



کي في عيم جي

TAKAFUL BRUNEI AM SDN BHD
(Incorporated in Brunei Darussalam)
Registration Number: RC00003480

Annual Report
Year ended 31 December 2019

TAKAFUL BRUNEI AM SDN BHD

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report and audited financial statements for the financial year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activities of Takaful Brunei Am Sdn Bhd (the "Company") are underwriting of all classes of general takaful businesses as allowed under the Takaful Order, 2008 and Shariah principles.

There have been no significant changes in the nature of its activities during the financial year.

RESULTS

	BND'000
Retained earnings at the beginning of the year	25,732
Profit for the year	3,398
Dividends paid	<u>(914)</u>
Retained earnings at the end of the year	<u>28,216</u>

STATEMENT BY DIRECTORS

We certify that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of the financial performance, changes in equity and cash flows of the Company for the year ended 31 December 2019.

The financial statements were approved by the Board of Directors and signed for and on its behalf of the Board.

DIVIDENDS

The amount of dividends paid by the Company during the year were as follows:

	BND'000
In respect of the financial years 2016 and 2017	
Final dividend of BND\$0.015 per ordinary share	343
In respect of the financial years ended 31 December 2018:	
Final dividend of BND\$0.05 per ordinary share	571

At the forthcoming Annual General Meeting, a final dividend in respect of financial year ended 31 December 2019 of BND\$0.05 per ordinary share will be proposed.

RESERVES

There were no material transfers to or from reserves during the financial year under review, except as disclosed in the financial statements. There were no transfers to reserves subsequent to the financial year end and to the date of this report.

DIRECTORS

The directors in office during the financial year and at the date of this report are:

Yang Berhormat Dato Seri Setia Dr Haji Amin Liew bin Abdullah (Chairman) (appointed 30 July 2018)

Yang Mulia Dato Seri Setia Awang Haji Mohammad Abdul Aziz bin Orang Kaya Maharaja Lela Haji Yussof (appointed 30 July 2018)

Yang Mulia Awang Haji Abdul Manap bin Othman (appointed 30 July 2018)

Yang Mulia Awang Junaidi bin Haji Masri (appointed 30 July 2018)

Yang Mulia Dato Paduka Awang Iqbal Khan

Yang Mulia Awang Javed Ahmad

Yang Mulia Awang Haji Shahrildin bin Pehin Orang Kaya Lela Utama Dato Paduka Haji Jaya

AUDITORS

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

ON BEHALF OF THE BOARD



Yang Berhormat Dato Seri Setia
Dr Haji Amin Liew bin Abdullah
(Chairman)



Yang Mulia Awang Haji Shahrildin bin
Pehin Orang Kaya Lela Utama Dato Paduka
Haji Jaya (Managing Director)

Brunei Darussalam

Date: 26 MAR 2020

REPORT OF THE SHARIAH ADVISORY BODY

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الحمد لله رب العالمين والصلاة والسلام على سيدنا محمد خاتم النبيين وعلى آله وصحبه أجمعين

To The Shareholders of Takaful Brunei Am Sdn Bhd

السلام عليكم ورحمة الله وبركاته

To fulfill the terms of our appointment and in our capacity as members of Takaful Brunei Am Sdn Bhd's Shariah Advisory Body, we are pleased to report as follows:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by Takaful Brunei Am Sdn Bhd during the year ended 31 December 2019. We have also conducted our review to form an opinion as to whether Takaful Brunei Am Sdn Bhd has complied with Shariah Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

Takaful Brunei Am Sdn Bhd management is responsible for ensuring that the financial institution conducts its business in accordance with Shariah Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of Takaful Brunei Am Sdn Bhd, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by Takaful Brunei Am Sdn Bhd.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that Takaful Brunei Am Sdn Bhd has not violated Shariah Rules and Principles.

In our opinion:

- a) The contracts, transactions and dealings entered into by Takaful Brunei Am Sdn Bhd during the financial period ending 31 December, 2019 that we have reviewed are in compliance with the Shariah Rules and Principles;
- b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah Rules and Principles;
- c) All earnings that have been realised from sources or by means prohibited by Shariah Rules and Principles have been separated and considered for disposal to charitable causes; and
- d) The calculation of Zakat is in compliance with Shariah Rules and Principles.

We pray to Allah *Subhanahu Wa Ta'ala* to assist everyone to act in accordance with the rulings of Islamic finance and to keep away from carrying out any transactions that are prohibited by Allah *Subhanahu Wa Ta'ala*. May Allah *Subhanahu Wa Ta'ala* bless us with the best *taufiq* and *hidayah* to accomplish these cherished tasks, make us successful and forgive us in this world and in the hereafter. Amin.

والله ولي التوفيق والهداية



Yang Berhormat Pehin Orang Kaya
Paduka Seri Utama Dato Paduka Seri Setia
Haji Awang Salim bin Awang Haji Besar
(Chairman)



Yang Dimuliakan Pehin Orang Kaya
Paduka Setia Raja Dato Paduka Seri Setia
Haji Awang Suhaili bin Haji Mohiddin
(Member)



Yang Mulia Datin Paduka
Dr Hajah Masnon binti Haji Ibrahim
(Member)



Yang Mulia Dato Seri Setia
Dr Awang Haji Mazanan bin Haji Yusof
(Member)

Date: 26 MAR 2020

At

Dar Takaful IBB Utama
Lot 55835, Jalan Pemancha BS8711
Bandar Seri Begawan
Negara Brunei Darussalam



کي تي عيم جي

KPMG
Unit 401- 403A, Wisma Jaya
Jalan Pemancha
Bandar Seri Begawan BS8811
Brunei Darussalam

Telephone +673 222 8382
+673 222 6888
Fax +673 222 8389

Independent Auditors' Report

To the Shareholders of Takaful Brunei Am Sdn Bhd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Takaful Brunei Am Sdn Bhd (“the Company”), which comprise the statement of financial position of the Company as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Brunei Darussalam Companies Act, Chapter 39 (‘the Act’) and International Financial Reporting Standards (‘IFRSs’) so as to give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises all information in the annual report other than the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the provisions of the Act and IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements.

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

KPMG
Certified Public Accountants



Amy Tan Nga Mee
Public Accountant

Brunei Darussalam
Date: 26 MAR 2020

Financial statements
Contents

Statements of financial position	FS1
Statement of profit or loss	FS2
Statement of comprehensive income	FS3
Statement of changes in equity	FS4
Statement of cash flows	FS5
Notes to the financial statements	FS6 – FS56

Statements of financial position
As at 31 December 2019

	Note	2019 BND'000	2018 BND'000
Assets			
Property and equipment	5	281	–
Balances with Autoriti Monetari Brunei Darussalam	6	2,000	–
Other investments	7	20,183	20,183
Ceded share of takaful contract liabilities	8	24,627	32,812
Unexpired wakalah fee	9	8,125	8,128
Takaful receivables	10	1,569	2,290
Other receivables	11	3,627	2,903
Cash and cash equivalents	12	167,346	164,508
Total assets		<u>227,758</u>	<u>230,824</u>
Liabilities			
Takaful contract liabilities	8	98,593	112,445
Takaful payables	13	2,693	3,404
Other payables	14	9,039	9,376
Lease liabilities	15	288	–
Provision for zakat and taxation		840	820
Total liabilities		<u>111,453</u>	<u>126,045</u>
Participants' fund	17	61,194	52,152
Equity			
Share capital	16	11,421	11,421
Reserves	16	15,474	15,474
Retained earnings		28,216	25,732
Total shareholders' equity		<u>55,111</u>	<u>52,627</u>
Total equity and liabilities		<u>227,758</u>	<u>230,824</u>

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

Statement of profit or loss
Year ended 31 December 2019

	Note	2019 BND'000	2018 BND'000
Gross takaful contributions	8	60,960	66,322
Contributions ceded to retakaful	8	(10,047)	(19,786)
Net takaful contributions		50,913	46,536
Change in unearned contribution reserves		1,018	(3,171)
Change in unearned contribution reserves ceded to retakaful		(2,242)	485
Net movement in unearned contribution reserves		(1,224)	(2,686)
Net earned contributions		49,689	43,850
Wakalah income	18	17,711	16,494
Gross claims paid	8	(29,954)	(22,416)
Claims paid ceded to retakaful	8	2,532	12,523
Gross change to claims liabilities		12,834	2,230
Change to claims liabilities ceded to retakaful		(4,485)	(3,728)
Net claims		(19,073)	(11,391)
Wakalah expense	18	(17,711)	(16,494)
Amortisation of wakalah fee during the year		(3)	678
Takaful profit		30,613	33,137
Investment income		2,701	1,827
Other operating income	19	1,370	1,772
Other income		4,071	3,599
Personnel expenses	20	(3,528)	(3,328)
Change in expense reserves		(500)	(578)
Finance costs	15	(27)	-
Other operating expenses		(13,672)	(11,136)
Other expenses		(17,727)	(15,042)
(Profit) attributable to takaful funds	17	(12,926)	(17,674)
Profit before zakat and taxation		4,031	4,020
Zakat	22	-	-
Tax expense	22	(633)	(954)
Profit for the year	21	3,398	3,066

