

**HSBC Amanah Takaful (Malaysia)
Sdn. Bhd.**

(Company No. 731530-M)
(Incorporated in Malaysia)

**Financial statements for the year
ended 31 December 2013**

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No.731530-M)

(Incorporated in Malaysia)

Directors' report for the year ended 31 December 2013

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2013.

Principal activities

The Company is principally engaged in managing of general takaful and family takaful businesses. There has been no significant change in the nature of these activities during the financial year.

Results

	RM'000
Profit for the year attributable to owners of the Company	<u>11,536</u>

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Dividend

No dividend was paid during the financial year and the Directors do not recommend any dividend to be paid for the financial year under review.

Directors of the Company

Directors who served since the date of the last report are:

Zainudin bin Ishak
 Kasim bin Zakaria
 Datuk Haron bin Siraj
 Harpal Karicut
 Sazaliza bin Zainuddin (appointed on 3.5.2013)
 Lim Eng Seong (appointed on 21.10.2013)
 Hizwani bin Hassan (resigned on 3.5.2013)
 Mukhtar Malik Hussain (resigned on 21.10.2013)
 Tam Chiew Lin (resigned on 31.12.2013)

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Directors' interests

The interests and deemed interests in the ordinary shares and options over shares of the Company and of its related corporations of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

	Number of Restricted/HSBC Share Plan awards over ordinary shares			
	At 1.1.2013	Made during the year	Vested during the year	At 31.12.2013
HSBC Holdings plc				
Zainudin bin Ishak	3,521	1,811	(1,353)	3,979

	Number of options over ordinary shares			
	At 1.1.2013	Granted	Exercised	At 31.12.2013
HSBC Holdings plc				
Zainudin bin Ishak	2,018	-	-	2,018

	Number of ordinary shares			
	At 1.1.2013	Acquired	Sold	At 31.12.2013
HSBC Holdings plc				
Zainudin bin Ishak	3,762	104	-	3,866

None of the other Directors holding office at 31 December 2013 had any interest in the ordinary shares and options over shares of the Company and of its related corporations during the financial year.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had the object of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate except as disclosed above.

Issue of shares and debentures

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

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Corporate governance

The Company complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under BNM/RH/GL/004-1: Guidelines on Directorship for Takaful Operators and BNM/RH/GL/003-2 Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia, and the principles of Shariah.

Risk Management Framework

The primary objective of the Company's risk management framework is to protect the Company from events that hinder the sustainable achievement of financial performance objectives. The framework covers identified risks to which the Company is exposed namely insurance risk, operational risk, market risk, credit risk, liquidity risk and other industry specific risks. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Company has established a risk management function with clear terms of reference from the Board of Directors, its committees and Executive Management Committees. This is supplemented by a clear organisation structure with documented delegated authorities and responsibilities to Executive Management Committees and senior managers. The Shariah Committee is entrusted by the Board to ensure that the Company's operations and products offered are in accordance with the Shariah. All matters which require the Shariah Committee opinion and decision are deliberated by the Shariah Committee members at Shariah Committee meetings with the attendance of the Management and representatives from the Shariah Department.

Corporate governance (continued)

Risk Management Framework (continued)

(i) Risk governance framework

The Risk Management Committee is a delegated function of the Board of Directors and consist of members of the Board and Senior Management of the Company. The objective of the Risk Management Committee is to oversee the Company's management objectives in managing the risks and that the risk management process is functioning properly. Four committees report to the Risk Management Committee, these are the Asset and Liability Committee, the Insurance Risk Committee, the Product and Pricing Committee and the Operational Risk and Internal Control Committee. The scope and responsibilities of these four committees are described below.

a) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") consists of Senior Management of the Company and is responsible for asset liability management. The Company establishes target asset portfolios for each of its participants' risk funds and its Takaful Operator's fund, taking into account yield, duration, market risk, liquidity needs, asset concentration and credit quality. The estimates and assumptions used in determining amounts and timing of future cash flows, to or on behalf of participants for takaful liabilities that are based on projections of in-force certificates block and new business are regularly re-evaluated. Many of these estimates and assumptions are inherently subjective and could impact the Company's ability to achieve its asset/liability management goals and objectives. The goal of the investments process is to achieve the target level of investment return with minimum volatility by actively managing the Company's assets. The ALCO will review on a quarterly basis the investment results and monitor performance against the Company's documented investment policy.

The Market and Liquidity Risk Committee of HSBC Insurance (Asia Pacific) Holdings Limited reviews and approves target portfolios on a periodic basis and establishes investment guidelines and limits, and provides oversight of the asset liability management process.

b) Insurance Risk Committee

The Company is exposed to uncertainty surrounding the timing and severity of takaful claims under its takaful contracts. Every year, the Insurance Risk Committee is responsible to formulate an annual insurance risk strategy and associated management policies for management of insurance risks which is tabled to the Board for approval. The Company manages its insurance risk through underwriting limits, robust approval procedures for transactions that involve new products (to meet 'launch and file' under BNM guidelines) or those that exceed set limits, risk diversification, pricing guidelines, retakaful and active monitoring of issues arising.

Corporate governance (continued)

Risk Management Framework (continued)

(i) Risk governance framework (continued)

b) *Insurance Risk Committee (continued)*

The Company uses several methods to assess and monitor insurance risk exposures both for individual type of risks insured and overall risks. These methods include sensitivity analyses and stress tests.

A portion of the risks underwritten is ceded in order to protect exposures to losses and protect capital resources. Under the terms of these retakaful/reinsurance arrangements the retakaful operators/reinsurers agree to reimburse the ceded amount in the event of a claim. However, the Takaful Funds remain liable to its participants with respect to the risk ceded, if any retakaful operator/reinsurer fails to meet the obligations assumed. Proportional and non-proportional reinsurance/retakaful is availed in order to reduce net exposure through treaty and facultative arrangements.

c) *Product and Pricing Committee*

The Product and Pricing Committee provides oversight of the products that the Company offers to ensure that the products are sold on terms that are fair and acceptable. The Committee is responsible to formulate product pricing guidelines, approve launch of new products, conducts post implementation product reviews and manages all risks involved in the launching of variation of new products.

d) *Operational Risk and Internal Control Committee*

Operational risk is the risk of loss from system failures, human error, fraud or other external events. The Company categorises these risks into four areas: people, process, system and external and has put in place internal controls including, but not limited to segregation of duties, access controls, authorisation and reconciliation, adequate staff training and assessment on regulatory and operational matters and use of internal audit to mitigate those risks.

HSBC Group standards require the Company to identify its top 10 operational risks and Management to report to the Risk Management Committee on actions taken to reduce those risks. Any operational incident with or without financial loss is reported for monitoring purpose and assessment of severity and remedial action.

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Other statutory information

Before the statement of financial position and statement of profit or loss and other comprehensive income of the Company were made out, the Directors took reasonable steps to ascertain that:

- i) all known bad debts have been written off and adequate provision made for doubtful debts;
- ii) all current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise, and
- iii) there is adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

At the date of this report, the Directors are not aware of any circumstances:

- i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Company inadequate to any substantial extent, or
- ii) that would render the value attributed to the current assets in the financial statements of the Company misleading, or
- iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate, or
- iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Company misleading, or
- v) that would render the provision for incurred claims, including IBNR, inadequate to any substantial extent.

At the date of this report, there does not exist:

- i) any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person, or
- ii) any contingent liability in respect of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

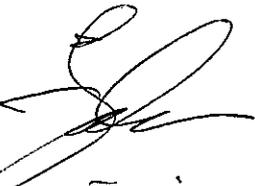
In the opinion of the Directors, the financial performance of the Company for the financial year ended 31 December 2013 has not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of that financial year and the date of this report.

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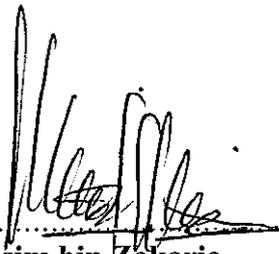
Auditors

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

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....
Zainudin bin Ishak



.....
Kasim bin Zakaria

Kuala Lumpur, Malaysia

Date: 11 February 2014

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2013

/-----31.12.2013-----/					
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Assets					
Plant and equipment	3	747	-	-	747
Intangible assets	4	12,146	-	-	12,146
Investment assets	5	120,214	35,249	795,890	951,353
Retakaful assets	6	-	31,255	27,496	58,751
Current tax assets		2,664	-	-	896
Loans and receivables, excluding takaful receivables	7	53,403	423	11,158	36,549
Takaful receivables	8	-	8,480	11,730	20,210
Deferred tax assets	9	-	3	-	-
Cash and cash equivalents	10	8,889	13,463	71,099	93,451
Total assets		<u>198,063</u>	<u>88,873</u>	<u>917,373</u>	<u>1,174,103</u>
Shareholders' equity					
Share capital	11	100,000	-	-	100,000
Retained earnings		2,917	-	-	2,917
Available-for-sale assets fair value reserves		(163)	-	-	(163)
Total equity		<u>102,754</u>	<u>-</u>	<u>-</u>	<u>102,754</u>
Liabilities					
Takaful contract liabilities	12	-	78,033	843,755	921,788
Expense reserves	13	36,019	-	-	36,019
Takaful payables	14	2,118	4,063	19,209	25,390
Other payables	15	27,916	6,777	52,517	58,775
Current tax liabilities		-	-	1,768	-
Deferred tax liabilities	9	2,256	-	124	2,377
Amount due to shareholders	16	27,000	-	-	27,000
Total liabilities		<u>95,309</u>	<u>88,873</u>	<u>917,373</u>	<u>1,071,349</u>
Total equity and liabilities		<u>198,063</u>	<u>88,873</u>	<u>917,373</u>	<u>1,174,103</u>

Statement of financial position as at 31 December 2013 (continued)

	Note	/-----31.12.2012-----/			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Assets					
Plant and equipment	3	1,035	-	-	1,035
Intangible assets	4	13,642	-	-	13,642
Investment assets	5	75,908	31,987	690,955	798,850
Retakaful assets	6	-	18,663	18,185	36,848
Current tax assets		5,893	-	-	5,893
Loans and receivables, excluding takaful receivables	7	74,041	530	7,159	30,986
Takaful receivables	8	-	7,082	4,338	11,420
Deferred tax assets	9	-	-	-	-
Cash and cash equivalents	10	444	14,440	56,924	71,808
Total assets		<u>170,963</u>	<u>72,702</u>	<u>777,561</u>	<u>970,482</u>
Shareholders' equity					
Share capital	11	100,000	-	-	100,000
Accumulated losses		(8,619)	-	-	(8,619)
Available-for-sale assets fair value reserves		368	-	-	368
Total equity		<u>91,749</u>	<u>-</u>	<u>-</u>	<u>91,749</u>
Liabilities					
Takaful contract liabilities	12	-	57,391	718,422	775,813
Expense reserves	13	19,940	-	-	19,940
Takaful payables	14	3,729	1,919	8,776	14,424
Other payables	15	32,992	13,367	48,717	44,332
Current tax liabilities		-	-	1,224	1,224
Deferred tax liabilities	9	2,553	25	422	3,000
Amount due to shareholders	16	20,000	-	-	20,000
Total liabilities		<u>79,214</u>	<u>72,702</u>	<u>777,561</u>	<u>878,733</u>
Total equity and liabilities		<u>170,963</u>	<u>72,702</u>	<u>777,561</u>	<u>970,482</u>

The accompanying Notes on pages 16 to 114 form an integral part of the financial statements.

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)

(Incorporated in Malaysia)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

		/-----31.12.2013-----/			
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Operating revenue	18	92,300	73,908	213,402	294,946
Takaful Operator income		99,161	-	-	-
Gross contributions	19	-	72,809	204,408	277,217
Contributions ceded to retakaful	19	-	(10,134)	(23,400)	(33,534)
Changes in unearned contribution reserves	19	-	537	-	537
Actuarial reserves	19	-	(2,528)	-	(2,528)
Net earned contributions		-	60,684	181,008	241,692
Gross benefits and claims paid		-	(12,849)	(42,501)	(55,350)
Claims ceded to retakaful		-	6,190	14,330	20,520
Gross changes in claims liabilities		-	(22,527)	(4,985)	(27,512)
Changes in claims liabilities ceded to retakaful		-	15,457	4,360	19,817
Net benefits and claims	20	-	(13,729)	(28,796)	(42,525)
Investment income	21	5,147	1,099	8,994	17,729
Realised gains and losses		-	-	12,274	12,274
Fee and commission income	22	4,120	-	31	272
Fair value gains and losses (unrealised)		-	-	10,332	10,332
Other operating income		-	360	1,792	2,152
Other income		9,267	1,459	33,423	42,759
Wakalah fees		-	(40,356)	(46,796)	-
Commission paid		(21,779)	-	-	(21,779)
Expense reserves		(16,630)	-	-	(16,630)
Management expenses	23	(41,728)	-	-	(41,728)
Impairment of receivables		-	(199)	(48)	(247)
Other expenses		(5,138)	-	-	(3,748)
Other expenses		(85,275)	(40,555)	(46,844)	(84,132)

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Statement of profit or loss and other comprehensive income for the year ended 31 December 2013 (continued)

	Note	/-----31.12.2013-----/			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Total profit for the year/Net underwriting surplus from operations		23,153	7,859	138,791	157,794
Surplus attributable to participants' risk fund		-	(3,537)	(4,966)	(8,503)
Surplus attributable to Takaful Operator		-	(3,537)	(8,472)	-
Net surplus retained in takaful funds		-	(785)	(123,238)	(126,138)
Profit/surplus before zakat and taxation		23,153	-	2,115	23,153
Zakat		(345)	-	-	(345)
Taxation	24	(11,272)	-	(2,115)	(11,272)
Profit for the year attributable to owners of the Company		11,536	-	-	11,536
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Fair value of available-for-sale financial assets					
-Gains arising during the year		(708)	(113)	(14,201)	(15,022)
-reclassification adjustments for gains included in profit and loss		-	-	-	-
Tax effect thereon		177	28	1,136	1,341
Other comprehensive income attributable to Takaful Operator/ change in participants' liabilities		-	85	13,065	13,150
Total other comprehensive income for the year		(531)	-	-	(531)
Total comprehensive income for the year attributable to owners of the Company		11,005	-	-	11,005

The accompanying Notes on pages 16 to 114 form an integral part of the financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013 (continued)

