.)

(c) Market risk (cont'd.)

Foreign exchange risk/currency risk (cont'd.)

	Changes in variable	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity * RM'000
		<------- Increase ------->		<------ Decrease ------>	
2017					
Foreign currency	+5%	43,139	43,139	31,338	29,790
2016					
Foreign currency	+5%	34,327	34,327	26,432	25,110

A change in the assumption in the opposite direction would result in opposite but equivalent impact. The method use in performing the sensitivity analysis is consistent with the prior year.

Interest rate risk

The Company is exposed to interest rate risk as follows: (i) fair values of fixed income assets would move inversely to changes in interest rates; and (ii) future cash flows of variable interest/profit-bearing assets would move in direct proportion to changes in rates. However, the Company does not have floating rate assets or liabilities on its book.

The earnings of the Company are affected by changes in market interest rates due to the impact such changes have on interest income from cash and cash equivalents, including investments in fixed deposits. The fair value of the Company's fixed income portfolio is inversely related to interest rates and hence is the source of portfolio volatility.

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

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

37. Financial risk (cont'd.)

(c) Market risk (cont'd.)

Interest rate risk (cont'd.)

Sensitivity analysis

A change of 25 basis points ("bp") in interest rates at the reporting date would have (decreased)/increased the fair values of the Company's fixed income investments by the amounts shown below. The impact on profit before tax has not been disclosed as the Company did not classify its fixed income investments at FVTPL.

	Changes in variable	Impact on equity* RM'000
2017		
Interest/profit rates	+25 bp	(13,036)
Interest/profit rates	-25 bp	13,036
2016		
Interest/profit rates	+25 bp	(8,553)
Interest/profit rates	-25 bp	8,553

* The impact on equity reflects adjustments for tax, where applicable.

(a) Property risk

Property risk is the risk associated with the Company’s investment in property or real estate for own occupancy, investment or rental purposes. The operational risk of the Company's property is controlled by having a detailed operation manual. The manual describes the responsibilities in relation to management of the properties to maintain quality and satisfied tenants.

The financial risk of delinquent tenants are managed through careful selection of properties, having quality tenants with long term tenancies and continuously maintaining and upgrading facilities.

The Company has no significant exposure to property risk.

38. Other risks

(b) Operational risk

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

(c) Compliance risk

Compliance risk is the risk of legal and regulatory sanctions, financial loss or reputational damage, which the Company may suffer as a result of its failure to comply with legal and regulatory requirements applicable to its activities.

Consequently, the exposure to this risk can damage the Company's reputation, lead to legal or regulatory sanctions and/or financial loss.

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

(d) Shariah risk

Shariah risk is defined as potential Shariah non-compliance that contributes to adverse reputation, financial losses and opportunity costs arising from ineffective governance, incompetent employees and improper transactional and operational execution of the Retakaful Division's business. The Company mitigates such risk by initiating, monitoring and responding to a robust Shariah control framework which includes the establishment of a Group Shariah Committe, Shariah Department and/or Shariah Compliance Officer for monitoring and oversight purposes. The framework is guided by the Shariah Governance Framework issued by BNM which is designed to meet the following objectives:

(i) sets out the expectations of BNM on the Company's Shariah governance structures, processes and arrangements to ensure that all its operations and business activities are in accordance with Shariah;

(ii) provides a comprehensive guidance to the Board, Group Shariah Committee and management of the Company in discharging its duties in matters relating to Shariah; and

38. Other risks (cont'd.)

(d) Shariah risk (cont'd.)

(iii) outlines the functions relating to Shariah review, Shariah audit, Shariah risk management and Shariah research.

39. Fair values of assets and liabilities

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

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

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

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

The fair values of the Company’s assets and liabilities are determined as follows:

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

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

(iii) The fair values of Malaysian government securities, government investment issues, unquoted corporate debt securities and borrowing are based on indicative market prices;

(iv) The fair values of investments in mutual funds, unit trust funds and real estate investment trusts which are not controlled by the Company are valued based on the net asset values of the underlying funds as at the reporting date; and

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

39. Fair values of assets and liability (cont'd.)

Description of significant unobservable inputs:

	Significant unobservable inputs	Range
2017		
Property, plant and equipment		
Freehold land and building	Yield/Rental per square foot	6.00% to 6.25%/RM4.60
Investment property		
Shoplots	Rental per square foot	RM2.00
2016		
Property, plant and equipment		
Freehold land and building	Yield/Rental per square foot	6.00% to 6.25%/RM4.60
Investment property		
Shoplots	Rental per square foot	RM2.00

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

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

The reconciliations from beginning to ending balances for freehold land and building and investment property which are classified under Level 3 of the fair value hierarchy are disclosed in Notes 17 and 18 respectively.