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

Statement of comprehensive income
Year ended 31 December 2019

	Note	2019 BND'000	2018 BND'000
Profit for the year	21	3,398	3,066
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		—	9,868
Other comprehensive income for the year, net of tax		—	9,868
Total comprehensive income for the year		<u>3,398</u>	<u>12,934</u>

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

Statement of changes in equity
Year ended 31 December 2019

	<u>Attributable to the owners of the Company</u>			
	Share capital BND'000	Available- for-sale reserve BND'000	Retained earnings BND'000	Total BND'000
At 1 January 2018	11,421	5,606	22,666	39,693
Total comprehensive income for the year				
Profit for the year	–	–	3,066	3,066
Other comprehensive income				
Change in fair value of available-for-sale financial assets, net of tax	–	9,868	–	9,868
Total other comprehensive income	–	9,868	–	9,868
Total comprehensive income for the year	–	9,868	3,066	12,934
At 31 December 2018/ At 1 January 2019	<u>11,421</u>	<u>15,474</u>	<u>25,732</u>	<u>52,627</u>
Total comprehensive income for the year				
Profit for the year	–	–	3,398	3,398
Total comprehensive income for the year	–	–	3,398	3,398
Contributions by and distributions to owners				
Dividends paid on ordinary shares	–	–	(914)	(914)
At 31 December 2019	<u>11,421</u>	<u>15,474</u>	<u>28,216</u>	<u>55,111</u>

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

Statement of cash flows
Year ended 31 December 2019

	Note	2019 BND'000	2018 BND'000
Cash flows from operating activities			
Profit for the year		3,398	3,066
Adjustments for:			
Dividend income		(819)	(341)
Finance costs	15	27	—
Tax expense	22	633	954
Depreciation	5	179	—
		3,418	3,679
Changes in:			
Takaful and other receivables		5	(185)
Takaful and other payables		(1,057)	1,432
Balances with Autoriti Monetari Brunei Darussalam		(2,000)	—
Takaful contract liabilities		(5,664)	3,472
Participants' funds		9,042	14,895
		3,744	23,293
Cash generated from operations		3,744	23,293
Income tax paid		(613)	(684)
Net cash from operating activities		3,131	22,609
Cash flows from investing activities			
Dividend received		819	341
Proceeds from other investment distribution		—	1
Net cash from investing activities		819	342
Cash flows from financing activities			
Finance costs on leases paid	15	(27)	—
Payment of lease liabilities	15	(172)	—
Dividends paid		(913)	—
Net cash used in financing activities		(1,112)	—
Net increase in cash and cash equivalents		2,838	22,951
Cash and cash equivalents at 1 January		164,508	141,557
Cash and cash equivalents at 31 December	12	167,346	164,508

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

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Board of Directors on 26 March 2020.

1 Domicile and activities

Takaful Brunei Am Sdn Bhd (the “Company”) is a private limited company, incorporated and domiciled in Brunei Darussalam. The address of the Company’s principal place of business and registered office is as follows:

8th Floor, Dar Takaful IBB Utama
Jalan Pemancha, Bandar Seri Begawan BS8711
Negara Brunei Darussalam

The financial statements of the Company as at and for the year ended 31 December 2019 do not include other entities.

The principal activities of the Company are to manage and underwrite general takaful businesses. There have been no significant changes in the nature of these activities during the financial year.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Company is required to present financial statements for itself and the takaful funds it manages and controls in accordance with the requirements of IFRS 10 *Consolidated Financial Statements*. The statements of financial position and the statements of profit or loss and other comprehensive income of the Takaful Operator, and General Takaful Fund are supplementary financial information presented in accordance with the requirements of Takaful Order, 2008 (“TO”) in Brunei to present assets, liabilities, income and expenses of takaful funds from its own. The statements of financial position and profit or loss and comprehensive income of the Takaful Operator include only assets, liabilities, income and expenses of the Takaful Operator, excluding the takaful funds managed by it. The statements of financial position and profit or loss and comprehensive income of the General Takaful Fund include only the assets, liabilities, income and expenses General Takaful Fund that is set up, managed and controlled by the Takaful Operator.

This is the first set of the Company’s annual financial statement in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 3.20.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

These financial statements are presented in Brunei Darussalam dollars, which is the Company's functional currency. All financial information presented in Brunei Darussalam dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgments

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

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements and information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 24 – Takaful risk management

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. If third party information, such as broker quotes or pricing services, is used to measure fair values, management assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

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

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

Further information about assumptions made in measuring fair value is included in the notes.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 3.20, which addresses changes in accounting policies.

3.1 Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences which are recognised in other comprehensive income arising on the retranslation of available-for-sale equity instruments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income (“OCI”) are reclassified to profit or loss).

3.2 Financial instruments

Non-derivative financial assets

The Company initially recognises financing and advances on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, financing and advances and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets classified as held for trading comprise sukuk actively managed by the management to address short-term liquidity needs.

Financial assets designated at fair value through profit or loss comprise sukuk that otherwise would have been classified as available for sale.

Held-to-maturity financial assets

If the Company has the positive intent and ability to hold financial assets to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective profit method, less any impairment losses.

The effective profit rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective profit rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective profit rate includes all transaction costs that are an integral part of the effective profit rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Held-to-maturity financial assets comprise sukuk.

Financing and advances

Financing and advances are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financing and advances are measured at amortised cost, using the effective profit method, less any impairment losses.

Financing and advances comprise cash and cash equivalents, balances with Autoriti Monetari Brunei Darussalam and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. For the purpose of the statement of cash flows, pledged deposits are excluded whilst bank overdrafts that are repayable on demand and that form an integral part of the Company's cash management are included in cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and sukuk.

Non-derivative financial liabilities

The Company initially recognises financial liabilities issued and subordinated liabilities on the date that they are originated. Financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective profit method.

Other financial liabilities comprise other payables and lease liabilities.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.3 Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment, unless it is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Depreciation is recognised from the date that the property and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years are as follows:

Right-of-use of assets	according to the contract lease period
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Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.4 Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately and the impact of changes is disclosed in Note 3.20.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

i. As a lessee

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of property in which it is a lessee, the Company has elected not to separate the non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payment, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and

- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets in 'property and equipment' and lease liabilities in 'loans and borrowing' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - o The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - o The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - o Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Under IAS 17

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payment over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

3.5 Impairment

(i) *Non-derivative financial assets*

A financial asset not carried at fair value through profit or loss is assessed at the end of each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event(s) has occurred after the initial recognition of the asset, and that the loss event(s) has an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Company considers a decline of 20% to be significant and a period of 9 months to be prolonged.

Financing and advances and held-to-maturity investment securities

The Company considers evidence of impairment for financing and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant financing and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financing and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together financing and advances and held-to-maturity investment securities with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows, discounted at the asset's original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing and advances or held-to-maturity investment securities. Profit on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment provisions attributable to application of the effective profit method are reflected as a component of profit income. If, in a subsequent period, the fair value of an impaired available-for-sale Sukuk increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed. The amount of the reversal is recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in OCI.

(ii) *Non-financial assets*

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are accompanied together into the smallest Company of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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.

3.6 Provisions

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.7 Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(ii) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.8 Classification of takaful and investment contracts

Takaful contracts are contracts in which the Company underwrites/accepts significant risks (by pooling the risks in a risk fund) from participants of General Takaful Fund (collectively referred to as “the funds”) (“the participant”) by agreeing to compensate the participant or other beneficiary if a specified uncertain future event (“the takaful event”) adversely affects the participant or other beneficiary. Takaful risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified financial or non-financial variable.

Contracts where insignificant takaful risks are accepted by the funds are classified as either investment contracts or service contracts. There are currently no such contracts in the funds' portfolios.

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

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

Takaful receivables

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

The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that a takaful receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets.

Takaful receivables are derecognised when the de-recognition criteria for financial assets have been met.

3.9 General Takaful Fund

The General Takaful Fund is maintained in accordance with the requirements of the Takaful Order, 2008 and includes the profits attributable to participants which represents the participants' share of the return of investments and are distributable in accordance with the terms and conditions prescribed by the Company.

