

**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

(Company No.731530-M)

(Incorporated in Malaysia)

**FINANCIAL STATEMENTS FOR THE YEAR**

**ENDED 31 DECEMBER 2016**

Domiciled in Malaysia.  
Registered Office:  
10th Floor, North Tower  
2, Leboh Ampang,  
50100 Kuala Lumpur

# **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

(Company No.731530-M)

(Incorporated in Malaysia)

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**BOARD OF DIRECTORS**

Kasim bin Zakaria

Independent Non-Executive Director / Chairman

Datuk Haron bin Siraj

Independent Non-Executive Director

K. Vithyatharan A/L V. Karunakaran

Independent Non-Executive Director

Lim Eng Seong

Executive Director

Ian Keith Moore

Executive Director

Sazaliza bin Zainuddin (resigned on 22 February 2017)

Non-Independent Non-Executive Director

Saiful Yazan bin Ahmad (appointed on 16 March 2016 and resigned on 19 October 2016)

Independent Non-Executive Director

Nor Azian binti Mohd Noor (appointed on 22 February 2017)

Non-Independent Non-Executive Director

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## **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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### **CORPORATE GOVERNANCE DISCLOSURE**

The statement of corporate governance practices set out on pages [2] to [13] and information incorporated by reference constitutes the Corporate Governance Disclosures of HSBC Amanah Takaful (Malaysia) Berhad (the Company).

#### **DIRECTORS**

The Directors serving as at the date of this report are set out below.

**Kasim bin Zakaria, 68**

**Independent Director**

**Appointed to the Board: 10 August 2006**

*Chairman of Board*

En Kasim is the Chairman of the Board, a member of the Audit Committee, Risk Committee and Nominations Committee of the Company.

En Kasim is the General Manager of the Perlis State Economic Development Corporation. He retired from the positions of Chief Executive Officer, Director and Head of Insurance Group of Mayban Fortis Holdings Bhd in June 2005. He brings with him a wealth of experience from the insurance industry for over 30 years at national and regional levels. He obtained his B.Sc. (Business Administration) from the University of Malaya, Malaysia in 1974.

**Datuk Haron bin Siraj, 72**

**Independent Director**

**Appointed to the Board: 11 July 2006**

*Chairman of Nominations Committee*

Datuk Haron is the Chairman of the Nominations Committee and a member of the Audit Committee and Risk Committee of the Company.

Datuk Haron received Bachelors of Arts with Honours in Economics from the University of Manchester, United Kingdom in 1968 and M.A in Development Economics from Williams College, USA in 1975. Datuk Haron has previously served in various Government departments including the Ministry of Commerce, and Industry and Ministry of Primary Industries. He served as the Chief Executive Officer of the Malaysian Palm Oil Promotion Council from 2000 until his retirement in January 2006. Other Malaysian public companies in which he served as a director are Kulim (Malaysia) Berhad and Jerneh Asia Berhad.

**K. Vithyatharan A/L V. Karunakaran, 60**

**Independent Director**

**Appointed to the Board: 6 May 2015**

*Chairman of Audit Committee*

*Chairman of Risk Committee*

Mr K. Vithyatharan is the Chairman of the Audit Committee and Risk Committee, and a member of the Nominations Committee of the Company.

Mr K. Vithyatharan is a knowledgeable and experienced finance and audit professional with over 20 years in carrying out statutory and internal audit, risk management and operations and financial due diligence. He is a qualified Certified Public Accountant with over 15 years' experience at KPMG globally (served in their London, Bahrain, Qatar, Singapore and Malaysia offices). In addition to his experience in KPMG, he was previously a VP, Credit Risk in Citibank and RHB Bank. He was the director of audit services (Financial Services) in KPMG Bahrain before his retirement as the Acting CEO of Asia Capital Reinsurance Bahrain, a reinsurance company in 2013. He has attended a number of executive leadership programmes including Harvard Business School, Boston.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**DIRECTORS (Cont'd)**

**Lim Eng Seong, 46**  
**Executive Director**  
**Appointed to the Board: 21 October 2013**

Mr Lim Eng Seong graduated from University of Malaya with a Bachelor of Economics (Business Administration) Honors. He is currently the Head of Retail Banking and Wealth Management (RBWM) of HSBC Bank Malaysia Berhad. Prior to joining HSBC Malaysia, he was attached to an international Fast-Moving Consumer Goods company as the Marketing Director. He has worked in the Philippines and Thailand, and with extensive experience in product development and marketing of retail business.