	Note	/-----31.12.2012-----/			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Operating revenue	18	99,517	64,077	300,774	370,438
Takaful Operator income		138,810	-	-	-
Gross contributions	19	-	62,843	289,387	352,230
Contributions ceded to retakaful	19	-	(6,245)	(20,832)	(27,077)
Changes in unearned contribution reserves	19	-	2,111	-	2,111
Actuarial reserves	19	-	2,171	-	2,171
Net earned contributions		-	60,880	268,555	329,435
Gross benefits and claims paid		-	(5,747)	(33,912)	(39,659)
Claims ceded to retakaful		-	327	10,613	10,940
Gross changes in claims liabilities		-	(7,191)	45,457	38,266
Changes in claims liabilities ceded to retakaful		-	1,048	(37,184)	(36,136)
Net benefits and claims	20	-	(11,563)	(15,026)	(26,589)
Investment income	21	3,726	1,234	11,387	18,208
Realised gains and losses		-	-	5,892	5,892
Fee and commission income	22	3,467	-	1,925	2,081
Writeback of impairment of receivables		-	1,945	629	2,574
Other income		210	-	-	210
Other income		7,403	3,179	19,833	28,965
Wakalah fees		-	(36,032)	(59,760)	-
Commission paid		(34,362)	-	-	(34,362)
Expense reserves		(9,900)	-	-	(9,900)
Fair value gains and losses (unrealised)		-	-	(524)	(524)
Management expenses	23	(61,014)	-	-	(61,014)
Other expenses		(592)	-	(3,130)	(2,272)
Other expenses		(105,868)	(36,032)	(63,414)	(108,072)

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013 (continued)

	Note	/-----31.12.2012-----/			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Total profit for the year/Net underwriting surplus from operations		40,345	16,464	209,948	223,739
Surplus attributable to participants' risk fund		-	(4,059)	(12,006)	(16,065)
Surplus attributable to Takaful Operator		-	(12,098)	(30,920)	-
Net surplus retained in takaful funds		-	(307)	(165,985)	(167,329)
Profit/surplus before zakat and taxation		40,345	-	1,037	40,345
Zakat		(298)	-	-	(298)
Taxation	24	(7,731)	-	(1,037)	(7,731)
Profit for the year attributable to owners of the Company		32,316	-	-	32,316
Other comprehensive income/(expenses)					
Items that may be reclassified subsequently to profit or loss					
Fair value of available-for-sale financial assets					
-Gains arising during the year		230	(32)	6,706	6,904
-reclassification adjustments for gains included in profit and loss		-	-	-	-
Tax effect thereon		(57)	8	(536)	(585)
Other comprehensive income attributable to Takaful Operator/ change in participants' liabilities		-	24	(6,170)	(6,146)
Total other comprehensive income for the year		173	-	-	173
Total comprehensive income for the year attributable to owners of the Company		32,489	-	-	32,489

The accompanying Notes on pages 16 to 114 form an integral part of the financial statements.

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)

(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2013

	<i>/---- Non-distributable ----/</i>			
	Share capital RM'000	Available-for- sale financial assets ("AFS") fair value reserves RM'000	Distributable accumulated (losses)/Retained earnings RM'000	Total RM'000
At 1 January 2012	100,000	195	(40,935)	59,260
Fair value of AFS financial assets	-	173	-	173
Total other comprehensive income for the year	-	173	-	173
Profit for the year	-	-	32,316	32,316
Total comprehensive income for the year	-	173	32,316	32,489
At 31 December 2012/ 1 January 2013	100,000	368	(8,619)	91,749
Fair value of AFS financial assets	-	(531)	-	(531)
Total other comprehensive income for the year	-	(531)	-	(531)
Profit for the year	-	-	11,536	11,536
Total comprehensive income for the year	-	(531)	11,536	11,005
At 31 December 2013	100,000	(163)	2,917	102,754
	Note 11.1	Note 11.2	Note 11.3	

The accompanying Notes on pages 16 to 114 form an integral part of the financial statements

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No.731530-M)

(Incorporated in Malaysia)

Statement of cash flows for the year ended 31 December 2013

	Company	
	2013 RM'000	2012 RM'000
Cash flows from operating activities		
Cash generated from operations (Note 25)	161,831	201,143
Income tax paid	(8,460)	(14,000)
	<hr/>	<hr/>
Net cash from operating activities	153,371	187,143
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of plant and equipment	(67)	(20)
Acquisition of intangible assets	(2,674)	(5,992)
Acquisition of investments	(681,207)	(548,057)
Proceeds from disposal of investments	493,164	283,476
Proceeds from maturities of investments	30,315	33,567
Proceeds from disposal of plant and equipment	56	-
Profit from deposits placed with financial institutions	1,428	2,232
Profit from Government Guaranteed bonds	5,895	5,064
Profit from Government Investment Issues	3,685	3,323
Profit from corporate debt securities	14,572	13,591
Dividend received from quoted equity securities	3,105	3,805
	<hr/>	<hr/>
Net cash used in investing activities	(131,728)	(209,011)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	21,643	(21,868)
Cash and cash equivalents at 1 January	71,808	93,676
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	93,451	71,808
	<hr/> <hr/>	<hr/> <hr/>

Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	Note	2013 RM'000	2012 RM'000
Deposits with financial institutions	10	10,193	44,959
Cash and bank balances	10	83,258	26,849
		<hr/>	<hr/>
		93,451	71,808
		<hr/> <hr/>	<hr/> <hr/>

The accompanying Notes on pages 16 to 114 form an integral part of the financial statements

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)

(Incorporated in Malaysia)

Notes to the financial statements

The Company is a private limited liability company, incorporated and domiciled in Malaysia. The addresses of the principal place of business and registered office of the Company are as follows:

Principal place of business

8th - 9th Floor, North Tower
No. 2, Leboh Ampang
50100 Kuala Lumpur, Malaysia

Registered office

15th Floor, North Tower
No. 2, Leboh Ampang
50100 Kuala Lumpur, Malaysia

The Company is principally engaged in managing of general takaful and family takaful businesses.

The immediate holding company is HSBC Insurance (Asia Pacific) Holdings Ltd., a company incorporated in Hong Kong. The ultimate holding company is HSBC Holdings plc, a company incorporated in the United Kingdom.

These financial statements were authorised by the Board of Directors on 11 February 2014.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), the Companies Act, 1965, the Takaful Act, 1984 (replaced on 30 June 2013), Islamic Financial Services Act 2013 (effective on 30 June 2013), Takaful Guidelines/Circulars issued by Bank Negara Malaysia ("BNM") and Principles of Shariah.

A Takaful Operator is required to present consolidated financial statements for itself and the Takaful funds it manages and controls in accordance with the requirements of MFRS 127, *Consolidated and Separate Financial Statements*. The statements of financial position and the statements of profit or loss and other comprehensive income of the Takaful Operator, Family Takaful Fund and General Takaful Fund are supplementary financial information presented in accordance with the requirements of BNM and Takaful Act, 1984 (replaced on 30 June 2013), Islamic Financial Services Act 2013 (effective on 30 June 2013) in Malaysia to segregate assets, liabilities, income and expenses of Takaful funds from its own. The statements of financial position and profit or loss and other 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 other comprehensive income of the Family and General Takaful Fund include only the assets, liabilities, income and expenses of the family solidarity fund and General Takaful Fund that is set up, managed and controlled by the Takaful Operator.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Company.

MFRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

MFRSs, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*
- Amendments to MFRS 7, *Financial Instruments: Disclosure – Mandatory Effective Date of MFRS 9 and Transition Disclosures*

The Company plans to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2014 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2014.
- from the annual period beginning on 1 January 2015 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2015.

1. Basis of preparation (continued)

(a) Statement of compliance (continued)

The initial application of the abovementioned amendments and interpretation are not expected to have any material impacts to the financial statements of the Company except as mentioned below:

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities. The Company is currently assessing the financial impact that may arise from the adoption of MFRS 9.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (“RM”), which is the Company’s functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with MFRSs requires management to make judgments, 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.

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

- Note 2(b) – Financial instruments
- Note 2(l) and (m) – Claims and contributions liabilities
- Note 2(o) – Expenses liability

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the reporting date, except for those that are measured at fair value that are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised in other comprehensive income.

(b) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

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

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

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises financial instruments as follows:

Financial assets

(a) *Financial assets at fair value through profit or loss*

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a financial guarantee contract or a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in profit or loss.

(b) *Loans and receivables, excluding Takaful receivables*

Loans and receivables category comprises Islamic debt instruments that are not quoted in an active market (including fixed deposits with financial institutions with maturities more than 3 months).

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

(c) *Available-for-sale financial assets*

Available-for-sale category comprises investments in equity and debt securities instruments that are not held for trading.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

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

Financial assets (continued)

(c) *Available-for-sale financial assets (continued)*

Available-for-sale category comprises investments in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in profit or loss. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into profit or loss. Profit calculated for a debt instrument using the effective interest method is recognised in profit or loss.

(d) *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.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2(f)).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost.

2. Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

- (a) the recognition of an asset to be received and the liability to pay for it on the trade date; and
- (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(iv) Derecognition

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

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

2. Significant accounting policies (continued)

(c) Plant and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where significant parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The gain or loss on disposal of an item of plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and is recognised net within “other income” or “other expenses” respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing component of an item of plant 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 to profit or loss. The costs of the day-to-day servicing of plant 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, then that component is depreciated separately.

2. Significant accounting policies (continued)

(c) Plant and equipment (continued)

(iii) Depreciation (continued)

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of plant and equipment. Plant and equipment under construction are not depreciated until the assets are ready for their intended use. The estimated useful lives for the current and comparative periods are as follows:

• Computer equipment	3 years
• Office equipment, fixtures and fittings	5-10 years
• Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at the end of the reporting period and adjusted as appropriate.

(d) Leased assets

Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(e) Intangible assets

Intangible assets comprise computer software (including costs of software under development) and are stated at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised from the date that they are available for use. Software under development is not amortised until the assets are ready for its intended use.

2. Significant accounting policies (continued)

(e) Intangible assets (continued)

Amortisation is recognised in profit or loss on a straight-line basis over the expected useful economic life of computer software of between 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, as appropriate.

(f) Impairment

(i) Financial assets, excluding takaful receivables

All financial assets (except for financial assets categorised as fair value through profit or loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an investment in an equity instrument, a significant or prolonged decline in the fair value below its cost is an objective evidence of impairment. If any such objective evidence exists, then the impairment loss of the financial asset is estimated.

An impairment loss in respect of loans and receivables is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of available-for-sale financial assets is recognised in profit or loss and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity to profit or loss.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Financial assets, excluding takaful receivables (continued)

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Takaful Receivables

Takaful receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or profit or both for takaful receivables is past due for more than 90 days or 3 months for those individually assessed, as prescribed in the Guidelines on Financial reporting for Takaful Operators issued by Bank Negara Malaysia.

Individual impairment allowances are made for any contributions including agents, brokers and retakaful balances, which remain outstanding for more than three (2012: three) months from the date on which they become receivable, and for all other debts, which are considered impaired.

2. Significant accounting policies (continued)

(f) Impairment (continued)

(iii) Other assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (groups of cash-generating units) and then to reduce the carrying amount of the other assets in the unit (groups of cash-generating units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period 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 since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. Significant accounting policies (continued)

(g) Equity instruments

Instruments classified as equity are measured at cost on initial recognition and are not remeasured subsequently.

(i) Issue expenses

Costs directly attributable to the issue of instruments classified as equity are recognised as a deduction from equity.

(ii) Ordinary shares

Ordinary shares are classified as equity.

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave 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.

(ii) State plans

The Company's contribution to statutory pension funds are charged to profit or loss in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(iii) Share based payments

The Company participates in equity-settled and cash-settled share-based compensation plans for employees that are offered by the ultimate holding company, HSBC Holdings plc. The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they were granted, and recognised as an expense on a straight-line basis over the vesting periods, in profit or loss. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

2. Significant accounting policies (continued)

(i) 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.

(j) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

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 by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary differences that affect neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

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 to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

(k) Takaful product classification

Takaful contracts are contracts under which the General Takaful Fund and Family Takaful Fund (collectively referred to as “the Funds”) underwrite/accept significant risks (by pooling the risks in a risk fund) from participants of the funds (“the participant”) by agreeing to compensate the participant or other beneficiary if a specified uncertain future event (“the insured 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. The Takaful Operator does not sell financial risk contracts.

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.

(l) General Takaful Fund

The General Takaful Fund is maintained in accordance with the requirements of the Takaful Act, 1984 (replaced on 30 June 2013) and Islamic Financial Services Act 2013 (effective on 30 June 2013) and consists of accumulated surplus/deficit and actuarial reserves. Any actuarial deficit in the General Takaful Fund will be made good by the Takaful Operator via a Qard. Surplus arising in each year is distributable in accordance with the terms and conditions prescribed by the surplus distribution policy, endorsed by the Shariah Committee and Board of Directors.

The general takaful underwriting results are determined for each class of business after taking into account retakaful, contribution liabilities, claims liabilities, and wakalah fees. To determine the surplus distributable from risk fund, the Qard repayment as well as Contingency Reserve is taken into consideration.

(i) Contribution income

Contribution is recognised in respect of risks assumed during the particular financial year as soon as the amount can be reliably measured, based on issuance of certificates, and in accordance with the principles of Shariah as advised by the Company’s Shariah Committee. Contributions in respect of risks incepted before the reporting date for which policies are issued subsequent to the end of reporting date are accrued for at the reporting date.

2. Significant accounting policies (continued)

(I) General Takaful Fund (continued)

(i) Contribution income (continued)

Inward retakaful contributions are accounted for upon notification by the ceding companies or upon receipt of the statement of accounts.

Outward retakaful contributions are recognised in the same financial year as the original certificate to which the retakaful relates.

(ii) General takaful contract liabilities recognition

General Takaful Fund's liabilities, comprising of claim liabilities and contribution liabilities are recognised when contracts are entered into and contributions are charged.

a) Claim Liabilities

A liability for outstanding claims is recognised in respect of direct takaful business. The claim liabilities are the best estimate together with related provision of risk margin for adverse deviation as well as expenses less recoveries, if any, to settle the present obligations at the reporting date.

Provision for outstanding claims is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money and is derecognised when the contract expired, discharged or cancelled.

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience. These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

2. Significant accounting policies (continued)

(l) General Takaful Fund (continued)

(ii) General takaful contract liabilities recognition (continued)

b) Contribution Liabilities (continued)

The unearned contribution reserves (“UCR”) represent contributions received after wakalah fee deduction for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised in statement of profit and loss and other comprehensive income of the General Takaful Fund.

In determining the UCR at the reporting date, the method that most accurately reflects the actual unearned contributions is used for all general takaful business within Malaysia that is the 1/365 method. This is reduced by deductions as a corresponding percentage of accounted gross direct refundable business commissions but not exceeding limits specified by Bank Negara Malaysia.

At each reporting date, the Company reviews its unexpired risk reserve (inclusive of Fund Provision for Risk Margin for Adverse Deviation “FPRAD”) to determine whether there is any overall excess of expected claims over unearned contributions. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) prior to taking account of the investment return expected to arise on assets relating to the relevant general takaful technical provisions. If these estimates show that the carrying amount of the unearned contributions is insufficient to meet future liabilities, then the Company is required to hold the unexpired risk reserve.