The General Takaful underwriting results are determined for each class of takaful business after taking into account unearned contributions, retakaful, claims incurred, wakalah fees, commissions and miscellaneous expenses.

(i) Contribution income

Contribution is recognised in the financial period in respect of risks assumed during that particular financial period based on the inception date. Inward treaty retakaful contributions are recognised on the basis of periodic advances received from the ceding takaful operators. Outward retakaful contributions are recognised as contribution income in the same financial period as the underlying takaful risk which the retakaful relates.

(ii) Unearned contribution reserves

The unearned contribution reserves ("UCR") represents the portion of the net contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial period. The provision for UCR at each reporting date is calculated using the 1/365 (2018:1/24) method on written premiums, except for motor policies using the 1/24 method and for policies with periods exceeding one year or less than one year which is calculated on a daily pro-rata basis over the policy period for general takaful business.

(iii) Provision for outstanding claims

A liability for outstanding claims is recognised in respect of all takaful business. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries, if any, to settle the present obligation at the balance sheet date. Any difference between the current estimated cost and subsequent settlement is dealt with in the takaful revenue account in the year in which the settlement takes place.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the reporting date, using the link ratio method. This is based on management's best estimates. The actual ultimate loss ratio may differ from the actual due to estimation uncertainties.

3.10 Retakaful

The Company cedes takaful risk in the normal course of business. Retakaful assets represent balances receivable and recoverable from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's certificates and are in accordance with the related retakaful contracts.

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

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

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

Retakaful contracts that do not transfer significant takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified contributions or fees to be retained by the retakaful operators. Investment income on these contracts is accounted for using the effective profit method when accrued.

Assumed retakaful risks

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

Contributions and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the retakaful business. Retakaful liabilities represent balances due to retakaful operators. Amounts payable are estimated in a manner consistent with the related retakaful contract.

3.11 Participants' fund

The participants' fund represents the accumulated surplus attributable to participants of the General Takaful Fund. The reserve from surpluses is distributable to participants in accordance with the terms and conditions prescribed by the Company.

3.12 Liability adequacy test

The liability of the Company under takaful business is tested for adequacy by comparing the expected future contractual cash flows with the carrying amount of gross takaful contract provisions for unearned premiums and takaful claims. Where an expected shortfall is identified, additional provisions are made for unearned premiums or takaful claims and the deficiency is recognised in profit or loss.

3.13 Expenses liability

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

In carrying out its fiduciary duties, the Company must put in place sufficient measures to ensure the sustainability of the General Takaful Funds to meet takaful benefits and the Takaful Operator's fund to support the takaful certificates for the full term. These measures include the setting up of appropriate provisions for liabilities based on management's best estimates in the Takaful Operator's fund on behalf of participants in General Takaful Funds, to ensure that adequate funds are available to meet all contractual obligations and commitments as they fall due.

Unexpired wakalah fee ("UWF") represents the portion of unexpired period of wakalah fee at the end of the financial period. The UWF at the end of the financial period is calculated using the 1/24 method on wakalah fee for each takaful certificate underwritten.

Expenses liability of General Takaful Fund

Expenses liability is recognised in the Takaful Operator's fund. The method used to measure expenses liability is consistent with the method used to value takaful liabilities of the corresponding general takaful certificates. The Company classifies expenses liabilities as part of other payables.

3.14 Commission expenses

The cost of acquiring and renewing takaful certificates net of income derived from ceding retakaful contribution, is recognised as incurred.

Mudharabah policies

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

Wakalah policies

Commission expenses are borne by the Takaful Operator's fund at an agreed percentage of the gross contribution. This is in accordance with the principles of Wakalah as approved by the Shariah Advisory body.

3.15 Wakalah fee

The wakalah fee is income to the Takaful Operator and is charged to the General Takaful Funds and correspondingly recognised as an expense in the respective funds' profit or loss at an agreed percentage for each takaful certificate underwritten. This is in accordance with the principles of wakalah as approved by the Shariah Committee and is agreed between the participants and the Company.

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

Except for certain corporate takaful certificates where the contract rates are individually negotiated and agreed with the participants, the wakalah fee rate was as follows throughout the year:

Motor takaful	30% (2018: 30%)
Other General takaful	35% (2018: 35%)

3.16 Profit sharing contracts

Al-Mudharabah is a contract (akad) of partnership between the owner of the asset/capital (Rabbul Mal) to surrender his/her capital to entrepreneurs (Mudharib) for business purposes, where the owner of the asset/capital (Rabbul Mal) gives full consent to the entrepreneur without any condition regarding the capital use. However, the entrepreneur is still responsible to manage the business according to the Uruf (normal practices or conventions) which does not contradict with Shariah principles.

Profits are shared in accordance to the profit sharing ratio. However, any capital loss is borne by the capital owner (Rabbul Mal) while the entrepreneur (Mudharib) does not receive any return on the efforts made.

The net surplus from general inwards retakaful is determined after deducting the reserve for provisions for claims IBNR and net claims incurred. The net surplus is distributable in accordance with terms and conditions prescribed by the Company.

The Company has stopped issuing Al-Mudharabah contracts in 2011.

3.17 Investment income

Dividend income from investments is recognised when the right to receive payment has been established.

Gains and losses arising on disposals of investments are recognised as profit or loss.

3.18 Zakat

This represents tithes payable by the Company to comply with the principles of Shariah and as approved by the Shariah Advisory Board.

3.19 Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and temporary differences related to investments in subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and effective profit rates may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of the existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.20 Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

The Company has applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company has applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are detailed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease as explained in Note 3.4.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risk and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet

The Company decided to apply recognition exemptions to short-term leases of office equipment and leases of IT equipment. For leases of other assets, which were classified as operating under IAS 17, the Company recognised right-of-use assets and lease liabilities.

The Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

i. Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company use the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as at the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

C. Impacts on financial statements

In the context of the transition to IFRS 16, right-of-use assets of BND\$460,000 and lease liabilities of BND\$460,000 were recognised as at 1 January 2019. Of these lease liabilities, BND\$134,000 was due within one year.

The Company transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. As part of the initial application of IFRS 16, the Company chooses to apply the relief option, which allows it to adjust the right-of-use asset by the amount of any provision for onerous leases recognised in the balance sheet immediately before the date of the initial application.

In addition, the Company has decided not to apply the new guidance to leases whose terms will end within twelve months of the date of the initial application. In such cases, the leases are accounted for as short-term leases and the lease payments associated with them are recognised as an expense from short term leases. The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations as at 31 December 2018.

Reconciliation	Company BND'000
Operating lease obligations at 31 December 2018	518
Discounting	<u>(58)</u>
Lease liabilities at 1 January 2019	460

When measuring lease liabilities, the Company discounted lease payments using the borrowing rate at 1 January 2019. The discount rate used was 6.0%. In order to derive the borrowing rate, reference borrowing rates from several financial institutions were reviewed. In the absence of a long-term yield curve for the country, management chose to adopt the reference of 6.0% given the existing market conditions for loans and financing has been generally stable for the past 8 - 10 years.

3.21 New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however the Company has not early applied the following new or amended standards in preparing these statements.

For those new standards and amendments to standards that are expected to have an effect on the financial statements of the Company in future financial periods, the Company is assessing the transition options and the potential impact on its financial statements, and to implement these standards. The Company does not plan to adopt these standards early.

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

The amendments introduce two approaches for entities that apply IFRS 4 to reduce the impact of differing effective dates with IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*: an overlay approach and a temporary exemption from applying IFRS 9.

The amended IFRS 4:

- gives all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued (the “Overlay Approach”); and
- gives companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 till the earlier of annual reporting periods beginning before 1 January 2021 or when IFRS 17 becomes effective. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39 until that time.

An insurer that applies the Overlay Approach shall disclose information to enable users of financial statements to understand:

- a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and
- b) the effect of that reclassification on the financial statements.

The amendments allowing the overlay approach are applicable when the insurer first applies IFRS 9.

An insurer that elects to apply the temporary exemption from IFRS 9 shall disclose information to enable users of financial statements:

- a) to understand how the insurer qualified for the temporary exemption; and
- b) to compare insurers applying the temporary exemption with entities applying IFRS 9.

The effective date of the amendments permitting the temporary exemption is for annual periods beginning on or after 1 January 2018. The temporary exemption is available for annual reporting periods beginning before 1 January 2021 and will expire once IFRS 17 becomes effective.

Potential impact on the financial statements

The new insurance accounting standard that is currently under consideration is expected to have a significant impact on the Company's financial statements. That standard may impact how the classification and measurement of financial instruments requirements under IFRS 9 is adopted.