**Ian Keith Moore, 52**  
**Executive Director**  
**Appointed to the Board: 29 April 2015**

Mr Ian Moore is a member of the Nominations Committee.

Mr Ian Moore has worked for HSBC Group for 20 years and has served in various capacities in strategy, finance, product management, retail banking and insurance. In his current role as the Head of Partnerships and International, Group Insurance, he provides strategic guidance and oversight of HSBC's Insurance joint ventures in Malaysia, India, China and Saudi Arabia. He is currently the Chairman of HSBC Life Insurance (China) and Director of HSBC Insurance (Asia Pacific) Holdings Ltd, HSBC Life Assurance (Malta), SABB Takaful Company, Saudi Arabia and Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited (India).

**Nor Azian binti Mohd Noor, 50**  
**Independent Non-Executive Director**  
**Appointed to the Board: 22 February 2017**

Puan Nor Azian is a member of the Nominations Committee of the Company.

Puan Nor Azian graduated with a Bachelor of Commerce in 1988 from the University of Wollongong, Australia, majoring in Accountancy. She is also a member of CPA Australia and the Malaysian Institute of Accountants.

She started her career at PricewaterhouseCoopers after graduation and has worked for Employees Provident Fund (EPF) for more than 11 years, having started her career at EPF in 1995 as an Accountant in Finance Department. She is currently the Head of Finance of Finance Department at EPF.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**BOARD RESPONSIBILITY AND OVERSIGHT**

**Board of Directors**

The objectives of the management structures within the Company, headed by the Board of Directors and led by the Chairman, are to deliver sustainable value to shareholders. The Board sets the strategy and risk appetite for the Company and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set.

The Board meets regularly and Directors receive information between meetings about the activities of committees and developments in the Company's business. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

As at the date of the report, the Board consists of six (6) members, comprising of three (3) Independent Directors, one (1) Non-Independent Non-Executive Director and two (2) Executive Directors. The names of Directors serving at the date of this report and brief biographical particulars for each of them are set out on pages [2] to [3].

All Directors, including those appointed by the Board to fill a casual vacancy, are subject to annual re-election at the Company's Annual General Meeting. Non-executive Directors have no service contracts.

Non-executive Directors are not HSBC employees and do not participate in the daily business management of the Company. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Company. The Board has determined that each independent non-executive Director is independent in character and judgement, and there are no relationships or circumstances likely to affect the judgement of the independent non-executive Directors. The Board has also determined the minimum time commitment expected of non-executive directors to be about 30 days per annum and with appointment in not more than 5 public listed companies. Time devoted to the Company could be considerably more, particularly if serving on Board committees.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**Board meetings**

Seven (7) Board meetings were held in 2016. The table below show each Director's attendance at meetings of all Board and Committees' meetings during 2016.

	<b>Board</b>	<b>Audit Committee</b>	<b>Risk Committee</b>	<b>Nominations Committee</b>
<b>Number of meetings held</b>	7	8	5	7
<b>Chairman:</b> Kasim bin Zakaria	6/7	7/8	4/5	6/7
<b>Executive Directors:</b> Lim Eng Seong Ian Keith More	7/7 6/7	-	-	- 6/7
<b>Non-executive Directors:</b> Datuk Haron bin Siraj K. Vithyatharan A/L V. Karunakaran Sazaliza bin Zainuddin* Saiful Yazan bin Ahmad^ Nor Azian binti Mohd Noor#	6/7 7/7 7/7 5/5 -	7/8 8/8 - 4/4 -	4/5 5/5 - 4/4 -	6/7 7/7 7/7 - -

\* resigned on 22 February 2017

^ appointed on 16 March 2016 and resigned on 19 October 2016

# appointed on 22 February 2017

**Directors' emoluments**

Details of the emoluments of the Directors of the Company for 2016, disclosed in accordance with the Companies Act 1965, are shown in Note 31 to the financial statements.

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### CORPORATE GOVERNANCE DISCLOSURES (Cont'd)

#### BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)

##### Training and Development

Formal, tailored induction programmes are arranged for newly appointed Directors. The induction programmes consists of a series of meetings with senior executives to enable new Directors to familiarise themselves with the business. Directors also received comprehensive guidance from the Company Secretary on Directors' duties and responsibilities.

Training and development is provided for Directors. Executive Directors develop and refresh their skills and knowledge through day-to-day interactions and briefings with senior management of the Company's businesses and functions. Non-Executive Directors have access to internal training and development resources and personalized training is provided, where necessary. The Nominations Committee, with support from the Company Secretary, regularly reviews the training and development of each Director.