(m) Family Takaful Fund

The Family Takaful Fund is maintained in accordance with the requirements of the Takaful Act, 1984 (replaced on 30 June 2013), Islamic Financial Services Act 2013 (effective on 30 June 2013) and includes the amount attributable to participants.

The amount attributable to participants consists of the accumulated surplus attributable to the participants determined by an annual actuarial valuation of the Family Takaful Fund unallocated surplus, net asset value attributable to unitholders and other reserves, as applicable. The amount attributable to participants is distributed in accordance with the terms and conditions of the products as approved by the Shariah Committee of the Company. Any actuarial deficit in the Family Takaful Fund will be made good by the Takaful Operator via a Qard. Surplus distributable to participants is determined after deducting claims/benefits paid and payable, retakaful, provisions, reserves, wakalah fees, as well as repayment of Qard, if any.

2. Significant accounting policies (continued)

(m) Family Takaful Fund (continued)

(i) Contribution income

Contribution is recognised when the amount can be reliably measured and in accordance with the principles of Shariah as advised by the Company's Shariah Committee. Contributions are accounted for on the basis of contributions received and receivable in respect of the non investment-linked business and on the basis of contributions received in respect of the investment-linked business.

Gross retakaful contributions are recognised as an expense when payable or on the date on which the certificate is effective.

(ii) Investment-linked business

Investment assets are classified as fair value through profit or loss ("FVTPL") and include quoted equity securities, corporate debt securities and structured investments. Fair value of equity and corporate debt securities are determined based on methods described in Note 2 (b)(ii).

Structured investments are investments where a substantial amount of the fund is invested in fixed income instruments issued by financial institutions while the remaining amount is invested in instruments which are linked to the performance of one or more equity market prices and indices that introduce significant risks that will affect the performance of these instruments. Structured investments are carried at fair value. Unrealised gains and losses on revaluation of the aforesaid investments are taken to the investment-linked business' profit or loss.

The gain or loss arising from disposal of any of the above investments is the difference between net disposal proceeds and the carrying value of the investment, net of accretion of discounts or amortisation of premiums, as determined by fund managers. Gain or loss on disposals of investments are credited or charged to the investment-linked business' profit or loss.

(iii) Benefits, claims and expenses

Claims settled are charged to profit or loss, in the financial year in which the claims arise. A liability for outstanding claims is recognised when a claimable event occurs and/or the Takaful Operator is notified.

Gross outstanding claims is based on best estimate of the loss, which will eventually be payable on each unpaid claim, established by the management based on currently available information and past experience.

2. Significant accounting policies (continued)

(m) Family Takaful Fund (continued)

(iv) Provision for outstanding claims

A liability for outstanding claims is recognised when a claimable event occurs and/or the Company is notified.

Claims and provisions for claims arising from family takaful certificates, including settlement costs less retakaful recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under family takaful certificates are recognised as follows:

- (a) Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates.
- (b) Death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the participant or occurrence of contingency covered.
- (c) For group family business, provision is made for the cost of claims, together with related expenses and claims incurred but not reported ("IBNR") for accident and health cover at reporting date. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornheutter-Ferguson and Ultimate Loss Ratio methods by a qualified actuary of the Company. As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from actual claims experience due to the level of uncertainty involved in projecting future claims experience based on past claims experience.

These uncertainties arise from changes in underlying risks, changes in spread of risks, timing and amounts of claims settlement as well as uncertainties in the projection model and underlying assumptions.

2. Significant accounting policies (continued)

(m) Family Takaful Fund (continued)

(v) Family takaful liabilities and actuarial reserves

In carrying out the fiduciary duty, the Company must put in place sufficient measures to ensure sustainability of the Family Takaful Funds to meet takaful benefits for the full term. These measures include setting up of appropriate provisions for liabilities in the Family Takaful Funds, to ensure that adequate funds would be available to meet all contractual obligations and commitments as they fall due, with a reasonable level of certainty.

The family takaful liabilities are recognised when contracts are entered into and contributions are charged. These liabilities are measured by using a prospective actuarial valuation method, discounted at the appropriate risk discount rate as defined in the BNM Guidelines on Valuation Basis for Liabilities of Family Takaful Business.

For products with a participant fund, the liabilities are valued by projecting future cash flows to ensure that all future obligations could be met without recourse to additional finance or capital support at any future time during the duration of each certificate. The cash flows for each certificate are projected on monthly intervals until the natural expiry of the certificates, and any negative cash flows at all future monthly intervals are zeroed. The cash flows included the monthly Tabarru', future benefits and netted of retakaful cessions.

For single contribution credit related products, the liabilities are determined as the sum of present value of future benefits, and deducting the retakaful cessions.

The future cash flows are projected based on best estimate assumptions with the appropriate allowance for provision of adverse deviation from expected experience, and with due regard to recent experience.

In addition to the liabilities set up on future benefits, a liability for outstanding claims which includes an estimate of the incurred claims that have not been reported to Takaful Operator is accounted for.

2. Significant accounting policies (continued)

(m) Family Takaful Fund (continued)

(v) Family takaful liabilities and actuarial reserves (continued)

For liabilities of a 1-year family takaful certificate, the liabilities were the sum of the contribution liabilities and claim liabilities. For Group Term Takaful, the contribution liabilities were taken as the unearned Tabarru'. The claim liabilities comprises of an estimate of the incurred claims that have not been reported to the Takaful Operator, net of retakaful. For Group Hospitalization & Surgery, the contribution liabilities were calculated as the higher of the provision for unearned Tabarru' and the best estimate value of the provision for unexpired risk with provision of risk margin for adverse deviation. The claim liabilities were computed by using the Expected Claim Method, also known as Expected Loss Ratio Method. The ultimate loss ratio for each accident year was selected after giving considerations to the reported-to-date loss ratio as well as the prior Accident Year's ultimate loss ratio.

Where certificate or extensions of a certificate are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

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

The valuation of takaful certificate liabilities is determined according to BNM Guidelines on Valuation Basis for Liabilities of Family Takaful Business. The Guidelines on Valuation Basis for Liabilities of Family Takaful Business meets the requirement of Liability Adequacy Test under MFRS 4.

As with all projections, there are elements of uncertainty and the projected liabilities may be different from actual benefits paid due to the significant level of uncertainty involved in the discount rate used as well as the lapse and mortality & morbidity assumptions.

2. Significant accounting policies (continued)

(n) Retakaful

The Company enters into retakaful treaties in the normal course of business for the purpose of limiting its net loss potential and to reduce significantly the new business strain of the credit-related block of business. Retakaful arrangements do not relieve the Company from its obligations to participants. Retakaful contributions and claim recoveries are presented in profit or loss and statement of financial position on a gross basis.

The Company also assumes co-takaful risk in the normal course of business for its general takaful contracts. Contributions and claims on assumed co-takaful are recognised as revenue or expenses in the same manner as they would be if the co-takaful were considered direct business, taking into account the product classification of the business undertaken.

Retakaful assets comprise of the retakaful share of contributions and claims obligations. The assets are subject to impairment test as described in Note 2 (f).

(o) Expenses liability

The contract underlying takaful operations defines a unique relationship between Takaful Operator and participants of a takaful scheme. While the General and Family 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 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.

2. Significant accounting policies (continued)

(o) Expenses liability (continued)

In carrying out the fiduciary duty, the Company must put in place sufficient measures to ensure that the Takaful Operator is able to support the takaful certificates for the full term.

The expenses liability of the Takaful Operator's fund consists of expenses liability of the General Takaful Fund and Family Takaful Fund which are computed by actuaries approved by BNM.

(a) Expenses liability of General Takaful Fund

The expenses liability is reported at the higher of the aggregate of Unearned Wakalah Fee ("UWF") and Unexpired Expense Risk ("UER") together with related provision of risk margin for adverse deviation as at the end of the financial year.

Unearned wakalah fee

The UWF reserves represent the portion of wakalah fee income allocated for management expenses of general takaful certificates that relate to the unexpired periods of certificates at the end of the financial year. The method used in computing UWF is consistent with the calculation of UCR.

Unexpired Expense Risk

The UER is the expected future expenses payable from shareholders' fund in managing the takaful fund for the full contractual obligation of the takaful certificate as at valuation date, less expected shareholders' fund income.

(b) Expenses liability of Family Takaful Fund

Expense liabilities are conducted separately in the Takaful Operator's fund. The method used to value expense liabilities is consistent with the method used to value takaful liabilities of the corresponding family takaful certificate.

2. Significant accounting policies (continued)

(o) Expenses liability (continued)

(b) Expenses liability of Family Takaful Fund (continued)

For products with participant funds, the expense liabilities valued by projecting future cash flows to ensure that all future obligations could be met without recourse to additional finance or capital support at any future time during the duration of each certificate. The cash flows for each certificate were projected on monthly intervals until the natural expiry of the certificates, and any negative cash flow arising at each monthly interval is zeroed.

For single contribution credit related products, the expense liabilities are determined as the sum of present value of future expenses, including any expected maintenance expense overruns, incurred by the Operator Fund in managing the family fund.

Future expenses for Operator Fund refer to expense, commissions and surrender benefit payout (if any). The income includes Wakalah Fees, surrender charges (if any), monthly service charges (if any), fund management charges (if any) and investment income fees (if any). Surplus distribution from the risk fund to the operator fund was not included as an income in the shareholder fund.

Expected future maintenance expense overruns are considered in the expense liabilities by allocation of overruns to individual certificates. Based on management's forecast of new business volumes and expense levels from the Annual Operating Plan, the ratio of allocated maintenance expense forecast to the maintenance expense allowances based on long term best estimate expense assumptions are determined for each calendar year for the entire in-force and new business portfolio. The ratios were then applied to scale up expense projections for the current in-force business.

The future cash flows are projected based on best estimate assumptions with the appropriate allowance for provision of adverse deviation from expected experience, and with due regard to recent experience.

For expense arising from managing 1-year family takaful certificates, the liability for such expense comprises the provision for unearned wakalah fees and unexpired expense risks.

Where certificates or extensions of a certificate are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zeroisation.

2. Significant accounting policies (continued)

(p) Other income

Investment income is recognised on a time proportion basis that takes into account the effective yield of the asset. Profits including the amount of amortisation of premium and accretion of discount are recognised on a time proportion basis taking into account the principal outstanding and the effective date over the period to maturity, when it is determined that such income will accrue to the Company.

Dividend income is recognised in profit or loss when the right to receive payment is established.

Gain or loss arising on disposals of investments are credited or charged to profit or loss.

(q) Zakat

Zakat represents alms payable by the Company to comply with the Principles of Shariah and as approved by the Shariah Committee of the Company. Zakat is only provided for when obligation exists at the reporting date.

(r) Commission and acquisition cost

Commission and acquisition costs are borne by the Takaful Operator in the Company's profit or loss at an agreed percentage for each certificate underwritten. This is in accordance with the principles of wakalah as approved by the Shariah Committee and is as agreed between the participants and the Company.

Gross commission and agency expenses, which are costs directly incurred in securing contributions on takaful certificates, and income derived from retakaful companies in the course of ceding contributions to retakaful, are charged to profit or loss in the period in which they are incurred.

(s) Wakalah fee

The wakalah fee is an income to the Takaful Operator and is charged to the General and Family 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 and Family Takaful Funds are borne by the Takaful Operator and included as a component of wakalah fee income.

2. Significant accounting policies (continued)

(t) Fair value measurements

From 1 January 2013, the Company adopted MFRS 13, *Fair Value Measurement* which prescribed that fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In accordance with the transitional provision of MFRS 13, the Company applied the new fair value measurement guidance prospectively, and has not provided any comparative fair value information for new disclosures. The adoption of MFRS 13 has not significantly affected the measurements of the Company's assets or liabilities other than the additional disclosures.

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3. Plant and equipment

Takaful Operator and Company

<i>Cost</i>	Computer equipment RM'000	Motor vehicles RM'000	Office equipment, fixtures and fittings RM'000	Total RM'000
At 1 January 2012	1,231	158	1,314	2,703
Additions	12	-	8	20
Written off	-	-	(66)	(66)
At 31 December 2012/ 1 January 2013	1,243	158	1,256	2,657
Additions	67	-	-	67
Disposal	-	(154)	-	(154)
At 31 December 2013	1,310	4	1,256	2,570
<i>Accumulated depreciation</i>				
At 1 January 2012	801	96	420	1,317
Charge for the year	186	31	154	371
Written off	-	-	(66)	(66)
At 31 December 2012/ 1 January 2013	987	127	508	1,622
Charge for the year	177	28	147	352
Disposal	-	(151)	-	(151)
At 31 December 2013	1,164	4	655	1,823
<i>Carrying amount</i>				
At 1 January 2012	430	62	894	1,386
At 31 December 2012/ 1 January 2013	256	31	748	1,035
At 31 December 2013	146	-	601	747

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4. Intangible assets

Takaful Operator and Company

<i>Cost</i>	Development of computer software RM'000	Computer Software RM'000	Total RM'000
At 1 January 2012	5,534	15,794	21,328
Additions	5,005	987	5,992
Reclassification	(5,810)	5,810	-
At 31 December 2012/1 January 2013	4,729	22,591	27,320
Additions	2,674	-	2,674
Reclassification	(4,739)	4,739	-
At 31 December 2013	2,664	27,330	29,994
<i>Accumulated amortisation</i>			
At 1 January 2012	-	10,490	10,490
Amortisation for the year	-	3,188	3,188
At 31 December 2012/1 January 2013	-	13,678	13,678
Amortisation for the year	-	4,170	4,170
At 31 December 2013	-	17,848	17,848
<i>Carrying amount</i>			
At 1 January 2012	5,534	5,304	10,838
At 31 December 2012/1 January 2013	4,729	8,913	13,642
At 31 December 2013	2,664	9,482	12,146

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5. Investment assets

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Available-for-sale financial assets				
Government Investment Issues	-	10,016	82,663	92,679
Government Guaranteed bonds	10,012	-	144,486	154,498
Corporate debt securities	109,729	25,233	233,136	368,098
Quoted equity securities	473	-	-	473
Financial assets at fair value through profit or loss				
Corporate debt securities	-	-	119,621	119,621
Structured investments	-	-	46,602	46,602
Quoted equity securities	-	-	169,382	169,382
	<u>120,214</u>	<u>35,249</u>	<u>795,890</u>	<u>951,353</u>
2012				
Available-for-sale financial assets				
Government Investment Issues	-	10,142	84,884	95,026
Government Guaranteed bonds	10,071	6,709	138,058	154,838
Corporate debt securities	65,211	15,136	209,695	290,042
Quoted equity securities	626	-	-	626
Financial assets at fair value through profit or loss				
Corporate debt securities	-	-	86,917	86,917
Structured investments	-	-	47,015	47,015
Quoted equity securities	-	-	124,386	124,386
	<u>75,908</u>	<u>31,987</u>	<u>690,955</u>	<u>798,850</u>

5. Investment assets (continued)

(a) Carrying values of investment assets

Investment assets are carried at fair value. Investment assets are categorised as either available-for-sale financial assets ("AFS") or financial assets at fair value through profit or loss ("FVTPL").