The Company has decided that it will elect the temporary exemption in the amendments to IFRS 4 from applying IFRS 9 till IFRS 17 is effective. The Company will be able to perform a comprehensive assessment of the impact of both standards, taking into considerations the options available for the implementation of both standards together. The Company assessed that it has qualified for the temporary exemption as the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 is significant compared to the total carrying amount of all its liabilities; and that the total carrying amount of its liabilities connected with insurance is more than 90% of its total liabilities as at 31 December 2019.

The fair value information of the Company's directly held financial assets at 31 December 2019 with contractual terms that give rise on specified dates to cash flows are solely payments of principal and interest ("SPPI") condition of IFRS 9, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9 are shown in the table below, together with all other financial assets:

	Financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9		All other financial assets	
	Fair value at 31 December 2019	Movement in the fair value during the year	Fair value at 31 December 2019	Movement in the fair value during the year
	BND'000	BND'000	BND'000	BND'000
Cash and cash equivalents	167,346	—	—	—
Other receivables	5,196	—	—	—
Total financial assets	172,542	—	—	—

The financial assets that pass the SPPI test, excluding any financial asset that meets the definition of held for trading or that is managed and evaluated on a fair value basis of IFRS 9 in the table above are classified as amortised cost under IAS 39. The credit ratings of these financial assets, analysed on the same basis are as follows:

	A+ to A- BND'000	Below BBB- or not rated BND'000	Total BND'000
2019			
Cash and cash equivalents	167,067	279	167,346
Other receivables	–	5,196	5,196
	<u>167,067</u>	<u>5,475</u>	<u>172,542</u>

Of the above financial assets, the fair values and carrying amounts of financial assets that do not have low credit risk at the end of the reporting period are as follow:

	Fair value BND'000	Carrying amount BND'000
2019		
Cash and cash equivalents	167,346	167,346
Other receivables	5,196	5,196
	<u>172,542</u>	<u>172,542</u>

(ii) IFRS 15 Revenue from Contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Company deems that revenue recognition for insurance contracts will fall under the scope of IFRS 17 Insurance Contracts which has been deferred for application until 1 January 2023.

(iii) IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provide relevant information that faithfully represents those contracts as a basis for users of financial statements to assess the effect that insurance contracts have on an entity's financial position, financial performance and cash flows. It requires the use of discount rates, risk adjustments and introduces the concepts of contractual service margins ("CSM") in measuring contractual cash flows.

IFRS 17 is set to replace IFRS 4 Insurance Contracts.

IFRS 17 solves the comparison problems under IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. In addition, increased transparency about the profitability of new and inforce business will give users more insights into an insurer's financial health. Separate presentation of underwriting and finance results will provide added transparency about the sources of profits and quality of earnings. Premium volumes will no longer drive the "top line" as investment components and cash received are no longer considered to be revenue. Accounting for options and guarantees will be more consistent and transparent.

IFRS 17 is applied retrospectively to groups of insurance contracts unless this is impracticable. If impracticable, the entity is permitted to choose between the modified retrospective approach or the fair value approach. The objective of the modified retrospective approach is to use reasonable and supportable information that is available without undue cost or effort to achieve the closest possible outcome to full retrospective application. However, if an entity cannot obtain reasonable and supportable information to apply the modified retrospective approach, then it applies the fair value approach. The fair value approach is applied using the requirements in IFRS 13, except that the requirements of IFRS 13 relating to financial liability with a demand feature shall not be applicable.

IFRS 17 is applied for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted for entities that apply IFRS 9 and IFRS 15 on or before the date of initial application of IFRS 17.

In June 2019, the IASB proposed a one year deferral of the effective date of IFRS 17 Insurance Contracts to 1 January 2023.

The Company is in the process of evaluating the effect of this standard.

4 Segmental information

Statement of financial position As at 31 December	← 2019 →		← 2018 →		Total BND'000
	Operator Fund BND'000	Participant Fund BND'000	Operator Fund BND'000	Participant Fund BND'000	
Assets					
Property and equipment	281	—	—	—	—
Balances with Autoriti Monetari Brunei Darussalam	2,000	—	—	—	—
Other investments	20,183	—	20,183	—	20,183
Ceded share of takaful contract liabilities	—	24,627	—	32,812	32,812
Unexpired wakalah fees	—	8,125	—	8,128	8,128
Takaful receivables	—	1,569	—	2,290	2,290
Other receivables	2,634	993	(2,699)	5,602	2,903
Cash and cash equivalent	38,910	128,436	42,964	121,544	164,508
Total assets	64,008	163,750	60,448	170,376	230,824
Liabilities					
Takaful contract liabilities	—	98,593	—	112,445	112,445
Takaful payables	—	2,693	—	3,404	3,404
Other payables	7,769	1,270	7,001	2,375	9,376
Lease liabilities	288	—	—	—	—
Provision for zakat and taxation	840	—	820	—	820
Total liabilities	8,897	102,556	7,821	118,224	126,045
Participants' fund	—	61,194	—	52,152	52,152
Equity					
Share capital	11,421	—	11,421	—	11,421
Reserves	15,474	—	15,474	—	15,474
Retained earnings	28,216	—	25,732	—	25,732
Total shareholders' equity	55,111	—	52,627	—	52,627
Total equity and liabilities	64,008	163,750	60,448	170,376	230,824

4 Segmental information (continued)

Statement of profit or loss Year ended 31 December	2019			2018		
	Operator Fund BND'000	Participant Fund BND'000	Total BND'000	Operator Fund BND'000	Participant Fund BND'000	Total BND'000
Gross takaful contributions	–	60,960	60,960	–	66,322	66,322
Contributions ceded to retakaful	–	(10,047)	(10,047)	–	(19,786)	(19,786)
Net takaful contributions	–	50,913	50,913	–	46,536	46,536
Change in unearned contribution reserves	–	1,018	1,018	–	(3,171)	(3,171)
Change in unearned contribution reserves ceded to retakaful	–	(2,242)	(2,242)	–	485	485
Net earned contributions	–	49,689	49,689	–	43,850	43,850
Gross claims paid	–	(29,954)	(29,954)	–	(22,416)	(22,416)
Claims paid ceded to retakaful	–	2,532	2,532	–	12,523	12,523
Gross change to claims liabilities	–	12,834	12,834	–	2,230	2,230
Change to claims liabilities ceded to retakaful	–	(4,485)	(4,485)	–	(3,728)	(3,728)
Net claims	–	(19,073)	(19,073)	–	(11,391)	(11,391)
Wakalah income/(expense)	17,711	(17,711)	–	16,494	(16,494)	–
Amortisation of unexpired wakalah fees	–	(3)	(3)	–	678	678
Takaful profit	17,711	12,902	30,613	16,494	16,643	33,137
Investment income	1,288	1,413	2,701	665	1,162	1,827
Other operating income	1,377	(7)	1,370	1,546	226	1,772
Other income	2,665	1,406	4,071	2,211	1,388	3,599
Personnel expenses	(3,528)	–	(3,528)	(3,328)	–	(3,328)
Change in expense reserves	(500)	–	(500)	(578)	–	(578)
Finance cost	(27)	–	(27)	–	–	–
Other operating expenses	(12,290)	(1,382)	(13,672)	(10,779)	(357)	(11,136)
Other expenses	(16,345)	(1,382)	(17,727)	(14,685)	(357)	(15,042)
(Profit) attributable to participants' fund	–	12,926	12,926	–	(17,674)	(17,674)
Profit before zakat and taxation	4,031	–	4,031	4,020	–	4,020
Zakat	–	–	–	–	–	–
Tax expense	(633)	–	(633)	(954)	–	(954)
Profit for the year	3,398	–	3,398	3,066	–	3,066

5 Property and equipment

	Right-of-use assets BND'000
Cost	
At 1 January 2018	—
Additions	—
At 31 December 2018	—
Recognition of right-of-use asset on initial application of IFRS 16	460
Adjusted balance at 1 January 2019	460
Additions	—
At 31 December 2019	460
 Accumulated depreciation and impairment losses	
At 1 January 2018	—
Depreciation	—
At 31 December 2018	—
Depreciation	179
At 31 December 2019	179
 Carrying amounts	
At 1 January 2018	—
At 31 December 2018	—
At 31 December 2019	281

The Company has chosen to apply the modified retrospective approach in recognising lease assets for the adoption of IFRS 16. The above relates to long term lease contracts entered during the year.

6 Balances with Autoriti Monetari Brunei Darussalam

Under Section 16 of the Takaful Order, 2008 and Regulation 9(1) of the Takaful Regulations, 2008, the Company is required to maintain cash balance of BND\$2 million with Autoriti Monetari Brunei Darussalam (“AMBD”)

Under Section 4(1)(a) of the Motor Vehicle Takaful (Third Party Risks) Act, Chapter 90, the Company has placed a cash deposit of BND\$2 million with AMBD.