The table below shows a summary of training and development undertaken by each Director during 2016.

	Training areas			
	Regulatory updates	Corporate Governance	Financial industry developments	Briefings on Board committees related topics
<b>Executive Directors:</b>				
Lim Eng Seong	√	√	√	√
Ian Keith Moore	√	√	√	√
<b>Non-executive Directors:</b>				
Kasim bin Zakaria	√	√	√	√
Datuk Haron bin Siraj	√	√	√	√
K. Vithyatharan A/L V. Karunakaran	√	√	√	√
Sazaliza bin Zainuddin*	√	√	√	√
Saiful Yazan bin Ahmad^	√	√	√	√

\* resigned on 22 February 2017

^ appointed on 16 March 2016 and resigned on 19 October 2016

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**Board committees**

The Board has established a number of committees, the membership of which comprise non-executive Directors who have the skills, knowledge and experience relevant to the responsibilities of the committee. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The details of the Board Charter comprising the Board committees' Terms of Reference are available at

[http://www.takaful.hsbcamanah.com.my/1/PA\\_ES\\_Content\\_Mgmt/content/MYHT/pdf/INMY-BOD-TOR.pdf](http://www.takaful.hsbcamanah.com.my/1/PA_ES_Content_Mgmt/content/MYHT/pdf/INMY-BOD-TOR.pdf)

As at the date of this report, the following are the principal committees:

**1. Audit Committee**

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on financial reporting related matters and internal controls over financial reporting, covering all material controls. The Audit Committee reviews the financial statements of the Company before submission to the Board. It also monitors and reviews the effectiveness of the internal audit function and the Company's financial and accounting policies and practices. The Audit Committee advises the Board on the appointment of the external auditors and is responsible for oversight of the external auditors.

The Audit Committee meets regularly with the Company's senior financial and internal audit management and the external auditor to consider, *inter alia*, the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting.

The current members of the Audit Committee, all being independent directors, are:

- K. Vithyatharan A/L V. Karunakaran (Chairman)
- Kasim bin Zakaria
- Datuk Haron bin Siraj

During 2016, the Audit Committee held 8 meetings. Attendance is set out in the table on page 5.

**2. Risk Committee**

The Risk Committee is accountable to the Board and has non-executive responsibility for oversight of and advice to the Board on high level risk related matters and risk governance.

The Risk Committee meets regularly with the Company's senior financial, risk, internal audit and compliance management to consider, *inter alia*, risk reports and internal audit reports and the effectiveness of compliance. The Board and the Risk Committee oversee the maintenance and development of a strong risk management framework by continually monitoring the risk environment, top and emerging risks facing the Bank and mitigation actions planned and taken. The Risk Committee recommends the approval of the Bank's risk appetite statement to the Board and monitors performance against the key performance/risk indicators included within the statement. The Risk Committee monitors the risk profiles for all of the risk categories within the Bank's business.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**Board committees (Cont'd)**

2. Risk Committee (Cont'd)

The current members of the Risk Committee, all being independent directors, are:

- K. Vithyatharan A/L V. Karunakaran (Chairman)^
- Kasim bin Zakaria
- Datuk Haron bin Siraj

*^K.Vithyatharan has been appointed as the chairman of risk committee to succeed Saiful Yazan bin Ahmad who has resigned on 19 October 2016.*

During 2016, the Risk Committee held 6 meetings. Attendance is set out in the table on page 5.

3. Nominations Committee

The Nominations Committee has the responsibility for leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board and for the Chief Executive Officer

The Nominations Committee considers plans for orderly succession to the Board and the appropriate balance of skills, knowledge and experience on the Board. The Nominations Committee assists the Board in the evaluation of the Board's own effectiveness and that of its committees annually. The findings of the performance evaluation and the implementation of actions arising from the performance evaluation are reported to the Board during 2016.

The current members of the Nominations Committee are:

- Datuk Haron bin Siraj (Chairman)
- Kasim bin Zakaria
- K. Vithyatharan A/L V. Karunakaran
- Ian Keith Moore
- Nor Azian binti Mohd Noor (appointed on 22 February 2017)

During 2016, the Nominations Committee held 7 meetings. Attendance is set out in the table on page 5.

4. Shariah Committee

The Shariah Committee was established with delegated authorities of the Board on the shariah operations and management of day-to-day running of the Company in accordance with Shariah compliance and principles based on the Board's policies and directions.