	AFS RM'000	FVTPL RM'000	Total RM'000
At 1 January 2012	376,688	185,634	562,322
Purchases	191,201	356,856	548,057
Maturities	(33,567)	-	(33,567)
Disposals	-	(283,476)	(283,476)
Fair value loss recorded in profit or loss	-	(524)	(524)
AFS reserves	6,904	-	6,904
Amortisation adjustment	(694)	(172)	(866)
	<hr/>	<hr/>	<hr/>
At 31 December 2012/1 January 2013	540,532	258,318	798,850
Purchases	121,195	560,012	681,207
Maturities	(30,315)	-	(30,315)
Disposals	-	(493,164)	(493,164)
Fair value loss recorded in profit or loss	-	10,332	10,332
AFS reserves	(15,022)	-	(15,022)
Amortisation adjustment	(642)	107	(535)
	<hr/>	<hr/>	<hr/>
At 31 December 2013	<u>615,748</u>	<u>335,605</u>	<u>951,353</u>

(b) Fair values of investment assets

The fair value of investment assets is determined by reference to market closing prices in an active market at reporting date.

5. Investment assets (continued)

(c) The following investment assets mature after twelve months:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Available-for-sale financial assets	89,649	25,233	444,701	559,583
Financial assets at fair value through profit or loss	-	-	115,770	115,770
	<u>89,649</u>	<u>25,233</u>	<u>560,471</u>	<u>675,353</u>
2012				
Available-for-sale financial assets	75,282	15,248	424,306	514,836
Financial assets at fair value through profit or loss	-	-	82,965	82,965
	<u>75,282</u>	<u>15,248</u>	<u>507,271</u>	<u>597,801</u>

6. Retakaful assets

	Note	2013 RM'000	2012 RM'000
General Takaful Fund	12(a)	31,255	18,663
Family Takaful Fund	12(b)	27,496	18,185
Company		<u>58,751</u>	<u>36,848</u>

7. Loans and receivables, excluding takaful receivables

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Income due and accrued	1,320	421	4,836	6,577
Fixed deposits with licensed financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	27,000	-	-	27,000
Other receivables	2,410	2	560	2,972
Amount due from:				
Takaful Operator	-	-	5,762	-
General Takaful Fund	4,768	-	-	-
Family Takaful Fund	17,905	-	-	-
	<u>53,403</u>	<u>423</u>	<u>11,158</u>	<u>36,549</u>
2012				
Income due and accrued	900	263	5,264	6,427
Fixed deposits with licensed financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	21,480	-	-	21,480
Other receivables	1,955	267	857	3,079
Amount due from:				
Takaful Operator	-	-	1,038	-
General Takaful Fund	13,364	-	-	-
Family Takaful Fund	36,342	-	-	-
	<u>74,041</u>	<u>530</u>	<u>7,159</u>	<u>30,986</u>

The fixed deposits with maturities of more than 3 months placed with a licensed bank that are held with related parties amounted to RM27,000,000 (2012: RM21,480,314).

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8. Takaful receivables

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013			
Due contributions including agents/ brokers and co-insurers balances	7,732	1,280	9,012
Due from retakaful companies and cedants	748	10,450	11,198
	<u>8,480</u>	<u>11,730</u>	<u>20,210</u>
2012			
Due contributions including agents/ brokers and co-insurers balances	5,754	736	6,490
Due from retakaful companies and cedants	1,328	3,602	4,930
	<u>7,082</u>	<u>4,338</u>	<u>11,420</u>

9. Deferred tax assets/(liabilities)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 January 2012	(2,326)	(33)	(71)	(2,430)
Recognised in:				
AFS reserves	(57)	8	(536)	(585)
Profit or loss	(170)	-	185	15
At 31 December 2012/1 January 2013	<u>(2,553)</u>	<u>(25)</u>	<u>(422)</u>	<u>(3,000)</u>
Recognised in:				
AFS reserves	177	28	1,136	1,341
Profit or loss	120	-	(838)	(718)
At 31 December 2013	<u>(2,256)</u>	<u>3</u>	<u>(124)</u>	<u>(2,377)</u>

9. Deferred tax assets/(liabilities) (continued)

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Presented after appropriate offsetting as follows:				
Deferred tax assets	-	3	-	3
Deferred tax liabilities	(2,256)	-	(124)	(2,380)
	<u>(2,256)</u>	<u>3</u>	<u>(124)</u>	<u>(2,377)</u>
2012				
Presented after appropriate offsetting as follows:				
Deferred tax assets	-	-	-	-
Deferred tax liabilities	(2,553)	(25)	(422)	(3,000)
	<u>(2,553)</u>	<u>(25)</u>	<u>(422)</u>	<u>(3,000)</u>

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9. Deferred tax assets/(liabilities) (continued)

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

(a) Takaful Operator

Deferred tax assets/(liabilities)

	Unutilised tax losses RM'000	AFS reserve RM'000	Accelerated capital allowances RM'000	Total RM'000
At 1 January 2012	663	(65)	(2,924)	(2,326)
Recognised in:				
AFS reserves	-	(57)	-	(57)
Profit or loss	(663)	-	493	(170)
At 31 December 2012/1 January 2013	-	(122)	(2,431)	(2,553)
Recognised in:				
AFS reserves	-	177	-	177
Profit or loss	-	-	120	120
	-	55	(2,311)	(2,256)

(b) General Takaful Fund

	AFS reserve RM'000
Deferred tax (liabilities)/assets	
At 1 January 2012	(33)
Recognised in AFS reserves	8
At 31 December 2012/1 January 2013	(25)
Recognised in AFS reserves	28
At 31 December 2013	3

9. Deferred tax assets/(liabilities) (continued)

(c) Family Takaful Fund

Deferred tax assets/(liabilities)

	AFS reserve RM'000	FVTPL securities RM'000	Total RM'000
At 1 January 2012	(169)	98	(71)
Recognised in:			
AFS reserves	(536)	-	(536)
Profit or loss	-	185	185
At 31 December 2012/1 January 2013	(705)	283	(422)
Recognised in:			
AFS reserves	1,136	-	1,136
Profit or loss	-	(838)	(838)
At 31 December 2013	431	(555)	(124)

(d) Company

	Unutilised tax losses RM'000	AFS reserve RM'000	Accelerated capital allowances RM'000	FVTPL securities RM'000	Total RM'000
At 1 January 2012	663	(267)	(2,924)	98	(2,430)
Recognised in:					
AFS reserves	-	(585)	-	-	(585)
Profit or loss	(663)	-	493	185	15
At 31 December 2012/ 1 January 2013	-	(852)	(2,431)	283	(3,000)
Recognised in:					
AFS reserves	-	1,341	-	-	1,341
Profit or loss	-	-	120	(838)	(718)
At 31 December 2013	-	489	(2,311)	(555)	(2,377)

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10. Cash and cash equivalents

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Cash and bank balances	8,889	13,463	60,906	83,258
Fixed deposits with licensed financial institutions with maturities of less than 3 months - Licensed bank in Malaysia	-	-	10,193	10,193
	<u>8,889</u>	<u>13,463</u>	<u>71,099</u>	<u>93,451</u>
2012				
Cash and bank balances	444	14,440	11,965	26,849
Fixed deposits with licensed financial institutions with maturities of less than 3 months - Licensed bank in Malaysia	-	-	44,959	44,959
	<u>444</u>	<u>14,440</u>	<u>56,924</u>	<u>71,808</u>

The fixed deposits with maturities of less than 3 months placed with a licensed bank that are held with related parties amounted to RM10,193,298 (2012: RM24,788,584).

11. Capital and reserves

Takaful Operator and Company

11.1 Share capital

	2013		2012	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Authorised:				
Ordinary shares of RM50 each				
At 1 January/31 December	3,000	150,000	3,000	150,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Issued and fully paid:				
Ordinary shares of RM50 each				
At 1 January/31 December	2,000	100,000	2,000	100,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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.

11.2 Fair value reserves

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

11.3 Retained earnings

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the IFSA, the Company is required to obtain Bank Negara Malaysia's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 January 2014.

Pursuant to the RBC Framework for Takaful Operator, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

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12. Takaful contract liabilities

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2013				
General Takaful Fund	12(a)	78,033	(31,255)	46,778
Family Takaful Fund	12(b)	843,755	(27,496)	816,259
		<u>921,788</u>	<u>(58,751)</u>	<u>863,037</u>
2012				
General Takaful Fund	12(a)	57,391	(18,663)	38,728
Family Takaful Fund	12(b)	718,422	(18,185)	700,237
		<u>775,813</u>	<u>(36,848)</u>	<u>738,965</u>

(a) General Takaful Fund

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2013				
Provision for claims reported by participants		34,263	(24,270)	9,993
Provision for IBNR		15,695	(4,344)	11,351
		<u>49,958</u>	<u>(28,614)</u>	<u>21,344</u>
Provision for outstanding claims	(i)	49,958	(28,614)	21,344
Provision for unearned contributions	(ii)	16,707	(2,641)	14,066
Participants' funds	(iii)	11,368	-	11,368
		<u>78,033</u>	<u>(31,255)</u>	<u>46,778</u>
2012				
Provision for claims reported by participants		13,155	(8,752)	4,403
Provision for IBNR		14,276	(4,405)	9,871
		<u>27,431</u>	<u>(13,157)</u>	<u>14,274</u>
Provision for outstanding claims	(i)	27,431	(13,157)	14,274
Provision for unearned contributions	(ii)	20,109	(5,506)	14,603
Participants' funds	(iii)	9,851	-	9,851
		<u>57,391</u>	<u>(18,663)</u>	<u>38,728</u>

12. Takaful contract liabilities (continued)**(a) General Takaful Fund (continued)****(i) Provision for outstanding claims**

	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2013	27,431	(13,157)	14,274
Claims incurred in the current year	35,376	(21,647)	13,729
Claims paid during the year	(12,849)	6,190	(6,659)
At 31 December 2013	<u>49,958</u>	<u>(28,614)</u>	<u>21,344</u>
At 1 January 2012	20,240	(12,109)	8,131
Claims incurred in the current year	12,938	(1,375)	11,563
Claims paid during the year	(5,747)	327	(5,420)
At 31 December 2012	<u>27,431</u>	<u>(13,157)</u>	<u>14,274</u>

(ii) Provision for unearned contributions

At 1 January 2013	20,109	(5,506)	14,603
Contributions written in the year (Note 19)	72,809	(10,134)	62,675
Contributions earned during the year	(76,211)	12,999	(63,212)
At 31 December 2013	<u>16,707</u>	<u>(2,641)</u>	<u>14,066</u>
At 1 January 2012	19,631	(2,917)	16,714
Contributions written in the year (Note 19)	62,843	(6,245)	56,598
Contributions earned during the year	(62,365)	3,656	(58,709)
At 31 December 2012	<u>20,109</u>	<u>(5,506)</u>	<u>14,603</u>

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12. Takaful contract liabilities (continued)

(a) General Takaful Fund (continued)

(iii) Participants' fund

	2013 RM'000	2012 RM'000
Actuarial reserves	1,354	263
AFS reserves	(9)	76
Revenue account accumulated surplus	10,023	9,512
	<u>11,368</u>	<u>9,851</u>
Actuarial reserves		
At 1 January	263	4,169
Transfer from/(to) surplus	1,092	(74)
Paid to participants	(2,529)	(1,661)
Increase/(Decrease) in reserves	2,528	(2,171)
At 31 December	<u>1,354</u>	<u>263</u>
AFS reserves		
At 1 January	76	100
Decrease in reserves	(85)	(24)
At 31 December	<u>(9)</u>	<u>76</u>
Revenue account accumulated surplus		
At 1 January	9,512	7,008
Surplus for the year	4,323	4,366
Profit paid to participants	(2,579)	(1,756)
Transfer (to)/from actuarial reserve	(1,092)	74
Transfer to donation payable account	(63)	(172)
Transfer to withholding tax	(78)	(8)
At 31 December	<u>10,023</u>	<u>9,512</u>

12. Takaful contract liabilities (continued)**(b) Family Takaful Fund**

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
2013				
Provision for outstanding claims	(i)	10,084	(8,479)	1,605
Participants' funds	(ii)	833,671	(19,017)	814,654
		<u>843,755</u>	<u>(27,496)</u>	<u>816,259</u>
2012				
Provision for outstanding claims	(i)	5,099	(4,119)	980
Participants' funds	(ii)	713,323	(14,066)	699,257
		<u>718,422</u>	<u>(18,185)</u>	<u>700,237</u>

(i) Provision for outstanding claims

	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2013	5,099	(4,119)	980
Claims incurred during the year	47,486	(18,690)	28,796
Claims paid during the year	(42,501)	14,330	(28,171)
At 31 December 2013	<u>10,084</u>	<u>(8,479)</u>	<u>1,605</u>
At 1 January 2012	4,954	(3,855)	1,099
Claims incurred during the year	34,057	(10,877)	23,180
Claims paid during the year	(33,912)	10,613	(23,299)
At 31 December 2012	<u>5,099</u>	<u>(4,119)</u>	<u>980</u>

12. Takaful contract liabilities (continued)**(b) Family Takaful Fund (continued)****(ii) Participants' fund**

	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2013			
Actuarial reserves	188,865	(19,017)	169,848
Unallocated surplus	23,480	-	23,480
AFS reserve	(4,952)	-	(4,952)
Surplus payable to participants	305,151	-	305,151
Net asset value attributable to unitholders	321,127	-	321,127
	<u>833,671</u>	<u>(19,017)</u>	<u>814,654</u>
At 1 January 2013	713,323	(14,066)	699,257
Contributions received	139,616	-	139,616
Liabilities paid for death, maturities, surrenders, benefits and claims	(28,171)	-	(28,171)
Benefits and claims experience variation	(625)	-	(625)
Fees deducted	(37,093)	-	(37,093)
Investment income	7,937	-	7,937
Retakaful reserve credit	4,951	(4,951)	-
Profit paid to participants	(61)	-	(61)
Net asset value attributable to unitholders	53,196	-	53,196
Surplus attributable to Takaful Operator	(8,472)	-	(8,472)
Impairment allowance for receivables	(48)	-	(48)
AFS reserve	(13,065)	-	(13,065)
Deferred tax on fair value gains	(125)	-	(125)
Deferred surplus	4,346	-	4,346
Others	(2,038)	-	(2,038)
	<u>833,671</u>	<u>(19,017)</u>	<u>814,654</u>
At 31 December 2013	<u>833,671</u>	<u>(19,017)</u>	<u>814,654</u>