7 Other investments

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Available-for-sale			
Sukuk	—	—	—
Equity securities	20,183	—	20,183
	<u>20,183</u>	<u>—</u>	<u>20,183</u>
2018			
Available-for-sale			
Sukuk	—	—	—
Equity securities	20,183	—	20,183
	<u>20,183</u>	<u>—</u>	<u>20,183</u>

The sukuk asset (available-for-sale) relates to a single sukuk exposure which was fully impaired since the prior year following the announcement of judicial management of the parent company which issued the sukuk and the subsequent default of sukuk coupon on 29th July 2016 and 2nd August 2016 respectively. Management has initiated legal proceedings for asset recovery and continues to deem the sukuk as impaired as at the current year end.

Included in equity securities are shares held in a related party of BND\$20,183,000 (2018: BND\$20,183,000).

Other investments are allocated as follows:

	2019 BND'000	2018 BND'000
Non-current	—	—
Current	20,183	20,183
	<u>20,183</u>	<u>20,183</u>

Information about the Company's exposures to credit and market risks, and fair value measurement, is included in note 25.

8 Takaful contract liabilities

	General Takaful Fund		
	Gross BND'000	Ceded share BND'000	Net BND'000
2019			
Unexpired risk reserves	—	(27)	(27)
Unearned contribution reserves	28,292	(1,792)	26,500
	<u>28,292</u>	<u>(1,819)</u>	<u>26,473</u>
Provision for outstanding claims			
- Outstanding claims	19,135	(5,251)	13,884
- Outstanding claims incurred but not reported (IBNR)	51,166	(17,557)	33,609
	<u>70,301</u>	<u>(22,808)</u>	<u>47,493</u>
	<u>98,593</u>	<u>(24,627)</u>	<u>73,966</u>
2018			
Unexpired risk reserves	34	60	94
Unearned contribution reserves	29,276	(4,121)	25,155
	<u>29,310</u>	<u>(4,061)</u>	<u>25,249</u>
Provision for outstanding claims			
- Outstanding claims	25,326	(4,923)	20,403
- Outstanding claims incurred but not reported (IBNR)	57,809	(23,828)	33,981
	<u>83,135</u>	<u>(28,751)</u>	<u>54,384</u>
	<u>112,445</u>	<u>(32,812)</u>	<u>79,633</u>

Unearned contribution reserves (“UCR”) pertains to premium liabilities arising from takaful contracts. Unexpired risk reserves are required to cover the excess of UCR which has arisen from Energy and Aviation contracts during the year for the estimated future claims liabilities that are expected to emerge.

The movements in takaful contract provisions are as follows:

	General Takaful Fund		
	Gross BND'000	Ceded share BND'000	Net BND'000
2019			
Unearned contribution reserves			
At 1 January	29,276	(4,121)	25,155
Premiums written	60,960	(10,047)	50,913
Premiums earned	(61,944)	12,376	(49,568)
At 31 December	<u>28,292</u>	<u>(1,792)</u>	<u>26,500</u>
Provision for outstanding claims			
At 1 January	83,135	(28,751)	54,384
Claims (paid)/recovered	(29,954)	2,532	(27,422)
Claims incurred	17,120	3,411	20,531
At 31 December	<u>70,301</u>	<u>(22,808)</u>	<u>47,493</u>

	Gross BND'000	Ceded share BND'000	Net BND'000
2018			
Unearned contribution reserves			
At 1 January	26,095	(3,659)	22,436
Premiums written	66,322	(19,786)	46,536
Premiums earned	(63,141)	19,324	(43,817)
At 31 December	<u>29,276</u>	<u>(4,121)</u>	<u>25,155</u>
Provision for outstanding claims			
At 1 January	85,366	(32,445)	52,921
Claims (paid)/recovered	(22,416)	12,523	(9,893)
Claims incurred	20,185	(8,829)	11,356
At 31 December	<u>83,135</u>	<u>(28,751)</u>	<u>54,384</u>

The table below summarises the estimated duration profiles of the provision for outstanding claims.

	General Takaful Fund		
	Gross BND'000	Ceded share BND'000	Net BND'000
2019			
Due within one year	8,597	(4,213)	4,384
Due after one through three years	3,814	(213)	3,601
Due after three through five years	4,785	(25)	4,760
Due after five years	53,105	(18,357)	34,748
	<u>70,301</u>	<u>(22,808)</u>	<u>47,493</u>
2018			
Due within one year	7,920	(613)	7,307
Due after one through three years	11,540	(2,645)	8,895
Due after three through five years	4,391	(919)	3,472
Due after five years	59,284	(24,574)	34,710
	<u>83,135</u>	<u>(28,751)</u>	<u>54,384</u>

9 Unexpired wakalah fee

	2019 BND'000	2018 BND'000
General Takaful Fund		
As at 1 January	8,128	7,450
Wakalah fee paid during the year (note 18)	17,711	16,494
Amortisation of wakalah fee during the year	(17,714)	(15,816)
As at 31 December	<u>8,125</u>	<u>8,128</u>

Unexpired wakalah fee is current.

10 Takaful receivables

	<u>General Takaful Fund</u> BND'000
2019	
Amounts due from participants and brokers	1,569
Less: Allowances for doubtful receivables from participants and brokers	—
	1,569
2018	
Amounts due from participants and brokers	2,290
Less: Allowances for doubtful receivables from participants and brokers	—
	2,290

Takaful receivables are current and all amounts are due within one year.

The aging of takaful receivables and related allowance for doubtful receivables at the reporting date are as follows:

	2019			2018		
	Gross BND'000	Allowance BND'000	Net BND'000	Gross BND'000	Allowance BND'000	Net BND'000
Not due	—	—	—	—	—	—
Up to 6 months	1,569	—	1,569	2,290	—	2,290
Above 6 months but not exceeding 12 months	—	—	—	—	—	—
Above 12 months	—	—	—	—	—	—
	1,569	—	1,569	2,290	—	2,290

The above receivables have been individually assessed for impairment after considering information such as occurrence of significant changes in the counterparty's financial position, patterns at historical payment information and dispute with counterparties.

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of the takaful receivables not past due or past due up to 6 months, other than those where specific provisions have already been made in the accounts.

11 Other receivables

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Amount due from immediate holding			
Company (non-trade)	1,354	–	1,354
Other receivables	179	115	294
Accrued income	215	1,650	1,865
Deposits	75	–	75
Prepayments	39	–	39
	<u>1,862</u>	<u>1,765</u>	<u>3,627</u>
2018			
Amount due from immediate holding			
Company (non-trade)	1,016	–	1,016
Other receivables	1	387	388
Accrued income	270	1,112	1,382
Deposits	93	–	93
Prepayments	24	–	24
	<u>1,404</u>	<u>1,499</u>	<u>2,903</u>

Other receivables are current. The management believes that there is no significant credit risk in respect of other receivables as they are not material and all fall due within a year.

The amount due from the immediate holding company is unsecured, interest free and payable on demand. There is no allowance for doubtful debts arising from these receivables.

12 Cash and cash equivalents

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Cash and bank balances	2,410	33,436	35,846
Short term deposits	36,500	95,000	131,500
	<u>38,910</u>	<u>128,436</u>	<u>167,346</u>
2018			
Cash and bank balances	8,442	7,144	15,586
Short term deposits	34,522	114,400	148,922
	<u>42,964</u>	<u>121,544</u>	<u>164,508</u>

As at the reporting date, the carrying amounts of cash and bank balances approximate their fair value. All short term deposits are generally placed on short-term maturities or repayable on demand.

13 Takaful payables

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Amount due to:			
- retakaful companies	-	2,693	2,693
2018			
Amount due to:			
- retakaful companies	-	3,404	3,404

Takaful payables are current. Takaful payables are non-interest bearing and are generally repayable within 60 days.

14 Other payables

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Advanced contributions from participants	-	862	862
Amount due to related companies (non-trade)	397	7	404
Accrued expenses	6,066	-	6,066
Other payables	1,306	401	1,707
	<u>7,769</u>	<u>1,270</u>	<u>9,039</u>
2018			
Advanced contributions from participants	-	709	709
Amount due to related companies (non-trade)	233	16	249
Accrued expenses	5,558	-	5,558
Other payables	1,210	1,650	2,860
	<u>7,001</u>	<u>2,375</u>	<u>9,376</u>

Other payables are all current.