The current members of the Shariah Committee are:

- Muhammad Ali Jinnah Bin Ahmad (Chairman)
- Dr. Ghazali bin Jaapar,
- Dr. Mohamad @ Md. Som bin Sujimon
- Khairul Anuar Bin Ahmad; and
- Dr. Muhamad Faisal bin Ashaari

The Remuneration Committee is in the process of being set up. The key responsibility of the Board Remuneration Committee will be to support the Board in overseeing the design and operation of the Company's remuneration system.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

**Board committees (Cont'd)**

Delegation by the Board

Executive Committee

The Executive Committee consists of key senior management members meets regularly and operates as a general management committee under the direct authority of the Board, exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day to day running of the Company, in accordance with such policies and directions as the Board may from time to time determine. The Company's Chief Executive Officer, Yahya Adnan Ahmad, chairs the Executive Committee.

Regular Risk Management Meetings of the Executive Committee, chaired by the Chief Risk Officer, Malaysia, are held to establish, maintain and periodically review the policy and guidelines for the management of risk within the Company.

To strengthen the governance framework in anticipation of structural and regulatory changes that affect the Company, the following sub-committees of the Executive Committee were established:

(i) Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the efficient management of the Company's balance sheet and the prudent management of risks.

(ii) Risk Management Meeting

The Risk Management Meeting is responsible for the oversight of the risk framework.

(iii) IT Steering Committee

The IT Steering Committee is responsible for the oversight of the implementation and development of IT strategy. The committee is accountable for reviewing, challenging and approving the financial planning and IT performance.

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## **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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### **CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

#### **BOARD RESPONSIBILITY AND OVERSIGHT (Cont'd)**

##### **Conflicts of interest and indemnification of Directors**

The Company's Articles of Association gives the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted a policy and procedures for the approval of Directors' conflicts or potential conflicts of interest. The Board's powers to authorise conflicts are operating effectively and the procedures are being followed.

A review of situational conflicts which have been authorised, including the terms of authorisation, is undertaken by the Board annually.

The Articles of Association provide that Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions. Such indemnity provisions have been in place but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

#### **MANAGEMENT REPORTS**

The Board meetings are structured around a pre-set agenda and reports for discussion, notation and approvals are circulated in advance of the meeting dates. To enable Directors to keep abreast with the performance of the Company, key reports submitted to the Board during the financial year include:

- Minutes of the Board Committees
- Business Progress Report
- Financial Performance Report
- Annual Operating Plan
- Market Risk Limits
- Risk Appetite Statement
- Internal Capital Adequacy Assessment Process
- Risk Management Reports
- Operational Risk Report
- Scenario Stress Testing Results
- Financial Crime Compliance Dashboard: Anti-Money Laundering and Counter Terrorist Financing Reports
- Regulatory Compliance Report
- Capital Contingency Funding Plan
- People Plan
- Investment Performance

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## **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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### **CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

#### **INTERNAL CONTROL FRAMEWORK**

The Directors are responsible for reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks the Company is willing to take in achieving its strategic objectives. To meet this requirement, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud. Key risk management and internal control procedures include the following:

- **HSBC Group standards**  
HSBC Global Standards Manual (GSM) brings together the common standards and principles used in the conduct of all businesses, whatever its location or nature. The GSM overlays all other manuals throughout HSBC Group and is a fundamental component of the HSBC Group's risk management structure. It establishes the high level standards and policies by which, and within which, all members of the HSBC Group conduct their businesses. The GSM is mandatory and applies to, and must be observed by, all businesses within the HSBC Group, regardless of the nature or location of their activities.
- **Delegation of authority within limits set by the Board**  
Authority to manage the day to day running of the Company is delegated within limits set by the Board to the Chief Executive who has responsibility for overseeing the establishment and maintenance of systems of control appropriate to the business and who has the authority to delegate such duties and responsibilities as he sees fit. Appointments to certain senior positions within the Company require the approval of the Board of Directors.
- **Risk identification and monitoring**  
Systems and procedures are in place to identify, control and report on the major risks facing the Company as set out below:
  - takaful permissible risk;
  - credit risk;
  - financial crime compliance risk;
  - capital management risk;
  - liquidity risk management risks;
  - market risk;
  - financial management risk;
  - strategic risk;
  - sustainability risk; and
  - operational risk (including accounting, tax, legal, regulatory compliance, financial crime, compliance, fiduciary, political, physical, internal, external, contingency, information security systems, operations, project and people risks.)Exposure to these risks is monitored by Risk Committee, Asset, Liability and Capital Management Committee, Executive Committee and RMM of the Executive Committee which is chaired by Chief Risk Officer. The RMM also monitors the Company's operational risk profile and the effective implementation of the Company's operational risk management framework.
- **Changes in market conditions/practices**  
Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Company to heightened risk of loss or reputational damage. The Company employs a top and emerging risks framework, which enables it to identify current and forward-looking risks and to take action which either prevents them materialising or limits their impact.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**INTERNAL CONTROL FRAMEWORK (Cont'd)**