12. Takaful contract liabilities (continued)

(b) Family Takaful Fund (continued)

(ii) Participants' fund

	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2012			
Actuarial reserves	335,810	(14,066)	321,744
Unallocated surplus	101,469	-	101,469
AFS reserve	8,113	-	8,113
Net asset value attributable to unitholders	267,931	-	267,931
	<u>713,323</u>	<u>(14,066)</u>	<u>699,257</u>
At 1 January 2012	576,379	(51,514)	524,865
Transfer from ILP risk fund	878	-	878
Contributions received	201,961	-	201,961
Liabilities paid for death, maturities, surrenders, benefits and claims	(23,299)	-	(23,299)
Benefits and claims experience variation	119	-	119
Fees deducted	(48,979)	-	(48,979)
Investment income	8,328	-	8,328
Retakaful reserve credit	(37,448)	37,448	-
Profit paid to participants	(902)	-	(902)
Transfer to donation payable account	(817)	-	(817)
Transfer from withholding tax payable	408	-	408
Net asset value attributable to unitholders	61,189	-	61,189
Surplus attributable to Takaful Operator	(30,920)	-	(30,920)
Impairment allowance for receivables	629	-	629
AFS reserve	6,170	-	6,170
Deferred tax on fair value gains	17	-	17
Others	(390)	-	(390)
	<u>713,323</u>	<u>(14,066)</u>	<u>699,257</u>
At 31 December 2012			

13. Expense reserves

	Takaful Operator and Company	
	2013 RM'000	2012 RM'000
At 1 January	19,940	9,219
Provision for the year, net	16,079	10,721
	<u>36,019</u>	<u>19,940</u>
At 31 December		

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14. Takaful payables

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Due to agents and intermediaries	2,118	-	-	2,118
Due to retakaful companies and cedants	-	4,063	19,209	23,272
	<u>2,118</u>	<u>4,063</u>	<u>19,209</u>	<u>25,390</u>
2012				
Due to agents and intermediaries	3,729	-	-	3,729
Due to retakaful companies and cedants	-	1,919	8,776	10,695
	<u>3,729</u>	<u>1,919</u>	<u>8,776</u>	<u>14,424</u>

The carrying amounts disclosed above approximate fair values at the reporting date. All amounts are repayable within one year.

15. Other payables

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Accrued expenses	8,435	-	-	8,435
Due to:				
Takaful Operator	-	4,768	17,905	-
Family Takaful Fund	5,762	-	-	-
Immediate holding company	47	-	-	47
Related companies	11,463	-	-	11,463
Profit payable to Profit Sharing Investment Account (Note 16)	398	-	-	398
Others	1,811	2,009	34,612	38,432
	<u>27,916</u>	<u>6,777</u>	<u>52,517</u>	<u>58,775</u>

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15. Other payables (continued)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2012				
Accrued expenses	10,618	-	-	10,618
Due to:				
Takaful Operator	-	13,364	36,342	-
Family Takaful Fund	1,038	-	-	-
Immediate holding company	120	-	-	120
Related companies	13,111	-	-	13,111
Profit payable to Profit Sharing Investment Account (Note 16)	839	-	-	839
Others	7,266	3	12,375	19,644
	<u>32,992</u>	<u>13,367</u>	<u>48,717</u>	<u>44,332</u>

The carrying amounts disclosed above approximate fair values at the reporting date. All amounts are repayable within one year.

16. Amount due to shareholders

	Takaful Operator and Company	
	2013 RM'000	2012 RM'000
Amount due to shareholders	<u>27,000</u>	<u>20,000</u>

In 2010, the Company entered into a Mudharabah Agreement with its shareholders to set up a subordinated Profit Sharing Investment Account ("PSIA") whereby the shareholders contributed a total of RM20,000,000 into the PSIA and are entitled to share the profits from the underlying investment.

In 2013, the Company extended the tenure of the existing RM20,000,000 to 31 December 2019 and placed an additional RM7,000,000 with a similar maturity date.

16. Amount due to shareholders (continued)

The Mudharabah contribution amount due to the shareholders is as follows:

	2013 RM'000	2012 RM'000
Takaful Operator and Company		
HSBC Insurance (Asia Pacific) Holdings Limited	13,230	9,800
Jerneh Asia Berhad	8,370	6,200
Lembaga Kumpulan Wang Simpanan Pekerja	5,400	4,000
	<u>27,000</u>	<u>20,000</u>

The amount due to shareholders subject to profit rate of 2.95% (2012: 2.95%), is unsecured and repayable within 6 years.

The profit payable to PSIA is as disclosed in Note 15.

17. Employee benefits

(a) Equity-based compensation

The Company participated in the following cash-settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

(i) Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes are all employees share plans under which eligible HSBC employees are granted options to acquire HSBC Holdings ordinary shares. Employees may make monthly contributions up to £250 over a period of one, three or five years which may be used to exercise the options; alternatively the employee may elect to have the savings repaid in cash. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or the fifth anniversary of the commencement of three-year or five-year savings contracts. The exercise price is set at a discount of up to 20 percent to the market value of the ordinary shares at the date of grant. The cost of the awards is amortised over the vesting period.

17. Employee benefits (continued)

(a) Equity-based compensation (continued)

(i) Savings-Related Share Option Schemes (continued)

Movement in the number of share options held by employees is as follows:

	2013		2012	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
At 1 January	12,580	6.47	27,216	4.91
Granted in the year	-	-	10,554	5.54
Forfeited/lapsed in the year	(2,599)	7.01	(10,996)	5.70
Exercised during the year	(1,242)	6.76	(14,194)	5.41
At 31 December	8,739	6.62	12,580	6.47
Options vested at 31 December	1,242		14,194	
			2013	2012
			RM	RM
Compensation cost recognised during the year			19,671	45,971

(ii) Group Share Option Plan/Executive Share Option Scheme

The HSBC Holdings Group Share Option Plan, and previously the HSBC Holdings Executive Share Option Scheme, are discretionary share incentive plans under which HSBC employees, based on performance criteria and potential, are granted options to acquire HSBC Holdings ordinary shares. The exercise price of options granted under the Group Share Option Plan is the higher of the average market value of the ordinary shares on the five business days prior to the grant of the option or the market value of the ordinary shares on the date of grant of the option. The exercise price of options granted under the Executive Share Option Scheme was the market value of the ordinary shares on the business day prior to the grant of the option. They are normally exercisable between the third and tenth anniversary of the date of grant. The cost of the awards is amortised over the vesting period.

17. Employee benefits (continued)

(ii) Group Share Option Plan/Executive Share Option Scheme (continued)

Movement in the number of share options held by employees is as follows:

	2013		2012	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
At 1 January	9,755	6.47	9,468	4.91
Granted in the year	-	-	287	7.22
Forfeited/lapsed in the year	(574)	7.22	-	-
At 31 December	<u>9,181</u>	6.60	<u>9,755</u>	6.47
Options vested at 31 December			-	
			2013	2012
			RM	RM
Compensation cost recognised during the year			<u>40,179</u>	<u>39,473</u>

17. Employee benefits (continued)

(iii) Restricted Share Plan

The HSBC Holdings Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

	2013 Number	2012 Number
At 1 January	5,370	2,572
Additions during the year	2,658	3,646
Exercised	(4,049)	(848)
	<hr/>	<hr/>
At 31 December	3,979	5,370
	<hr/> <hr/>	<hr/> <hr/>
Compensation cost recognised during the year	17,413	21,729
	<hr/> <hr/>	<hr/> <hr/>

The weighted average purchase price for all shares purchased by the Company for awards under the Restricted Share Plan is £6.57 (2012: £5.44). The closing price of the HSBC shares at 31 December 2013 was £6.62 (2012: £6.47). The weighted average remaining vesting period as at 31 December 2013 was 1.50 years (2012: 1.56 years).

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18. Operating revenue

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Gross contributions (Note 19)	-	72,809	204,408	277,217
Investment income (Note 21)	5,147	1,099	8,994	17,729
Wakalah fees	87,153	-	-	-
	<u>92,300</u>	<u>73,908</u>	<u>213,402</u>	<u>294,946</u>
2012				
Gross contributions (Note 19)	-	62,843	289,387	352,230
Investment income (Note 21)	3,726	1,234	11,387	18,208
Wakalah fees	95,791	-	-	-
	<u>99,517</u>	<u>64,077</u>	<u>300,774</u>	<u>370,438</u>

19. Net earned contributions

	2013 RM'000	2012 RM'000
Gross contributions		
General Takaful Fund	72,809	62,843
Family Takaful Fund	204,408	289,387
	<u>277,217</u>	<u>352,230</u>
Changes in unearned contribution reserves	3,402	(478)
Changes in actuarial reserves	(2,528)	2,171
	<u>278,091</u>	<u>353,923</u>
Contributions ceded to retakaful		
General Takaful Fund	(10,134)	(6,245)
Family Takaful Fund	(23,400)	(20,832)
Changes in unearned contribution reserves	(2,865)	2,589
	<u>(36,399)</u>	<u>(24,488)</u>
	<u>241,692</u>	<u>329,435</u>
By line of business:		
General Takaful Fund	60,684	60,880
Family Takaful Fund	181,008	268,555
	<u>241,692</u>	<u>329,435</u>

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20. Net benefits and claims

	2013 RM'000	2012 RM'000
Net benefits and claims		
General Takaful Fund	(13,729)	(11,563)
Family Takaful Fund	(28,796)	(15,026)
	<u>(42,525)</u>	<u>(26,589)</u>
Net benefits and claims are made up of:		
Gross benefits and claims paid		
General Takaful Fund	(12,849)	(5,747)
Family Takaful Fund	(42,501)	(33,912)
	<u>(55,350)</u>	<u>(39,659)</u>
Claims ceded to retakaful		
General Takaful Fund	6,190	327
Family Takaful Fund	14,330	10,613
	<u>20,520</u>	<u>10,940</u>
Gross changes in claims liabilities		
General Takaful Fund	(22,527)	(7,191)
Family Takaful Fund	(4,985)	45,457
	<u>(27,512)</u>	<u>38,266</u>
Changes in claims liabilities ceded to retakaful		
General Takaful Fund	15,457	1,048
Family Takaful Fund	4,360	(37,184)
	<u>19,817</u>	<u>(36,136)</u>
Net benefits and claims	<u>(42,525)</u>	<u>(26,589)</u>

21. Investment income

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Profit from Government Guaranteed bonds	385	69	5,441	5,895
Profit from Government Investment issues	-	427	3,258	3,685
Profit from corporate debt securities	3,873	749	9,950	14,572
Profit from deposits with financial institutions	20	63	1,345	1,428
Dividend from equity securities	-	-	3,105	3,105
Investment income/(expense) sharing				
- Takaful Operator	1,258	-	(1,258)	-
- Participants	-	-	(12,005)	(12,005)
(Amortisation)/Accretion of Government Guaranteed bonds	(10)	(9)	401	382
Amortisation of Government Investment Issues	-	(87)	(187)	(274)
(Amortisation)/Accretion of corporate debt securities	(379)	(113)	2,298	1,806
Investment expenses	-	-	(3,354)	(865)
	<u>5,147</u>	<u>1,099</u>	<u>8,994</u>	<u>17,729</u>
2012				
Profit from Government Guaranteed bonds	386	108	4,570	5,064
Profit from Government Investment issues	-	456	2,867	3,323
Profit from corporate debt securities	2,302	770	10,519	13,591
Profit from deposits with financial institutions	127	91	2,014	2,232
Dividend from equity securities	-	-	3,805	3,805
Investment income/(expense) sharing				
- Takaful Operator	1,100	-	(1,100)	-
- Participants	-	-	(8,437)	(8,437)
(Amortisation)/Accretion of Government Guaranteed bonds	(9)	(16)	272	247
Amortisation of Government Investment Issues	-	(86)	(167)	(253)
(Amortisation)/Accretion of corporate debt securities	(180)	(89)	(248)	(517)
Investment expenses	-	-	(2,708)	(847)
	<u>3,726</u>	<u>1,234</u>	<u>11,387</u>	<u>18,208</u>

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22. Fee and commission income

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Participant fund administration and investment management services	4,120	-	-	241
Retakaful commission income	-	-	31	31
	<hr/>	<hr/>	<hr/>	<hr/>
Fee and commission income related to takaful contracts	<u>4,120</u>	<u>-</u>	<u>31</u>	<u>272</u>
2012				
Participant fund administration and investment management services	3,467	-	-	156
Retakaful commission income	-	-	1,925	1,925
	<hr/>	<hr/>	<hr/>	<hr/>
Fee and commission income related to takaful contracts	<u>3,467</u>	<u>-</u>	<u>1,925</u>	<u>2,081</u>

23. Management expenses

	Takaful Operator and Company	
	2013 RM'000	2012 RM'000
Personnel expenses		
Contributions to defined contribution plans	2,729	2,750
Salaries and bonus	15,411	18,737
Shariah Committee remuneration and related expenses	153	157
Others	1,920	3,258
	<hr/>	<hr/>
	20,213	24,902
Audit fees	120	120
Amortisation of intangible assets	4,170	3,188
Depreciation of plant and equipment	352	371
Directors' fees	150	150
Information technology costs	3,498	3,086
Marketing and research	2,813	16,007
Printing and stationery	1,248	1,231
Professional and consultancy	3,547	6,800
Postage and stamp duties	1	53
Rental of office premises	1,910	1,540
Utilities, assessment and maintenance	1,675	1,385
Others	2,031	2,181
	<hr/>	<hr/>
	<u>41,728</u>	<u>61,014</u>

24. Income tax expense

	2013	2012
	RM'000	RM'000
Current tax expense		
- Current	12,308	7,561
- (Over) provision in prior year	(916)	-
Deferred tax expense		
- Origination and reversal of temporary differences	(136)	519
- Under/(Over)provision in prior year	16	(349)
	<u>11,272</u>	<u>7,731</u>

The income tax for the Takaful Operator and General Takaful Fund is calculated based on the standard corporate tax rate of 25% (2012: 25%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful Fund is calculated based on tax rate of 8% (2012: 8%) of the assessable investment income net of allowable deductions for the financial year.