15 Lease liabilities

2019	BND'000
Lease liabilities (Non-current portion)	154
Lease liabilities (Current portion)	134
Lease liabilities	<u>288</u>

The movement in the lease liabilities is as follows:

Principal recognised at 1 January 2019 (IFRS 16 adoption)	460
Additions of leases during the year	—
Payments of lease charges	(27)
Payments of principal	<u>(172)</u>
	261
Lease charges in profit or loss	<u>27</u>
Remaining principal at 31 December	288
Of which:	
Current portion	134
Non-current portion	154

Maturity of the lease liabilities are analysed as follows:

Within one year	134
Between 1 and 5 years	154
Balance at 31 December	<u>288</u>

Lease liabilities are part of financial statement captions as stated. Finance charges are part of financial statement caption 'Finance costs'.

Leases are presented as follows in the income statement:

Leases in the income statement	Company BND'000
Expenses from short-term leases	68
Expenses from low value asset leases	<u>—</u>
Depreciation and impairment losses	
Depreciation of right-of-use assets	<u>179</u>
Net finance costs	
Finance charges on lease liabilities	<u>27</u>

Right-of-use assets	BND'000
2019	
Balance as 1 January	460
Additions to right-of-use assets	—
Depreciation charge for the year	<u>(179)</u>
Balance at 31 December	281

16 Capital and reserves

	2019 and 2018	
	Number of shares '000	Amount BND'000
Authorised		
Ordinary shares of BND\$1 each	100,000	100,000
Issued and fully paid up		
Ordinary shares of BND\$1 each	11,421	11,421

Ordinary shares

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

Available-for-sale reserve

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

	2019 BND'000	2018 BND'000
Available-for-sale reserve	15,474	15,474

Dividends

Subsequent to the year end, the directors recommended a final dividend of BND\$0.05 per share to be declared by the Company for year ended 31 December 2019 (2018: BND\$0.05 per share).

17 Participants' fund

Participants' fund balance at the reporting date comprises the following:

	BND'000
2019	
Unallocated surplus/accumulated surplus b/f	52,152
Profit attributable to takaful funds	12,926
Outright transfer from Operator's fund	—
Hibah paid to participants for the year	(3,881)
Reversal of expired liabilities	(34)
Other adjustments to tabarru	31
Movement in available for sale reserve attributable to participants	—
Net assets value attributable to unit holders c/f	61,194
2018	
Unallocated surplus/accumulated surplus b/f	37,257
Profit attributable to takaful funds	17,674
Outright transfer from Operator's fund	—
Hibah paid to participants for the year	(3,219)
Reversal of expired liabilities	447
Other adjustments to tabarru	(7)
Movement in available for sale reserve attributable to participants	—
Net assets value attributable to unit holders c/f	52,152

18 Wakalah fee

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Wakalah income	17,711	—	17,711
Wakalah expense	—	(17,711)	(17,711)
	17,711	(17,711)	—
2018			
Wakalah income	16,494	—	16,494
Wakalah expense	—	(16,494)	(16,494)
	16,494	(16,494)	—

19 Other operating income

	Takaful Operator BND'000	General Takaful Fund BND'000	Total BND'000
2019			
Other income	1,377	(7)	1,370
2018			
Other income	1,546	226	1,772

20 Personnel expenses

	2019 BND'000	2018 BND'000
Salaries and bonus	2,841	2,727
Contributions to defined contribution plans	224	212
Other personnel expenses	463	389
	3,528	3,328

21 Profit for the year

The following items have been included in arriving at profit for the year:

	2019 BND'000	2018 BND'000
Agent commissions	6,506	5,805
Claims handling expenses	500	578
Contribution debtors written off	238	459
Depreciation	5 179	-
Legal, professional and audit fees	128	69
Finance costs lease charges	27	-
Provision for doubtful retakaful debtors	1,000	66
Recovery of doubtful retakaful debtors	-	(82)
Recovery of contribution debtors	(313)	(185)

22 Tax and zakat expenses

	2019	2018
	BND'000	BND'000
Tax recognised in profit or loss		
Current tax expense		
Current year	840	820
Adjustment for prior years	(207)	134
	633	954
Total tax expense/(income)	633	954

A reconciliation of effective tax expense for the Company is as follows:

	2019	2018
	BND'000	BND'000
Profit before zakat and taxation	4,031	4,020
Income tax using the domestic corporate tax rate of 18.5% (2018: 18.5%)	746	744
Others	(113)	210
	633	954

The amount of zakat is calculated on the net current assets of the shareholders' fund, and is payable by the Company in accordance with the principles of Shariah. There was a change in ownership of the immediate holding company to a charitable foundation on 12 December 2013. Consequently, the Company is exempted from paying zakat in accordance with AAIOIFI Shariah standard no (35) ruling 3/1/6 and 3/1/7.

All future zakat of the Company, if applicable, will be paid on behalf by a related party as the results of the Company are further consolidated into a larger group.

Subject to agreement by the Tax Authority, the Company has applied for a refund of Income Tax relating to Year of Assessment 2013 and 2014 (Years ended 31 December 2012 and 2013 respectively) amounting to BND\$2,102,000 as a result of the effect of the application of International Financial Reporting Standards ("IFRS") as required by the Regulator in 2014.

23 Significant related party transactions

Transactions with key management personnel

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

Key management personnel compensation comprised:

	2019	2018
	BND'000	BND'000
Short-term employee benefits		
Directors' fees and other remuneration	4	4
Other key management personnel:		
- Salary and employee benefits	603	544
	603	544

Other related party transactions

The immediate holding company is Syarikat Takaful Brunei Darussalam, an investment holding company. The Company is an associate of Bank Islam Brunei Darussalam via its immediate holding company, and has significant related party transactions with Bank Islam Brunei Darussalam and its subsidiaries. Bank Islam Brunei Darussalam is a parent company into which the financial results of the Company are ultimately consolidated and publicly made available.

During the year, apart from the balances and transactions disclosed elsewhere in these financial statements, the transactions with the Company's related parties are as follows:

	2019	2018
	BND'000	BND'000
Shareholder		
- Commission and fees paid/ payable	120	106
	120	106

All short term deposits at respective year ends are held with related parties (note 12). Management fees of BND\$4,184,000 (2018: BND\$3,429,000) were paid to immediate holding company during the year.

The management is of the opinion that all the above transactions 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.

24 Takaful risk management

The risk under any one takaful contract is the possibility that the takaful event occurs and the uncertainty of the amount of the resulting claim. By the very nature of a takaful contract, this risk is random and therefore unpredictable.

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the carrying amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Takaful events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar takaful contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate takaful risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors such as the increase in the number of cases being heard in the court that have been inactive or latent for a long period of time. Estimated inflation is also a significant factor due to the long period typically required to settle these cases.

The Company manages these risks through its underwriting strategy, retakaful arrangements and claims handling process.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

General Takaful Fund

The key coverage for the General Takaful contracts

The key coverage for the General Takaful contracts consist of motor, energy, aviation, fire, marine hull and cargo, personal accident, workmen's compensation and employers' liability, professional indemnity, engineering and others.

Concentration of General Takaful risk

The table below sets out the concentration of general takaful gross concentration by type of business:

	Gross BND'000	Ceded share BND'000	Net BND'000
General Takaful Fund			
2019			
Motor	45,191	(4,089)	41,102
Energy	2,033	(1,954)	79
Fire	4,209	(1,375)	2,834
Liability	3,352	(958)	2,394
Miscellaneous	6,175	(1,671)	4,504
	60,960	(10,047)	50,913
2018			
Motor	41,403	(4,434)	36,969
Energy	10,275	(10,042)	233
Fire	3,985	(1,430)	2,555
Liability	2,809	(716)	2,093
Miscellaneous	7,850	(3,164)	4,686
	66,322	(19,786)	46,536

There is no concentration of takaful risk at the Company level by customer.

Key assumptions

The provision for takaful liabilities is in accordance with widely accepted actuarial valuation methods. The key actuarial projection method used is:

Incurred Bornheutter – Ferguson (“BF”)

The BF method is an extension of the Link Ratio method. Where claims development for recent years can be unreliable for some classes of business, we have incorporated an adopted Ultimate Loss Ratio (‘ULR’) into the projection and where appropriate, taken into consideration historical experience and claims incurred to date. We have used the BF method on an incurred claims basis for our final estimates for all classes of business.

The key assumptions underlying the estimation of liabilities is that the Company’s future claims development will follow a similar pattern to past claims development experience, including average claim cost, average claim frequency, business mix for each accident year.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, underwriting policy, policy conditions and claims handling procedures.