- Changes in market conditions/practices (Cont'd)

During 2016, attention was focused on:

- capital risk
- business performance risk;
- financial crime compliance risk ;
- macroeconomic;
- prudential/regulatory risk
- people risk;
- security risk (Information and physical security)

- Strategic plans

Periodic strategic plans are prepared for Businesses and Functions within the framework of the HSBC Group's strategy. The Company also prepares and adopts an Annual Operating Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that we are prepared to take in executing our strategy and sets out the key business initiatives and the likely financial effects of those initiatives.

- Financial reporting

The Company's financial reporting process for preparing the financial statements is in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards, the requirements of the Companies Act, 1965 in Malaysia and guidelines issued by Bank Negara Malaysia, and supported by a chart of accounts with detailed instructions and guidance on reporting requirements, issued by Global Finance to the Company in advance of each reporting period end. The submission of financial information from the Company is subject to certification by the responsible financial officer, and analytical review procedures at the Company.

- Responsibility for risk management

Management of global businesses and global functions are primarily accountable for measuring, monitoring, mitigating and managing their risks and controls. Processes are in place to ensure weaknesses are escalated to senior management and addressed, supported by our three lines of defence model.

- IT operations

Centralised functional control is exercised over all IT development and operations. Common systems are employed for similar business processes wherever practicable.

- Function management

Group-set policies, procedures and standards to control the principal risks detailed under 'Risk identification and monitoring' will be followed, unless those contravene the local regulations. In cases where the two do not contravene, the stricter one will be adopted. Limits of authorities to enter into credit and market risk exposures are delegated to line management of the Company. The concurrence of the appropriate Global Risks is required, for credit proposals with specified higher risk characteristics. Credit and market risks are measured and reported at Company level and aggregated for risk concentration analysis on a Groupwide basis.

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**CORPORATE GOVERNANCE DISCLOSURES (Cont'd)**

**INTERNAL CONTROL FRAMEWORK (Cont'd)**

• Internal audit

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Global Internal Audit function, provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes, focusing on the areas of greatest risk to HSBC using a riskbased approach.

Executive committee is responsible for ensuring that recommendations made by the Global Internal Audit function are implemented within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit.

During the year, the Risk Committee and the Audit Committee have kept under review the effectiveness of this system of internal control and have reported regularly to the Board. In carrying out their reviews, the Audit Committee and Risk Committee receive regular business and operational risk assessments; regular reports from the heads of key risk functions, which cover all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Risk Committee monitors the status of principal risks and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or when incidents have occurred which indicate gaps in the control framework or in adherence to HSBC policies, the Risk Committee and the Audit Committee review special reports, prepared at the instigation of management, which analyse the cause of the issue, the lessons learned and the actions proposed by management to address the issue.

**REMUNERATION POLICY**

The remuneration policy for the HSBC Group is aiming to reward success, not failure, and to be properly aligned with the risk management framework and risk outcomes. In order to ensure alignment between remuneration and business strategy, individual remuneration is determined through assessment of performance, delivered against both annual and long-term objectives summarised in performance scorecards, as well as adherence to HSBC Values of being 'open, connected and dependable' and acting with 'courageous integrity'. Altogether, performance is judged not only on what is achieved over the short and long term, but also on how it is achieved, as the latter contributes to the sustainability of the organisation. The financial and non-financial measures incorporated in the annual and long-term scorecards are carefully considered to ensure alignment with the long-term strategy of the HSBC Group. The Company has fully adopted the remuneration policy of HSBC Holdings plc. Please refer to the HSBC remuneration practices and governance at <http://www.hsbc.com/about-hsbc/corporate-governance> for more details of the governance structure and the remuneration strategy of the HSBC Group. In recognition to the local regulations, the materiality of definition needs to be taken into consideration in ensuring a robust corporate governance framework has been duly applied for the Company. Further reviews will be conducted to ensure continued adherence to the underlying principles of the local regulations.