Fair value hierarchy:

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2017				
Assets measured at fair value on a recurring basis:				
(a) Property, plant and equipment				
Freehold land (Note 17)	-	-	36,800	36,800
Building (Note 17)	-	-	80,400	80,400
	-	-	117,200	117,200
(b) Investment property (Note 18)	-	-	7,400	7,400

39. Fair values of assets and liability (cont'd.)

2017 (cont'd.)	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
(c) Financial assets at FVTPL (Note 21)				
Quoted shariah approved equities in Malaysia	191	-	-	191
(d) AFS financial assets (Note 21)				
Unquoted corporate debt securities	-	1,029,237	-	1,029,237
Government investment issues	-	176,422	-	176,422
Malaysian government securities	-	128,006	-	128,006
Quoted shares in Malaysia:				
Shariah approved equities	55,980	-	-	55,980
Others	52,764	-	-	52,764
Real estate investment trusts	13,062	-	-	13,062
	121,806	1,333,665	-	1,455,471
	121,997	1,333,665	124,600	1,580,262

Assets and liability for which fair values are disclosed:

HTM investments (Note 21)	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Malaysian government securities	-	76,109	-	76,109
Unquoted corporate debt securities	-	5,016	-	5,016
Government investment issues	-	104,773	-	104,773
	-	185,898	-	185,898
Borrowing	-	1,007	-	1,007

39. Fair values of assets and liability (cont'd.)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2016				
Assets measured at fair value on a recurring basis:				
(a) Property, plant and equipment				
Freehold land (Note 17)	-	-	36,000	36,000
Building (Note 17)	-	-	82,800	82,800
	-	-	118,800	118,800
(b) Investment property (Note 18)	-	-	7,400	7,400
(c) Financial assets at FVTPL (Note 21)				
Quoted shariah approved equities in Malaysia	187	-	-	187
(d) AFS financial assets (Note 21)				
Unquoted corporate debt securities	-	948,393	-	948,393
Government investment issues	-	64,582	-	64,582
Malaysian government securities	-	50,327	-	50,327
Quoted shares in Malaysia:				
Shariah approved equities	57,374	-	-	57,374
Others	63,630	-	-	63,630
Real estate investment trusts	14,511	-	-	14,511
Wholesale unit trust fund	149,455	-	-	149,455
	284,970	1,063,302	-	1,348,272
	285,157	1,063,302	126,200	1,474,659

39. Fair values of assets and liability (cont'd.)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Assets for which fair values are disclosed:				
HTM investments (Note 21)				
Malaysian government securities	-	78,354	-	78,354
Unquoted corporate debt securities	-	5,029	-	5,029
Government investment issues	-	106,488	-	106,488
	-	189,871	-	189,871
Borrowing	-	1,007	-	1,007

Malaysian Reinsurance Berhad
(Incorporated in Malaysia)

40. Shareholder's, reinsurance and retakaful funds

(a) Statement of comprehensive income by funds

	General reinsurance and shareholder's fund		General retakaful fund		Eliminations		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Gross earned premiums/contributions	1,322,565	1,341,514	5,299	-	-	-	1,327,864	1,341,514
Premiums/contributions ceded to reinsurers/ retakaful operators	(133,829)	(135,009)	(571)	-	-	-	(134,400)	(135,009)
Net earned premiums/contributions	**1,188,736**	**1,206,505**	**4,728**	**-**	-	-	**1,193,464**	**1,206,505**
Investment income	104,195	99,609	31	-	-	-	104,226	99,609
Net realised (losses)/gains	(194)	2,974	-	-	-	-	(194)	2,974
Net fair value losses	(880)	(16,731)	-	-	-	-	(880)	(16,731)
Fee and commission income	17,322	8,197	471	-	(2,119)	-	15,674	8,197
Other operating revenue	17,915	10,704	7	-	-	-	17,922	10,704
Other revenue	**138,358**	**104,753**	**509**	**-**	(2,119)	-	**136,748**	**104,753**
Gross claims paid	(826,405)	(773,483)	850	-	-	-	(825,555)	(773,483)
Claims ceded to reinsurers/retakaful operators	46,946	50,925	-	-	-	-	46,946	50,925
Gross change to contract liabilities	(42,693)	(269,384)	(4,356)	-	398	-	(46,651)	(269,384)
Change in contract liabilities ceded to reinsurers/retakaful operators	(10,166)	95,579	-	-	-	-	(10,166)	95,579
Net claims	**(832,318)**	**(896,363)**	**(3,506)**	**-**	398	-	**(835,426)**	**(896,363)**
Fee and commission expenses	(330,148)	(337,952)	(2,119)	-	2,119	-	(330,148)	(337,952)
Management expenses	(62,186)	(67,281)	-	-	-	-	(62,186)	(67,281)
Finance cost	(50)	(29)	-	-	-	-	(50)	(29)
Other operating expenses	(1,805)	(2,622)	(25)	-	-	-	(1,830)	(2,622)
Change in expense liabilities	(149)	-	-	-	-	-	(149)	-
Tax borne by participants	-	-	15	-	-	-	15	-
Other expenses	**(394,338)**	**(407,884)**	**(2,129)**	**-**	2,119	-	**(394,348)**	**(407,884)**
Operating profit/(deficit)	**100,438**	**7,011**	**(398)**	**-**	**398**	**-**	**100,438**	**7,011**
Deficit attributable to retakaful participants	-	-	398	-	(398)	-	-	-
Profit before taxation	**100,438**	**7,011**	**-**	**-**	-	-	**100,438**	**7,011**
Taxation	(17,989)	(4,466)		-	-	-	(17,989)	(4,466)
Net profit for the year	**82,449**	**2,545**	**-**	**-**	-	-	**82,449**	**2,545**