Effective from 1 January 2015, in the letter reference AMBDRS/TIU/P/25 dated 8 January 2016, the regulator AMBD specified that the valuation of the takaful contract liabilities is to be based upon management’s current best estimate and to include a Risk Margin for Adverse Deviation (PAD). The effect of the change in the assumption, while holding other assumptions constant, resulted in an increase of BND\$11,095,000 (2018: BND\$10,379,000) in takaful contract liabilities.

Other key circumstances affecting the reliability of assumptions include delays in settlement and changes in foreign currency rates.

Sensitivities

The General Takaful claim liabilities are sensitive to the above key assumptions and change in these assumptions may impact the liabilities of the General Takaful Fund significantly.

The purpose of the sensitivity analysis is to assess the relative importance of key assumptions used in the actuarial valuation of claim liabilities as at 31 December 2019, inclusive of the provision for adverse deviation (refer to “base scenario” in the sensitivity analysis table)

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on net liabilities. In reality, there are possibilities that a combination of adverse and favourable changes could arise. The sensitivities cannot capture all possible outcomes.

Management has assumed that that all retakaful recoveries are receivable in full. Sensitivity analysis was not performed for inflation and changes in investment rates as these are not material and will not impact the portfolio significantly.

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

- Ultimate Loss Ratio;
- Maintenance Expense Rate; and
- Provision for Adverse Deviation ("PAD")

2019		BND'000	BND'000
Net claim liabilities			
Base scenario		39,898	39,898
	Change in assumptions		
		+10% points	-10% points
<u>Assumptions</u>			
Ultimate Loss Ratio		58,782	33,388
Maintenance Expense Rate		39,898	39,898
Provision for Adverse Deviation		39,898	39,898

2018		BND'000	BND'000
Net claim liabilities			
Base scenario		47,768	47,768
	Change in assumptions		
		+10% points	-10% points
<u>Assumptions</u>			
Ultimate Loss Ratio		64,757	41,300
Maintenance Expense Rate		47,768	47,768
Provision for Adverse Deviation		47,768	47,768

Claims development

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

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

Analysis of claims development – gross basis
Gross loss development tables as at 31 December 2019

Accident Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000	BND'000
Estimate of ultimate claims cost:											
At end of accident year	–	–	–	27,730	26,118	27,494	39,912	26,144	27,262	30,561	
One year later	–	–	27,082	25,969	24,402	45,044	33,863	26,925	26,096	–	
Two years later	–	28,653	25,487	22,381	29,892	42,606	35,347	23,759	–	–	
Three years later	75,636	29,298	26,940	23,814	23,778	39,567	28,132	–	–	–	
Four years later	74,719	30,903	25,981	24,127	21,583	38,789	–	–	–	–	
Five years later	68,423	32,023	25,516	22,627	20,226	–	–	–	–	–	
Six years later	63,349	33,864	23,554	22,247	–	–	–	–	–	–	
Seven years later	18,765	33,907	23,100	–	–	–	–	–	–	–	
Eight years later	63,775	34,254	–	–	–	–	–	–	–	–	
Nine years later	63,798	–	–	–	–	–	–	–	–	–	
Ten years later	–	–	–	–	–	–	–	–	–	–	
Estimate of ultimate claims cost	63,798	34,254	23,100	22,247	20,226	38,789	28,132	23,759	26,096	30,561	310,962
Cumulative payments	63,263	32,722	21,067	21,055	18,347	33,189	21,827	15,589	13,722	10,974	251,755
Undiscounted outstanding claim liabilities	535	1,532	2,033	1,192	1,879	5,600	6,305	8,170	12,374	19,587	59,207
Provision for adverse deviation	133	312	398	205	327	1,043	1,093	1,476	2,462	3,645	11,094
Outstanding claim liabilities	668	1,844	2,431	1,397	2,206	6,643	7,398	9,646	14,836	23,232	70,301
Gross claim liabilities											70,301

Analysis of claims development – net basis
Net loss development tables as at 31 December 2019

Accident Year	2010 & Prior BND'000	2011 BND'000	2012 BND'000	2013 BND'000	2014 BND'000	2015 BND'000	2016 BND'000	2017 BND'000	2018 BND'000	2019 BND'000	Total BND'000
Estimate of ultimate claims cost:											
At end of accident year	–	–	–	23,806	25,789	25,520	24,303	22,316	20,591	24,420	
One year later	–	–	26,501	22,072	22,721	25,672	19,498	19,364	20,290	–	
Two years later	–	24,181	24,318	19,634	22,064	23,078	19,528	17,928	–	–	
Three years later	66,630	24,017	23,208	17,824	20,426	21,589	17,254	–	–	–	
Four years later	63,719	24,542	22,884	16,569	19,149	19,149	–	–	–	–	
Five years later	60,366	24,421	19,582	15,540	18,393	–	–	–	–	–	
Six years later	59,072	23,290	17,884	14,921	–	–	–	–	–	–	
Seven years later	18,765	22,751	17,733	–	–	–	–	–	–	–	
Eight years later	59,213	22,943	–	–	–	–	–	–	–	–	
Nine years later	59,529	–	–	–	–	–	–	–	–	–	
Ten years later	–	–	–	–	–	–	–	–	–	–	
Estimate of ultimate claims cost	59,529	22,943	17,733	14,921	18,393	21,384	17,254	17,928	20,290	24,420	234,795
Cumulative payments	59,149	22,677	16,316	14,009	16,375	16,986	12,619	12,619	13,416	10,729	194,895
Undiscounted outstanding claim liabilities	380	266	1,417	912	2,018	4,398	4,635	5,309	6,874	13,691	39,900
Provision for adverse deviation	96	46	298	170	384	809	899	1,005	1,291	2,595	7,593
Outstanding claim liabilities	476	312	1,715	1,082	2,402	5,207	5,534	6,314	8,165	16,286	47,493
Net claim liabilities											47,493

Analysis of claims development – gross basis
Gross loss development tables as at 31 December 2018

Accident Year	2009 & Prior BND'000	2010 BND'000	2011 BND'000	2012 BND'000	2013 BND'000	2014 BND'000	2015 BND'000	2016 BND'000	2017 BND'000	2018 BND'000	Total BND'000
Estimate of ultimate claims cost:											
At end of accident year	–	–	–	–	27,730	26,118	27,494	39,912	26,144	27,262	–
One year later	–	–	–	27,082	25,969	24,402	45,044	33,863	26,925	–	–
Two years later	–	–	28,653	25,487	22,381	29,892	42,606	35,347	–	–	–
Three years later	–	21,701	29,298	26,940	23,814	23,778	39,567	–	–	–	–
Four years later	53,935	22,319	30,903	25,981	24,127	21,583	–	–	–	–	–
Five years later	52,399	19,223	32,023	25,516	22,627	–	–	–	–	–	–
Six years later	49,200	18,765	33,864	23,554	–	–	–	–	–	–	–
Seven years later	44,585	19,261	33,906	–	–	–	–	–	–	–	–
Eight years later	45,103	19,328	–	–	–	–	–	–	–	–	–
Nine years later	44,447	–	–	–	–	–	–	–	–	–	–
Ten years later	–	–	–	–	–	–	–	–	–	–	–
Estimate of ultimate claims cost	44,447	19,328	33,906	23,554	22,627	21,583	39,567	35,347	26,925	27,262	294,546
Cumulative payments	43,798	18,708	31,524	21,074	20,857	17,617	32,284	11,682	15,529	8,717	221,790
Undiscounted outstanding claim liabilities	649	620	2,382	2,480	1,770	3,966	7,283	23,665	11,396	18,545	72,756
Provision for adverse deviation	116	91	357	364	249	570	1,023	3,311	1,643	2,655	10,379
Outstanding claim liabilities	765	711	2,739	2,844	2,019	4,536	8,306	26,976	13,039	21,200	83,135
Gross claim liabilities											83,135

Analysis of claims development – net basis
Net loss development tables as at 31 December 2018

Accident Year	2009 & Prior BND'000	2010 BND'000	2011 BND'000	2012 BND'000	2013 BND'000	2014 BND'000	2015 BND'000	2016 BND'000	2017 BND'000	2018 BND'000	Total BND'000
Estimate of ultimate claims cost:											
At end of accident year	–	–	–	–	23,806	25,789	25,521	24,303	22,316	20,591	
One year later	–	–	–	26,501	22,072	22,721	25,672	19,498	19,364	–	
Two years later	–	–	24,181	24,318	19,634	22,064	23,078	19,529	–	–	
Three years later	–	21,003	24,017	23,208	17,824	20,426	21,589	–	–	–	
Four years later	45,628	21,169	24,542	22,884	16,569	19,149	–	–	–	–	
Five years later	42,550	18,355	24,421	19,582	15,540	–	–	–	–	–	
Six years later	42,011	17,760	23,290	17,884	–	–	–	–	–	–	
Seven years later	41,312	17,292	22,751	–	–	–	–	–	–	–	
Eight years later	41,396	17,617	–	–	–	–	–	–	–	–	
Nine years later	41,595	–	–	–	–	–	–	–	–	–	
Ten years later	–	–	–	–	–	–	–	–	–	–	
Estimate of ultimate claims cost	41,595	17,617	22,751	17,884	15,540	19,149	21,589	19,529	19,364	20,591	215,609
Cumulative payments	41,410	17,452	21,561	16,115	14,250	16,082	16,172	3,271	12,048	9,478	167,839
Undiscounted outstanding claim liabilities	185	165	1,190	1,769	1,290	3,067	5,417	16,258	7,316	11,113	47,770
Provision for adverse deviation	35	24	170	251	182	425	732	2,219	1,024	1,552	6,614
Outstanding claim liabilities	220	189	1,360	2,020	1,472	3,492	6,149	18,477	8,340	12,665	54,384
Net claim liabilities											54,384

25 Financial risk management

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

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations as and when they fall due.