Reconciliation of effective tax expense

	2013	2012
	RM'000	RM'000
Total profit for the year/Net underwriting surplus from operations	<u>157,794</u>	<u>223,739</u>
Taxation at Malaysian statutory tax rate 25% (2012: 25%)	39,449	55,935
Non-taxable income	(64,441)	(85,305)
Non-deductible expenses	37,164	37,450
Tax expense for the year	<u>12,172</u>	<u>8,080</u>
Overprovision in prior year	(900)	(349)
	<u>11,272</u>	<u>7,731</u>

25. Cash flows from operating activities

	Company	
	2013	2012
	RM'000	RM'000
Profit before zakat and taxation	23,153	40,345
Profit from Government Guaranteed bonds	(5,895)	(5,064)
Profit from Government Investment Issues	(3,685)	(3,323)
Profit from corporate debt securities	(14,572)	(13,591)
Profit from deposits with financial institutions	(1,428)	(2,232)
Dividend income from equity securities	(3,105)	(3,805)
Increase in takaful contract liabilities	24,110	7,815
Non-cash items		
Amortisation of intangible assets	4,170	3,188
Increase/(Decrease) in impairment of receivables	247	(2,574)
Depreciation of plant and equipment	352	371
Gain from disposal of plant and equipment	(53)	-
Fair value movement of investments	(10,331)	524
Net amortisation of investments	533	866
Provision for expense reserves	16,630	9,900
Changes in working capital:		
Decrease/(Increase) in receivables	(43,035)	616
Increase in payables	60,245	4,150
Increase in participants' fund	139,100	135,718
Profit paid to participants	(2,640)	(4,319)
Donation to approved charity organisations	(62)	(989)
Decrease/(Increase) in retakaful assets	(21,903)	33,547
Cash generated from operating activities	<u>161,831</u>	<u>201,143</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as investing activities, as the purchases are funded from the cash flows associated with the origination of takaful contracts, net of the cash flows for payments of benefits and claims incurred for takaful contracts, which are included in operating activities.

26. Financial instruments

26.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

- (a) Loans and receivables (“L&R”);
- (b) Fair value through profit or loss (“FVTPL”);
- (c) Available-for-sale financial assets (“AFS”);
- (d) Financial liabilities measured at amortised cost (“FL”).

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL RM'000	AFS RM'000
2013				
Financial assets				
Takaful Operator				
Investment assets	120,214	-	-	120,214
Loans and receivables, excluding takaful receivables	53,403	53,403	-	-
Cash and cash equivalents	8,889	8,889	-	-
General Takaful Fund				
Investment assets	35,249	-	-	35,249
Loans and receivables, excluding takaful receivables	423	423	-	-
Takaful receivables	8,480	8,480	-	-
Cash and cash equivalents	13,463	13,463	-	-
Family Takaful Fund				
Investment assets	795,890	-	335,605	460,285
Loans and receivables, excluding takaful receivables	11,158	11,158	-	-
Takaful receivables	11,730	11,730	-	-
Cash and cash equivalents	71,099	71,099	-	-
Company				
Investment assets	951,353	-	335,605	615,748
Loan and receivables, excluding takaful receivables	36,549	36,549	-	-
Takaful receivables	20,210	20,210	-	-
Cash and cash equivalents	93,415	93,415	-	-

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26. Financial instruments (continued)

26.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL RM'000	AFS RM'000
2013				
Financial liabilities				
Takaful Operator				
Takaful payables	(2,118)	(2,118)	-	-
Other payables	(27,916)	(27,916)	-	-
Amount due to shareholders	(27,000)	(27,000)	-	-
General Takaful Fund				
Takaful payables	(4,063)	(4,063)	-	-
Other payables	(6,777)	(6,777)	-	-
Family Takaful Fund				
Takaful payables	(19,209)	(19,209)	-	-
Other payables	(52,517)	(52,517)	-	-
Company				
Takaful payables	(25,390)	(25,390)	-	-
Other payables	(58,775)	(58,775)	-	-
Amount due to shareholders	(27,000)	(27,000)	-	-

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26. Financial instruments (continued)

26.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL RM'000	AFS RM'000
2012				
Financial assets				
Takaful Operator				
Investment assets	75,908	-	-	75,908
Loans and receivables, excluding takaful receivables	74,041	74,041	-	-
Cash and cash equivalents	444	444	-	-
General Takaful Fund				
Investment assets	31,987	-	-	31,987
Loans and receivables, excluding takaful receivables	530	530	-	-
Takaful receivables	7,082	7,082	-	-
Cash and cash equivalents	14,440	14,440	-	-
Family Takaful Fund				
Investment assets	690,955	-	258,318	432,637
Loans and receivables, excluding takaful receivables	7,159	7,159	-	-
Takaful receivables	4,338	4,338	-	-
Cash and cash equivalents	56,924	56,924	-	-
Company				
Investment assets	798,850	-	258,318	540,532
Loan and receivables, excluding takaful receivables	30,986	30,986	-	-
Takaful receivables	11,420	11,420	-	-
Cash and cash equivalents	71,808	71,808	-	-

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26. Financial instruments (continued)

26.1 Categories of financial instruments (continued)

	Carrying amount RM'000	L&R/ (FL) RM'000	FVTPL RM'000	AFS RM'000
2012				
Financial liabilities				
Takaful Operator				
Takaful payables	(3,729)	(3,729)	-	-
Other payables	(32,992)	(32,992)	-	-
Amount due to shareholders	(20,000)	(20,000)	-	-
General Takaful Fund				
Takaful payables	(1,919)	(1,919)	-	-
Other payables	(13,367)	(13,367)	-	-
Family Takaful Fund				
Takaful payables	(8,776)	(8,776)	-	-
Other payables	(48,717)	(48,717)	-	-
Company				
Takaful payables	(14,424)	(14,424)	-	-
Other payables	(44,332)	(44,332)	-	-
Amount due to shareholders	(20,000)	(20,000)	-	-

26. Financial instruments (continued)

26.2 Net gains and losses arising from financial instruments

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Net gains/(losses) on:				
Loans and receivables	20	(136)	1,328	1,212
Fair value through profit or loss	-	-	24,964	24,964
Available-for-sale financial assets	4,596	951	(7,774)	(2,227)
	<u>4,616</u>	<u>815</u>	<u>18,518</u>	<u>23,949</u>
2012				
Net gains on:				
Loans and receivables	127	2,035	4,568	6,730
Fair value through profit or loss	-	-	8,463	8,463
Available-for-sale financial assets	3,771	1,119	12,445	17,335
	<u>3,898</u>	<u>3,154</u>	<u>25,476</u>	<u>32,528</u>

26.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

26.4 Credit risk

The Company's portfolio of debt securities, and to a lesser extent short-term and other investments, are subject to credit risk. This risk is defined as the potential loss in market value 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.

26. Financial instruments (continued)

26.4 Credit risk (continued)

The Company also has takaful receivables and other receivables amounts subject to credit risk. Among the most significant of these are retakaful recoveries. To mitigate the risk of 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. The Company also periodically reviews the financial stability of retakaful operators from public and other sources and the settlement trend of amounts due from retakaful companies.

Exposure to credit risk and credit quality

The table below shows the maximum exposure to credit risk for the components on the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
AFS				
Government Investment Issues	-	10,016	82,663	92,679
Government Guaranteed bonds	10,012	-	144,486	154,498
Corporate debt securities	109,729	25,233	233,136	368,098
Quoted equity securities	473	-	-	473
FVTPL				
Corporate debt securities	-	-	119,621	119,621
Structured investments	-	-	46,602	46,602
Quoted equity securities	-	-	169,382	169,382
L&R				
Deposits with financial institutions	27,000	-	10,193	37,193
Loans and other receivables, excluding takaful receivables	26,403	423	11,158	9,549
Takaful receivables	-	8,480	11,730	20,210
Cash and cash equivalents	8,889	13,463	60,906	83,258
	<u>182,506</u>	<u>57,615</u>	<u>889,877</u>	<u>1,101,563</u>

26. Financial instruments (continued)**26.4 Credit risk (continued)***Exposure to credit risk and credit quality (continued)*

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2012				
AFS				
Government Investment Issues	-	10,142	84,884	95,026
Government Guaranteed bonds	10,071	6,709	138,058	154,838
Corporate debt securities	65,211	15,136	209,695	290,042
Quoted equity securities	626	-	-	626
FVTPL				
Corporate debt securities	-	-	86,917	86,917
Structured investments	-	-	47,015	47,015
Quoted equity securities	-	-	124,386	124,386
L&R				
Deposits with financial institutions	21,480	-	44,959	66,439
Loans and other receivables, excluding takaful receivables	52,561	530	7,159	9,506
Takaful receivables	-	7,082	4,338	11,420
Cash and cash equivalents	444	14,440	11,965	26,849
	<u>150,393</u>	<u>54,039</u>	<u>759,376</u>	<u>913,064</u>

26. Financial instruments (continued)

26.4 Credit risk (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to Rating Agency of Malaysia credit rating of counter parties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

(i) Takaful Operator

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
2013						
AFS						
Government Guaranteed bonds	-	-	-	-	10,012*	10,012
Corporate debt securities	109,729	-	-	-	-	109,729
L&R						
Deposits with financial institutions	27,000	-	-	-	-	27,000
Loans and receivables, excluding takaful receivables	-	-	-	-	26,403	26,403
Cash and cash equivalents	8,889	-	-	-	-	8,889
2012						
AFS						
Government Guaranteed bonds	-	-	-	-	10,071*	10,071
Corporate debt securities	65,211	-	-	-	-	65,211
L&R						
Deposits with financial institutions	21,480	-	-	-	-	21,480
Loans and receivables, excluding takaful receivables	-	-	-	-	52,561	52,561
Cash and cash equivalents	444	-	-	-	-	444

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

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26. Financial instruments (continued)**26.4 Credit risk (continued)****(ii) General Takaful Fund**

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
2013						
AFS						
Government Investment Issues	-	-	-	-	10,016*	10,016
Corporate debt securities	25,233	-	-	-	-	25,233
L&R						
Loans and receivables, excluding takaful receivables	-	-	-	-	423	423
Takaful receivables	-	-	-	-	8,480	8,480
Cash and cash equivalents	13,463	-	-	-	-	13,463

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

26. Financial instruments (continued)

26.4 Credit risk (continued)

(ii) General Takaful Fund (continued)

2012	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
AFS						
Government Investment Issues	-	-	-	-	10,142*	10,142
Government Guaranteed bonds	-	-	-	-	6,709*	6,709
Corporate debt securities	15,136	-	-	-	-	15,136
L&R						
Loans and receivables, excluding takaful receivables	-	-	-	-	530	530
Takaful receivables	-	-	-	-	7,082	7,082
Cash and cash equivalents	14,440	-	-	-	-	14,440

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

26. Financial instruments (continued)

26.4 Credit risk (continued)

(iii) Family Takaful Fund

2013	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
AFS						
Government Investment Issues	-	-	-	-	82,663*	82,663
Government Guaranteed bonds	-	-	-	-	144,486*	144,486
Corporate debt securities	233,136	-	-	-	-	233,136
FVTPL						
Corporate debt securities	119,621	-	-	-	-	119,621
Structured investments	46,602	-	-	-	-	46,602
L&R						
Deposits with financial institutions	10,193	-	-	-	-	10,193
Loans and receivables, excluding takaful receivables	-	-	-	-	11,158	11,158
Takaful receivables	-	-	-	-	11,730	11,730
Cash and cash equivalents	60,906	-	-	-	-	60,906

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

26. Financial instruments (continued)

26.4 Credit risk (continued)

(iii) Family Takaful Fund (continued)

2012	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
AFS						
Government Investment Issues	-	-	-	-	84,884*	84,884
Government Guaranteed bonds	-	-	-	-	138,058*	138,058
Corporate debt securities	209,695	-	-	-	-	209,695
FVTPL						
Corporate debt securities	86,917	-	-	-	-	86,917
Structured investments	47,015	-	-	-	-	47,015
L&R						
Deposits with financial institutions	44,959	-	-	-	-	44,959
Loans and receivables, excluding takaful receivables	-	-	-	-	7,159	7,159
Takaful receivables	-	-	-	-	4,338	4,338
Cash and cash equivalents	11,965	-	-	-	-	11,965

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

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26. Financial instruments (continued)**26.4 Credit risk (continued)****(iv) Company**

2013	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
AFS						
Government Investment Issues	-	-	-	-	92,679*	92,679
Government Guaranteed bonds	-	-	-	-	154,498*	154,498
Corporate debt securities	368,098	-	-	-	-	368,098
FVTPL						
Corporate debt securities	119,621	-	-	-	-	119,621
Structured investments	46,602	-	-	-	-	46,602
L&R						
Deposits with financial institutions	37,193	-	-	-	-	37,193
Loans and receivables, excluding takaful receivables	-	-	-	-	9,549	9,549
Takaful receivables	-	-	-	-	20,210	20,210
Cash and cash equivalents	83,258	-	-	-	-	83,258

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

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26. Financial instruments (continued)**26.4 Credit risk (continued)****(iv) Company (continued)**

2012	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non- rated RM'000	Total RM'000
AFS						
Government Investment Issues	-	-	-	-	95,026*	95,026
Government Guaranteed bonds	-	-	-	-	154,838*	154,838
Corporate debt securities	290,042	-	-	-	-	290,042
FVTPL						
Corporate debt securities	86,917	-	-	-	-	86,917
Structured investments	47,015	-	-	-	-	47,015
L&R						
Deposits with financial institutions	66,439	-	-	-	-	66,439
Loans and receivables, excluding takaful receivables	-	-	-	-	9,506	9,506
Takaful receivables	-	-	-	-	11,420	11,420
Cash and cash equivalents	26,849	-	-	-	-	26,849

* Government issued/guaranteed securities are not rated by RAM but instead rated A- based on Malaysia sovereign rating accorded by Standard & Poor.

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's internal credit ratings of counterparties.