40. Shareholder's, reinsurance and retakaful funds (cont'd.)

(b) Statement of financial position by funds

	General reinsurance and shareholder's fund		General retakaful fund		Eliminations		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets								
Property, plant and equipment	119,285	121,334	-	-	-	-	119,285	121,334
Investment property	7,400	7,400	-	-	-	-	7,400	7,400
Intangible assets	7,513	6,856	-	-	-	-	7,513	6,856
Investment in associate	75,658	75,658	-	-	-	-	75,658	75,658
Financial assets:								
Financial assets at fair value through profit or loss ("FVTPL")	191	187	-	-	-	-	191	187
Held-to-maturity ("HTM") investments	188,260	188,778	-	-	-	-	188,260	188,778
AFS financial assets	1,499,974	1,392,775	-	-	-	-	1,499,974	1,392,775
Loans and receivables ("LAR")	1,000,763	905,050	5,068	-	(39,202)	-	966,629	905,050
Reinsurance/retakaful assets	291,969	305,621	(22)	-	-	-	291,947	305,621
Insurance/takaful receivables	224,824	272,925	3,349	-	-	-	228,173	272,925
Tax recoverable	20,633	18,858	-	-	-	-	20,633	18,858
Cash and bank balances	28,795	15,310	10	-	-	-	28,805	15,310
Total assets	3,465,265	3,310,752	8,405	-	(39,202)	-	3,434,468	3,310,752
Liabilities								
Borrowing	1,000	1,000	-	-	-	-	1,000	1,000
Insurance/takaful contract liabilities	2,041,209	2,037,911	6,830	-	(398)	-	2,047,641	2,037,911
Expense liabilities	149	-	-	-	-	-	149	-
Insurance/takaful payables	119,658	96,379	78	-	-	-	119,736	96,379
Other payables and provisions	67,292	22,450	1,512	-	(38,804)	-	30,000	22,450
Deferred tax liabilities	2,169	3,490	(15)	-	-	-	2,154	3,490
Total liabilities	2,231,477	2,161,230	8,405	-	(39,202)	-	2,200,680	2,161,230

40. Shareholder's, reinsurance and retakaful funds (cont'd.)

(b) Statement of financial position by funds (cont'd.)

	General reinsurance and shareholder's fund		General retakaful fund		Eliminations		Company	
	2017	2016	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Equity								
Share capital	510,000	510,000	-	-	-	-	510,000	510,000
AFS reserve	4,077	3,324	-	-	-	-	4,077	3,324
Revaluation reserve	42,730	41,666	-	-	-	-	42,730	41,666
Retained profits	676,981	594,532	-	-	-	-	676,981	594,532
Total equity	1,233,788	1,149,522	-	-	-	-	1,233,788	1,149,522
Total liabilities and equity	3,465,265	3,310,752	8,405	-	(39,202)	-	3,434,468	3,310,752

(c) Statement of cash flows by funds

	General reinsurance and shareholder's fund		General retakaful fund		Eliminations		Company	
	2017	2016	2017	2016	2017	2016	2017	2016
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash flows from:								
Operating activities	15,176	116,521	10	-	-	-	15,186	116,521
Investing activities	(1,691)	(3,861)	-	-	-	-	(1,691)	(3,861)
Financing activities	-	(99,000)	-	-	-	-	-	(99,000)
Net increase/(decrease) in cash and cash equivalents	13,485	13,660	10	-	-	-	13,495	13,660
Cash and cash equivalent at the beginning of financial year	15,310	1,650	-	-	-	-	15,310	1,650
Cash and cash equivalent at the end of financial year	28,795	15,310	10	-	-	-	28,805	15,310