The Company's portfolio of sukuk, short-term and other investments are subject to credit risk. This risk is defined as the potential loss resulting from adverse changes in a borrower's ability to repay the debt. The Company's objective is to earn competitive relative returns by investing in a diversified portfolio of securities. Management has an investment credit risk policy in place. Limits are established to manage credit quality and concentration risk.

The Company has takaful and other receivables balances that are subject to credit risk. Among the most significant of these are retakaful recoveries. To mitigate the risk of the counterparties not paying the amount due, the Company has established certain business and financial guidelines for retakaful approval, incorporating ratings by major agencies and considering currently available market information. Receivable balances are monitored on an ongoing basis with the result that Company's exposure to bad debts is not significant. The Company also periodically reviews the financial stability of retakaful companies from public and other sources and the settlement trend of amounts due from retakaful companies.

The Company held short term deposits of BND\$167,346,000 at 31 December 2019 (31 December 2018: BND\$164,508,000) which represents its maximum credit exposures on these assets. The cash and cash equivalents are held with a related financial institution counterparty which is rated A- (2018: A-).

Credit exposure

The maximum exposure to credit risk is normally represented by the carrying amount of each financial asset in the financial statements, although in the case of takaful receivables, it is fairly common practice for accounts to be settled on a net basis. In such cases, the maximum exposure to credit risk is expected to be limited to the extent of the amount of financial assets that has not been fully offset by financial liabilities with the same counterparty. The maximum amount recoverable from each retakaful operators at any time is also dependent on the claims recoverable from such retakaful operator at that point in time.

Credit exposure by credit quality

As at 31 December 2019 and 31 December 2018, none of the Company's investments were rated by an external ratings agency.

Aging analysis of financial assets

See note 10 for aging analysis of takaful receivables at the end of the reporting period.

Offsetting financial assets and financial liabilities

No financial instruments are offset in the statement of financial position as there are no enforceable master netting agreements and similar arrangements in place.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity management process, as carried out within the Company includes day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and monitoring the liquidity ratios of the Company against internal and regulatory requirements.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.

c) Market risk

Market risk is the risk of change in fair value of financial instruments from fluctuation in market profit rates (profit rate risk) and foreign exchange rates (foreign currency risk) and market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

i) Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

The Company is exposed to profit rate risk primarily through their investments in fixed income securities and deposit placements. These instruments are fixed rate and held at amortised cost. Therefore, a change in profit rates at the reporting date would not affect profit or loss.

The Company does not use derivative financial instruments to hedge its profit rate risks.

While the Company's cash and cash equivalents earn a nominal profit sum, this does not represent a significant concentration of profit rate risk. As such, no sensitivity has been performed.

ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

During the ordinary course of business, the Company may engage in foreign currency denominated transactions or invest in foreign currency equity or sukuk. As a result, the Company is exposed to movements in foreign currency exchange rates.

The Company operates solely in Brunei, with a significant majority of its takaful liabilities and its financial assets denominated in Brunei Dollars.

The Company mitigates the potential currency risks arising from its investment in financial assets through hedging. The Company uses forward contracts to protect itself against the volatility associated with foreign currency transactions, and other financial assets and liabilities created in the ordinary course of business. The Company's exposure to foreign currencies is not significant.

iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company invests primarily in Sukuk whereby fair values or future cash flows of the financial instruments mainly arise from changes in effective profit rate and the issuers' repayment abilities.

Estimation of fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial assets and liabilities of the Company.

Investments

The fair value of investments is determined by reference to their quoted bid prices or last traded price using independent price sources at the reporting date.

Other financial assets and liabilities

The carrying amount of financial assets and liabilities with a maturity of less than one year (including takaful and other receivables, cash, and cash equivalents and takaful and other payables) are assumed to approximate their fair values because of the short period of maturity.

Accounting classifications and fair values

The carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy are as follows.

	Note	Carrying amount				Fair value				
		FVTPL BND'000	Held to maturity BND'000	Financing and available- advances for-sale BND'000	Other financial liabilities BND'000	Total BND'000	Level 1 BND'000	Level 2 BND'000	Level 3 BND'000	Total BND'000
2019										
Financial assets measured at fair value										
Other investments	7	-	-	20,183	-	20,183	-	-	20,183	20,183
		-	-	20,183	-	20,183	-	-	20,183	20,183
Financial assets not measured at fair value										
Balances with Authoriti Monetari Brunei Darussalam	6	-	-	2,000	-	2,000	-	-	2,000	2,000
Other receivables*	11	-	-	3,588	-	3,588	-	-	3,588	3,588
Cash and cash equivalents	12	-	-	167,346	-	167,346	-	-	167,346	167,346
		-	-	172,934	-	172,934	-	-	172,934	172,934
Financial liabilities not measured at fair value										
Other payables	14	-	-	-	9,039	-	-	-	9,039	9,039
Lease liabilities	15	-	-	-	288	-	-	-	288	288
		-	-	-	9,327	-	-	-	9,327	9,327

*This figure excludes prepayments

	Carrying amount			Fair value						
	FVTPL BND'000	Held to maturity BND'000	Financing and advances BND'000	Available- for-sale BND'000	Other financial liabilities BND'000	Total BND'000	Level 1 BND'000	Level 2 BND'000	Level 3 BND'000	Total BND'000
2018										
Financial assets measured at fair value										
Other investments	7	-	-	20,183	-	20,183	-	-	20,183	20,183
Financial assets not measured at fair value										
Balances with Authority Monetari Brunei	6	-	-	-	-	-	-	-	-	-
Darussalam	11	-	2,879	-	-	2,879	-	-	-	2,879
Other receivables*	12	-	164,508	-	-	164,508	-	-	-	164,508
Cash and cash equivalents		-	167,387	-	-	167,387	-	-	-	167,387
Financial liabilities not measured at fair value										
Other payables	14	-	-	-	9,376	9,376	-	-	-	9,376

*This figure excludes prepayments

iv) **Level 3 fair value measurements**

a) **Reconciliation**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

2019	Equities BND'000	Total BND '000
Balance at 1 January	20,183	20,183
Total gains or losses in OCI	-	-
Balance at 31 December	<u>20,183</u>	<u>20,183</u>
2018		
Balance at 1 January	10,316	10,316
Total gains or losses in OCI	9,867	9,867
Balance at 31 December	<u>20,183</u>	<u>20,183</u>

b) **Unobservable inputs used in measuring fair value**

The following table sets out information about significant unobservable inputs used at 31 December 2019 and 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instrument	Fair value at 31 December 2019 BND'000	Significant unobservable input
Equity shares	20,183	Last traded price

The Company believes that the estimates of fair value of the equity shares are appropriate despite the lack of an observable actively traded market price for the shares.

c) **Capital management**

The Company reviews its capital structure to ensure that it will be able to continue as a going concern and complies with regulators' Margin of Solvency. The capital structure of the Company comprises of share capital, investment revaluation reserves and retained earnings.

In accordance with Section 21 of the Takaful Order, 2008 and Section 8 of the Takaful Regulations, 2008, the Company is required to maintain:

- i) a fund margin of solvency in respect of each of the takaful funds; and
- ii) takaful operator to maintain surplus of assets over liabilities of not less than 20 percent.

In addition to the above, management has included a Risk Margin for Adverse Deviation ("PRAD") in the valuation of Takaful contract liabilities in accordance with prudential requirements specified by the regulator AMBD, effective since the year ended 31 December 2015.

The Company was in compliance (2018: in compliance) with the prescribed margin of solvency for the participants' funds as well as the takaful operator fund throughout the year.

There were no significant changes in the Company's approach to capital management during the year.