(i) Takaful Operator

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2013				
AFS				
Government Guaranteed bonds	10,012	-	-	10,012
Corporate debt securities	109,729	-	-	109,729
L&R				
Deposits with financial institutions	27,000	-	-	27,000
Loans and receivables, excluding takaful receivables	26,403	-	-	26,403
Cash and cash equivalents	8,889	-	-	8,889
	<u>182,033</u>	<u>-</u>	<u>-</u>	<u>182,033</u>
2012				
AFS				
Government Guaranteed bonds	10,071	-	-	10,071
Corporate debt securities	65,211	-	-	65,211
L&R				
Deposits with financial institutions	21,480	-	-	21,480
Loans and receivables, excluding takaful receivables	52,561	-	-	52,561
Cash and cash equivalents	444	-	-	444
	<u>149,767</u>	<u>-</u>	<u>-</u>	<u>149,767</u>

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses (continued)

(ii) General Takaful Fund

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2013				
AFS				
Government Investment Issues	10,016	-	-	10,016
Corporate debt securities	25,233	-	-	25,233
L&R				
Loans and receivables, excluding takaful receivables	423	-	-	423
Takaful receivables	3,891	4,589	500	8,980
Cash and cash equivalents	13,463	-	-	13,463
	<u>53,026</u>	<u>4,589</u>	<u>500</u>	<u>58,115</u>
2012				
AFS				
Government Investment Issues	10,142	-	-	10,142
Government Guaranteed bonds	6,709	-	-	6,709
Corporate debt securities	15,136	-	-	15,136
L&R				
Loans and receivables, excluding takaful receivables	530	-	-	530
Takaful receivables	2,402	4,680	301	7,383
Cash and cash equivalents	14,440	-	-	14,440
	<u>49,359</u>	<u>4,680</u>	<u>301</u>	<u>54,340</u>

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses (continued)

(iii) Family Takaful Fund

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2013				
AFS				
Government Investment Issues	82,663	-	-	82,663
Government Guaranteed bonds	144,486	-	-	144,486
Corporate debt securities	233,136	-	-	233,136
FVTPL				
Corporate debt securities	119,621	-	-	119,621
Structured investments	46,602	-	-	46,602
L&R				
Deposits with financial institutions	10,193	-	-	10,193
Loans and receivables, excluding takaful receivables	11,158	-	-	11,158
Takaful receivables	(220)	11,950	87	11,817
Cash and cash equivalents	60,906	-	-	60,906
	<u>708,545</u>	<u>11,950</u>	<u>87</u>	<u>720,582</u>
2012				
AFS				
Government Investment Issues	84,884	-	-	84,884
Government Guaranteed bonds	138,058	-	-	138,058
Corporate debt securities	209,695	-	-	209,695
FVTPL				
Corporate debt securities	86,917	-	-	86,917
Structured investments	47,015	-	-	47,015
L&R				
Deposits with financial institutions	44,959	-	-	44,959
Loans and receivables, excluding takaful receivables	7,159	-	-	7,159
Takaful receivables	119	4,219	39	4,377
Cash and cash equivalents	11,965	-	-	11,965
	<u>630,771</u>	<u>4,219</u>	<u>39</u>	<u>635,029</u>

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses (continued)

(iv) Company

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
2013				
AFS				
Government Investment Issues	92,679	-	-	92,679
Government Guaranteed bonds	154,498	-	-	154,498
Corporate debt securities	368,098	-	-	368,098
FVTPL				
Corporate debt securities	119,621	-	-	119,621
Structured investments	46,602	-	-	46,602
L&R				
Deposits with financial institutions	37,193	-	-	37,193
Loans and receivables, excluding takaful receivables	9,549	-	-	9,549
Takaful receivables	3,671	16,539	587	20,797
Cash and cash equivalents	83,258	-	-	83,258
	<u>915,169</u>	<u>16,539</u>	<u>587</u>	<u>932,295</u>
2012				
AFS				
Government Investment Issues	95,026	-	-	95,026
Government Guaranteed bonds	154,838	-	-	154,838
Corporate debt securities	290,042	-	-	290,042
FVTPL				
Corporate debt securities	86,917	-	-	86,917
Structured investments	47,015	-	-	47,015
L&R				
Deposits with financial institutions	66,439	-	-	66,439
Loans and receivables, excluding takaful receivables	9,506	-	-	9,506
Takaful receivables	2,521	8,899	340	11,760
Cash and cash equivalents	26,849	-	-	26,849
	<u>779,153</u>	<u>8,899</u>	<u>340</u>	<u>788,392</u>

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses (continued)

The movement in the allowance for impairment losses of receivables during the financial year were:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 January 2012	-	2,246	668	2,914
Impairment loss reversed	-	(1,945)	(629)	(2,574)
At 31 December 2012/ 1 January 2013	-	301	39	340
Impairment loss	-	199	48	247
At 31 December 2013	-	500	87	587

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables the management to focus on the applicable risks and enables comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

26. Financial instruments (continued)

26.4 Credit risk (continued)

Impairment losses (continued)

At 31 December 2013, based on a collective assessment of receivables, there are impaired takaful receivables of RM587,000 (2012: RM340,000). For assets to be classified as impaired, contractual payments must be in arrears for more than three (3) months. No collateral is held as security for any past due or impaired assets. The Company records impairment of loans and receivables and takaful receivables in separate impairment accounts.

26.5 Liquidity risk

The Company has to meet daily calls on its cash resources, notably from claims arising on its takaful contracts and early surrender of policies for surrender value. There is therefore a risk that cash will not be available to settle liabilities when due at a reasonable cost. The Company manages this risk by monitoring and setting an appropriate level of operating funds to settle these liabilities. Investment portfolios are also structured with regard to the liquidity requirement of each underlying fund, and early surrender penalties apply to reduce unexpected cash requirements.

Maturity analysis

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations.

For takaful contract liabilities and retakaful liabilities, maturity profiles are determined based on estimated timing of net cash outflows from the recognised takaful liabilities.

Unit-linked liabilities are repayable or transferable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

26. Financial instruments (continued)**26.5 Liquidity risk (continued)***Maturity analysis (continued)*

2013

	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	Total RM'000
(i) Takaful Operator						
Takaful payables	2,118	-	-	-	-	2,118
Other payables	27,916	-	-	-	-	27,916
Amount due to shareholders	-	-	-	27,000	-	27,000
Total liabilities	30,034	-	-	27,000	-	57,034
(ii) General Takaful Fund						
Takaful payables	4,063	-	-	-	-	4,063
Other payables	6,777	-	-	-	-	6,777
Total liabilities	10,840	-	-	-	-	10,840
(iii) Family Takaful Fund						
Takaful payables	19,209	-	-	-	-	19,209
Other payables	52,517	-	-	-	-	52,517
Total liabilities	71,726	-	-	-	-	71,726

26. Financial instruments (continued)

26.5 Liquidity risk (continued)

Maturity analysis (continued)

2013 (continued) (iv) Company	Up to a	1 - 3	3 - 5	5 - 15	Over 15	Total
	year RM'000	years RM'000	years RM'000	years RM'000	years RM'000	
Takaful payables	25,390	-	-	-	-	25,390
Other payables	58,775	-	-	-	-	58,775
Amount due to shareholders	-	-	-	27,000	-	27,000
Total liabilities	84,165	-	-	27,000	-	111,165
2012						
(i) Takaful Operator						
Takaful payables	3,729	-	-	-	-	3,729
Other payables	32,992	-	-	-	-	32,992
Amount due to shareholders	-	20,000	-	-	-	20,000
Total liabilities	36,721	20,000	-	-	-	56,721
(ii) General Takaful Fund						
Takaful payables	1,919	-	-	-	-	1,919
Other payables	13,367	-	-	-	-	13,367
Total liabilities	15,286	-	-	-	-	15,286

26. Financial instruments (continued)**26.5 Liquidity risk (continued)***Maturity analysis (continued)***2012 (continued)**

	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	Total RM'000
(iii) Family Takaful Fund						
Takaful payables	8,776	-	-	-	-	8,776
Other payables	48,717	-	-	-	-	48,717
Total liabilities	57,493	-	-	-	-	57,493
(iv) Company						
Takaful payables	14,424	-	-	-	-	14,424
Other payables	44,332	-	-	-	-	44,332
Amount due to shareholders	-	20,000	-	-	-	20,000
Total liabilities	58,756	20,000	-	-	-	78,756

26. Financial instruments (continued)

26.6 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market factors namely profit rates and equity prices.

26.6.1 Profit rate risk

The Company is mainly exposed to profit rate risk arising from its holdings of debt securities. The Company calculates and monitors on a monthly basis its Present Value of Basis Point ("PVBP"), which measures the impact on asset and liability cash flows of a one basis point increase in profit rate and its utilisation of market risk limits set by the Company's Insurance Head Office, based on the Company's profile.

Currently, the Company invests and issues certificates in local currency only. The underlying equity and profit rate risk in investment-linked business is borne by the participant as the participants benefits are directly linked to the value of the fund's assets. The Company's market risk to this business is therefore limited to the extent that fee income from investment-linked business is based on the net asset value of the fund.

Exposure to profit rate risk

The profit rate profile of the Company's significant profit-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Fixed rate instruments				
Financial assets	146,741	35,249	590,099	772,089
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2012				
Fixed rate instruments				
Financial assets	96,762	31,987	564,513	693,262
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

26. Financial instruments (continued)

26.6 Market risk (continued)

26.6.1 Profit rate risk (continued)

Profit rate risk sensitivity analysis

(a) Fair value sensitivity analysis for fixed rate instruments

The Company accounts for certain fixed rate financial assets at fair value through profit or loss. Therefore, these financial assets are exposed to a risk of change in their fair value due to changes in profit rates.

The analysis below assumes that all other variables remain constant:

	Change in variables	Impact on equity/ participants' funds		
		General Takaful Operator RM'000	Family Takaful Fund RM'000	Family Takaful Fund RM'000
2013				
Profit rate	+100bps	-	-	(1,716)
Profit rate	-100bps	-	-	1,947
2012				
Profit rate	+100bps	-	-	(3,605)
Profit rate	-100bps	-	-	3,402

26.6.2 Other price risk

Equity price risk arises from the Company's investments in equity securities.

Risk management objectives, policies and processes for managing the risk

Management of the Company monitors the equity investments on a portfolio basis. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Risk Management Committee of the Company.

26. Financial instruments (continued)

26.6 Market risk (continued)

Equity price risk sensitivity analysis

This analysis assumes that all other variables remain constant and the Company's equity investments move in correlation with the FTSE Bursa Malaysia KLCI (FBMKLCI).

A 10% strengthening in the FBMKLCI at the end of the reporting period would have increased participants' fund and equity by the amounts shown below. A 10% weakening in the FBMKLCI would have equal but opposite effect on participants' funds, equity and profit or loss respectively.

	Change in variables	Impact on equity/ participants' funds		
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
2013				
Equity price	+10%	-	-	16,938
Equity price	-10%	-	-	(16,938)
2012				
Equity price	+10%	-	-	12,439
Equity price	-10%	-	-	(12,439)

26.7 Fair value information

The carrying amounts of takaful receivables, retakaful assets, other receivables (excluding prepayments), cash and cash equivalents, takaful payables and other payables reasonably approximate fair values due to the relatively short term nature of these financial instruments.

26. Financial instruments (continued)

26.7 Fair value information (continued)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their fair values and carrying amounts shown in the statement of financial position.

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Total carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2013								
Takaful Operator								
Financial assets								
Quoted equity securities	473	-	-	-	-	-	473	473
Debt securities	-	119,741	-	-	-	-	119,741	119,741
	473	119,741	-	-	-	-	120,214	120,214
Financial liabilities								
Amount due to shareholders	-	-	-	-	-	22,678	22,678	27,000
General Takaful Fund								
Financial assets								
Debt securities	-	35,249	-	-	-	-	35,249	35,249

26. Financial instruments (continued)

26.7 Fair value information (continued)

	Fair value of financial instruments carried at fair value			Fair value of financial instruments not carried at fair value			Total fair value	Carrying amount
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2013								
Family Takaful Fund								
Financial assets								
Quoted equity securities	169,382	-	-	-	-	-	169,382	169,382
Structured products	-	46,602	-	-	-	-	46,602	46,602
Debt securities	-	579,906	-	-	-	-	579,906	579,906
	169,382	626,508	-	-	-	-	795,890	795,890
Company								
Financial assets								
Quoted equity securities	169,855	-	-	-	-	-	169,855	169,855
Structured products	-	46,602	-	-	-	-	46,602	46,602
Debt securities	-	734,896	-	-	-	-	734,896	734,896
	169,855	781,498	-	-	-	-	951,353	951,353
Financial liabilities								
Amount due to shareholders	-	-	-	-	22,678	-	22,678	27,000

26. Financial instruments (continued)**26.7 Fair value information (continued)**

2012 Takaful Operator	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value *		Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000	Total RM'000	Total RM'000		
Financial assets								
Quoted equity securities	626	-	-	626	-	626	626	626
Structured products	-	-	-	-	-	-	-	-
Debt securities	-	75,282	-	75,282	-	75,282	75,282	75,282
	626	75,282	-	75,908	-	75,908	75,908	75,908
Financial liabilities								
Amount due to shareholders	-	-	-	-	18,330	18,330	18,330	20,000
General Takaful Fund								
Financial assets								
Debt securities	-	31,987	-	31,987	-	31,987	31,987	31,987

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

26. Financial instruments (continued)**26.7 Fair value information (continued)**

2012	Fair value of financial instruments carried at fair value				Fair value of financial instruments not carried at fair value *	Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000			
Family Takaful Fund							
Financial assets							
Quoted equity securities	124,386	-	-	124,386	-	124,386	124,386
Structured products	-	47,015	-	47,015	-	47,015	47,015
Debt securities	-	519,554	-	519,554	-	519,554	519,554
	124,386	566,569	-	690,955	-	690,955	690,955
Company							
Financial assets							
Quoted equity securities	125,012	-	-	125,012	-	125,012	125,012
Structured products	-	47,015	-	47,015	-	47,015	47,015
Debt securities	-	626,823	-	626,823	-	626,823	626,823
	125,012	673,838	-	798,850	-	798,850	798,850
Financial liabilities							
Amount due to shareholders	-	-	-	-	18,330	18,330	20,000

* Comparative figures have not been analysed by levels, by virtue of transitional provision given in Appendix C2 of MFRS 13.

26. Financial instruments (continued)

26.7 Fair value information (continued)

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets or liabilities, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year. (2012: no transfer in either directions)

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets and liabilities

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the profit rate at the end of the reporting period as disclosed below:

Profit rates used to determine fair value

The profit rates used to discount estimated cash flows are as follows:

	Takaful Operator and Company	
	2013	2012
	%	%
Amount due to shareholders	2.95	2.95

27. Capital management

The objective of the Company's Capital Management Plan ("CMP") is to ensure that the Company has sufficient working capital including equity (share capital and retained reserves) to support planned business growth and to meet regulatory capital requirements established by the local regulator at all times in a prudent and efficient manner.

In order to achieve these objectives, the CMP sets out the optimal amount and mix of regulatory and working capital required to ensure that these objectives are met.

The company is cognizant of the new risk based capital guidelines issued by Bank Negara Malaysia for Takaful Companies and have taken all necessary steps in order to be compliant with these guidelines at the effective date of 1 January 2014.

28. Takaful risk

The Company is exposed to the following risks in respect of its takaful operations:

28.1 Operational risk

Operational risk is the risk of loss from system failures, human error, fraud or other external events. The Company categorises these risks into four areas: people, process, system and external and has put in place internal controls, including, but not limited to segregation of duties, access controls, authorisation and reconciliation, adequate staff training and assessment on regulatory and operational matters and use of internal audit to mitigate those risks.

HSBC Group standards require the Company to identify its top 10 operational risks and management to report to the Operational Risk and Internal Control Committee on actions taken to reduce those risks. Any operational incident with or without financial loss is reported for monitoring purpose and assessment of severity and remedial action.

28.2 Underwriting risk

A portion of the risks underwritten is ceded in order to protect exposures to losses and protect capital resources. Under the terms of these retakaful/reinsurance arrangements the retakaful operators/reinsurers agree to reimburse the ceded amount in the event of a claim. However, the Takaful Funds remain liable to its participants with respect to the risk ceded, if any retakaful operator/reinsurer fails to meet the obligations assumed. Proportional and non-proportional retakaful/reinsurance is availed in order to reduce net exposure through treaty and facultative reinsurance arrangements.

28.3 Other risks

Further description of takaful risk in respect of general takaful contracts and family takaful contracts is set out in the following paragraphs.

28. Takaful risk (continued)

28.3 Other risks (continued)

(a) General takaful contracts

The table below sets out the concentration of contributions of general takaful contracts by type of contract.

	Gross RM'000	Retakaful RM'000	Net RM'000
2013			
Fire	49,427	(7,486)	41,941
Personal accident	16,452	(1,984)	14,468
Miscellaneous	6,206	(530)	5,676
Marine	724	(134)	590
	<u>72,809</u>	<u>(10,134)</u>	<u>62,675</u>
2012			
Fire	44,845	(4,848)	39,997
Personal accident	13,648	(307)	13,341
Miscellaneous	3,776	(978)	2,798
Marine	574	(112)	462
	<u>62,843</u>	<u>(6,245)</u>	<u>56,598</u>

Principal assumptions - estimation of general takaful liabilities

The principal assumption underlying the estimation of general takaful liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

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

Sensitivities

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

28. Takaful risk (continued)

28.3 Other risks (continued)

(a) General takaful contracts (continued)

Sensitivities (continued)

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

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on underwriting surplus RM'000
2013				
Fire loss ratio	3	5,003	2,979	(2,979)
Personal accident loss ratio	4	2,789	2,427	(2,427)
2012				
Fire loss ratio	3	12,308	3,605	(3,605)
Personal accident loss ratio	7	3,329	2,769	(2,769)

Sensitivity information will also vary according to current economic assumptions. The probability for 3% and 4% deterioration in outstanding loss ratio is 1 in 10 years, for fire and personal accident class respectively. Sensitivity analysis is not performed for miscellaneous and marine classes due to the relatively low value of contributions from these classes; changes in assumptions are not expected to materially impact gross and net liabilities and underwriting surplus.

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each financial year end, 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 exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin 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.

28. Takaful risk (continued)

(b) Family takaful contracts

The following gives details of the Company's main products categories:

	Gross RM'000	Retakaful RM'000	Net RM'000
2013			
Endowment	297,364	-	297,364
Mortgage	215,180	(19,017)	196,163
Investment-linked	321,127	-	321,127
Total family reserves	<u>833,671</u>	<u>(19,017)</u>	<u>814,654</u>
2012			
Endowment	267,942	-	267,942
Mortgage	177,450	(14,066)	163,384
Investment-linked	267,931	-	267,931
Total family reserves	<u>713,323</u>	<u>(14,066)</u>	<u>699,257</u>

All family takaful contract liabilities arise from Malaysia.

Principle assumptions - estimation of family takaful liabilities

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

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

- Mortality and morbidity rates
- Investment returns
- Expenses
- Lapse and surrender rates
- Discount rate

28. Takaful risk (continued)

(b) Family takaful contracts (continued)

A summary of key assumptions used for sensitivity analysis is as below:

	Mortality and morbidity rates	Investment returns	Lapse and surrender rates	Discount rate
2013	%	%	%	%
Endowment	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%
Mortgage	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%
Investment-linked	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%
2012				
Endowment	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%
Mortgage	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%
Investment-linked	+10% ⁽ⁱⁱ⁾	+1.0%	+50%	-1.0%

(i) 10% industry mortality and morbidity experience tables that were observed in Malaysia between year 1983 and 1988 and 90% retakaful rates.

(ii) 100% retakaful rates

Sensitivities

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

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on underwriting surplus
2013	%	RM'000	RM'000	RM'000
Mortality/morbidity	10	13,288	2,628	(2,628)
Investment returns	+100bps	(1)	(1)	1
Expenses	10	-	-	-
Lapse and surrender rates	50	4,387	6,161	(6,161)
Discount rate	+100bps	(11,195)	(10,318)	10,318
		<u> </u>	<u> </u>	<u> </u>

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28. Takaful risk (continued)

(b) Family takaful contracts (continued)

Sensitivities (continued)

2012	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on underwriting surplus RM'000
Mortality/morbidity	10	17,333	4,984	(4,984)
Investment returns	+100bps	903	896	(896)
Expenses	10	-	-	-
Lapse and surrender rates	50	10,195	12,213	(12,213)
Discount rate	+100bps	8,480	7,525	(7,525)
		<u>8,480</u>	<u>7,525</u>	<u>(7,525)</u>

29. Capital and other commitments

Capital expenditure commitments	Takaful Operator and Company	
	2013 RM'000	2012 RM'000
Plant and equipment		
Approved but not contracted for	7,000	9,600
	<u>7,000</u>	<u>9,600</u>

30. Related parties

Identity of related parties

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

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

The Company has related party relationship with its holding companies, significant investors, subsidiaries and associates, Directors and key management personnel.

Significant related party transactions

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

	2013 RM'000	2012 RM'000
<i>Ultimate holding company</i>		
Recharges	<u>1,406</u>	<u>(1,332)</u>
<i>Immediate holding company</i>		
Profit expense		
Profit Sharing Investment Account (PSIA)	<u>(332)</u>	<u>(306)</u>
<i>Related companies</i>		
Contribution income for Family Takaful	4,983	5,014
Contribution income for General Takaful	445	1,230
Claims paid for Family Takaful	(3,581)	(7,252)
Claims paid for General Takaful	(851)	(246)
Investment income	1,295	2,075
Fees and commission	(11,265)	(31,149)
Information technology costs, and professional and consultancy fees	(2,879)	(2,653)
Rental and maintenance expenses	(3,252)	(4,397)
Shared cost for service centre and support		
Service and administrative recharges	(2,951)	(2,834)
Profit Sharing Investment Account (PSIA)	(345)	(319)
Marketing allowance and campaigns	<u>(1,770)</u>	<u>(8,472)</u>

30. Related parties (continued)

Significant related party transactions (continued)

The key management personnel compensation are as follows:

	Takaful Operator and Company	
	2013	2012
	RM'000	RM'000
<i>Key management personnel</i>		
Directors:		
Fees	150	150
Remuneration	1,135	732
Contributions to defined contribution plans	213	217
Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	120	547
	<u>1,618</u>	<u>1,646</u>

Key management personnel include the Company's Executive and Non-Executive Directors and are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. There are no transactions with key management personnel other than compensation.

The significant outstanding balances of the Company as at 31 December 2013 with its related parties, are as follows:

	2013	2012
	RM'000	RM'000
Amount due from/(to):		
Structured investments	46,602	47,015
Deposits with financial institutions	34,033	46,269
Bank balances	83,258	26,849
Receivables	89	536
Amount due to shareholders (Profit Sharing Investment Account)	(27,398)	(20,839)
Payables	<u>(11,510)</u>	<u>(13,231)</u>

31. Family Takaful Funds

Statement of financial position by fund

	Note	Family Takaful Fund RM'000	Investment-linked Funds RM'000	Total 2013 RM'000	2012 RM'000
Assets					
Investment assets	5	491,897	303,993	795,890	690,955
Retakaful assets	6	27,496	-	27,496	18,185
Loans and receivables, excluding takaful receivables	7	5,230	5,928	11,158	7,159
Takaful receivables	8	11,730	-	11,730	4,338
Deferred tax assets	9	-	-	-	-
Cash and cash equivalents	10	58,277	12,822	71,099	56,924
Total family takaful assets		594,630	322,743	917,373	777,561
Liabilities					
Takaful contract liabilities	12	522,628	321,127	843,755	718,422
Takaful payables	14	19,209	-	19,209	8,776
Other payables	15	52,517	-	52,517	48,717
Current tax liabilities		559	1,209	1,768	1,224
Deferred tax liabilities	9	(283)	407	124	422
Total family takaful liabilities		594,630	322,743	917,373	777,561

31. Family Takaful Funds (continued)

Statement of profit or loss by fund

	Note	Family Takaful Fund RM'000	Investment- linked Funds RM'000	Total	
				2013 RM'000	2012 RM'000
Gross contributions	19	163,016	41,392	204,408	289,387
Contributions ceded to retakaful	19	(23,400)	-	(23,400)	(20,832)
Net earned contributions		139,616	41,392	181,008	268,555
Gross benefits and claims paid		(42,501)	-	(42,501)	(33,912)
Claims ceded to retakaful		14,330	-	14,330	10,613
Gross changes in claims liabilities		(4,985)	-	(4,985)	45,457
Changes in claims liabilities ceded to retakaful		4,360	-	4,360	(37,184)
Net benefits and claims	20	(28,796)	-	(28,796)	(15,026)
Investment income	21	6,256	2,738	8,994	11,387
Realised gains and losses		748	11,526	12,274	5,892
Fee and commission income	22	31	-	31	1,925
Fair value gains and losses (unrealised)		934	9,398	10,332	(524)
Writeback of impairment of receivables	26.4	-	-	-	629
Other income/(expenses)		2,024	(232)	1,792	(3,130)
Other income		9,993	23,430	33,423	16,179
Wakalah fees		(37,092)	(9,704)	(46,796)	(59,760)
Impairment of receivables		(48)	-	(48)	-
Other expenses		(37,140)	(9,704)	(46,844)	(59,760)
Net underwriting surplus from operations		83,673	55,118	138,791	209,948
Surplus attributable to participants		(4,966)	-	(4,966)	(12,006)
Surplus attributable to Takaful Operator		(8,472)	-	(8,472)	(30,920)
Net surplus retained in takaful funds		(70,042)	(53,196)	(123,238)	(165,985)
Surplus before taxation		193	1,922	2,115	1,037

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

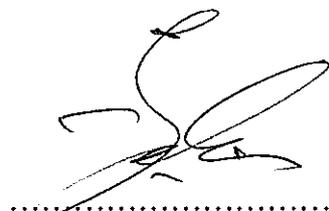
(Company No. 731530-M)

(Incorporated in Malaysia)

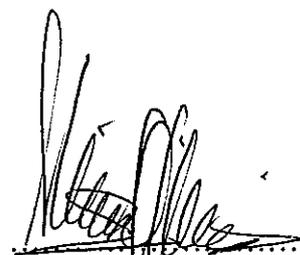
**Statement by Directors pursuant to
Section 169(15) of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 8 to 114 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia and comply with the Principles of Shariah, so as to give a true and fair view of the financial position of the Company as at 31 December 2013 and of its financial performance and cash flows for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....
Zainudin bin Ishak



.....
Kasim bin Zakaria

Kuala Lumpur,

Date: 11 February 2014

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

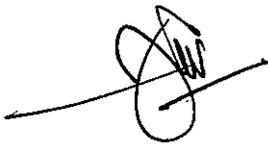
(Company No. 731530-M)

(Incorporated in Malaysia)

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Chen Jean Jong**, the officer primarily responsible for the financial management of HSBC Amanah Takaful (Malaysia) Sdn. Bhd., do solemnly and sincerely declare that the financial statements set out on pages 8 to 114 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 11 February 2014.



.....
Chen Jean Jong

Before me:




149, Jalan Aminuddin Baki
Taman Tun Dr Ismail
60000 Kuala Lumpur



KPMG (Firm No. AF 0758)
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Independent auditors' report to the members of HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of HSBC Amanah Takaful (Malaysia) Sdn. Bhd., which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 114.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Company No.731530-M

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other Matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.


KPMG
Firm Number: AF 0758
Chartered Accountants

Petaling Jaya, Selangor

Date: 11 February 2014


Ahmad Nasri Abdul Wahab
Approval Number: 2919/03/14(J)
Chartered Accountant

HSBC Amanah Takaful (Malaysia) Sdn. Bhd.

(Company No. 731530-M)

(Incorporated in Malaysia)

Report of the Shariah Committee

In the name of Allah, the Beneficent, the Merciful

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

We have deliberated and confirmed on the principles and the contracts relating to the transactions and applications introduced by HSBC Amanah Takaful (Malaysia) Sdn. Bhd. ("the Company") for the period 1 January 2013 to 31 December 2013. We have also confirmed all the review done by internal audit and Shariah unit of the Company to form an opinion as to whether the Company has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of the Company is responsible for ensuring that the financial institution conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our observation via all information supplied to us on the operations of the Company and to report to you.

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

We planned and performed our advisory tasks 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 the Company has not violated the Shariah principles.

In our opinion:

1. the contracts, transactions and dealings entered into by the Company during the period 1 January 2013 to 31 December 2013 that we have observed are in compliance with the Shariah principles;
2. the allocation of the profit and charging of the losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been realised from sources by means prohibited by the Shariah principles have been considered for disposal to charitable causes;
4. all the Shariah review done by Shariah unit and internal audit had been supplied to us and we concluded that the findings of the Shariah reviews were satisfactory; and
5. the methodology of zakat calculation has been tabled to us and we found the methodology is in compliance with the Shariah principles.

We, the Shariah Committee of the Company do hereby confirm that in our opinion, the operations of the Company to the best of its effort for the year ended 31 December 2013 and to the best of our knowledge, have been conducted in conformity with the Shariah principles.

Company No.731530-M

Report of the Shariah Committee (continued)



.....
Muhammad Ali Jinnah bin Ahmad



.....
Khairul Anuar Ahmad

Kuala Lumpur,

Date: **11 FEB 2014**

Company No.731530-M

Report of the Shariah Committee (continued)

SHARIAH COMMITTEE MEETINGS OF HSBC AMANAH TAKAFUL (M) SDN. BHD. YEAR 2013

No	Month	No. of Meeting	Meeting Ref (Date)
1.	January	1/01 (13)	17 January 2013
2.	February	2/02 (13)	25 February 2013
3.	March	3/03 (13)	18 March 2013
4.	April	4/04 (13)	16 April 2013
5.	May	5/05 (13)	13 May 2013
6.	June	6/06 (13)	17 June 2013
7.	July	-	-
8.	August	8/08 (13)	20 August 2013
9.	September	9/09 (13)	19 September 2013
10.	October	10/10 (13)	24 October 2013
	Ad Hoc Meeting	-	7 October 2013
11.	November	11/11 (13)	14 November 2013
12.	December	12/12 (13)	20 December 2013
Total Number		12	

ATTENDANCE

The meeting attendances of the respective Shariah Committee Members are as follows:-

No.	Name	Attendance
1.	En. Khairul Anuar Ahmad	12/12
2.	En. Muhammad Ali Jinnah Ahmad	12/12
3.	En. Muhammad Faisal Ashaari	12/12
4.	Assoc. Prof. Dr. Md. Som Sujimon	8/12
5.	Asst. Prof. Dr. Ghazali Jaapar	11/12