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**DIRECTORS' REPORT**

The Directors hereby submit their report and the audited financial statements of HSBC Amanah Takaful Malaysia Berhad for the financial year ended 31 December 2016.

**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 owner of the Company	<u>715</u>

**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.

**RESERVES AND PROVISIONS**

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

**DIRECTORS**

Directors who served since the date of the last report and at the date of this report are:

Kasim bin Zakaria  
Datuk Haron bin Siraj  
Lim Eng Seong  
Ian Keith Moore  
K. Vithyatharan A/L V Karunakaran  
Saiful Yazan Ahmad (appointed on 16 March 2016 and resigned on 19 October 2016)  
Sazaliza bin Zainuddin (resigned on 22 February 2017)  
Nor Azian binti Mohd Noor (appointed on 22 February 2017)

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### DIRECTORS' REPORT (CONTINUED)

#### DIRECTORS' INTERESTS IN SHARES

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:

	<u>Number of ordinary shares of USD0.50 each</u>			
	At 1.1.2016	Bought	Sold	At 31.12.2016
<u>HSBC Holdings plc</u>				
Lim Eng Seong	39,477	1,523	-	41,000
Ian Keith Moore	12,373	1,234	-	13,607

None of the other Directors holding office at 31 December 2016 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 any 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 to which the Company is a party during and at the end of the financial year which had the objective of enabling the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, except for:

- (i) Directors who were granted the option to subscribe for shares in the ultimate holding company, HSBC Holdings plc, under Executive/Savings-Related Share Option Schemes at prices and terms as determined by the schemes, and
- (ii) Directors who were conditionally awarded shares of the ultimate holding company, HSBC Holdings plc, under its Restricted Share Plan/HSBC Share Plan.

#### 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.

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## **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

### **DIRECTORS' REPORT (CONTINUED)**

#### **OTHER STATUTORY INFORMATION**

Before the financial statements 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) any 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 2016 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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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**IMMEDIATE AND ULTIMATE HOLDING COMPANIES**

The Directors regard HSBC Insurance (Asia Pacific) Holdings Ltd., a company incorporated in Hong Kong and HSBC Holdings plc, a company incorporated in England, as the immediate and ultimate holding companies of the Company respectively.

**AUDITORS**

The financial statements for the financial year ended 31 December 2016 have been audited by PricewaterhouseCoopers (PwC). A resolution to re-appoint PwC as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

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



**KASIM ZAKARIA**  
CHAIRMAN



**K. VITHYATHARAN A/L V KARUNAKARAN**  
DIRECTOR

Kuala Lumpur, Malaysia  
22 March 2017

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Incorporated in Malaysia)

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		/-----31.12.2016-----/			
	<u>Note</u>	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>ASSETS</b>					
Plant and equipment	4	281	-	-	281
Intangible assets	5	16,605	-	-	16,605
Investment assets	6	139,911	49,858	994,290	1,184,059
Retakaful assets	7	-	32,851	34,415	67,266
Current tax assets		5,276	-	-	724
Financing receivables, excluding takaful receivables	8	47,260	1,530	6,727	37,721
Takaful receivables	9	-	3,647	4,371	8,018
Deferred tax assets	10	735	123	1,615	2,473
Cash and cash equivalents	11	2,896	7,328	44,580	54,804
<b>TOTAL ASSETS</b>		<u>212,964</u>	<u>95,337</u>	<u>1,085,998</u>	<u>1,371,951</u>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	12	100,000	-	-	100,000
Retained earnings		19,182	-	-	19,182
Available-for-sale assets fair value reserves		(441)	-	-	(441)
<b>TOTAL EQUITY</b>		<u>118,741</u>	<u>-</u>	<u>-</u>	<u>118,741</u>
<b>LIABILITIES</b>					
Takaful contract liabilities	13	-	88,431	1,050,191	1,138,622
Expense reserves	14	47,014	-	-	47,014
Takaful payables	15	817	910	5,338	7,064
Other payables	16	19,392	4,990	26,923	33,510
Current tax liabilities		-	1,006	3,546	-
Amount due to shareholders	17	27,000	-	-	27,000
<b>TOTAL LIABILITIES</b>		<u>94,223</u>	<u>95,337</u>	<u>1,085,998</u>	<u>1,253,210</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>212,964</u>	<u>95,337</u>	<u>1,085,998</u>	<u>1,371,951</u>

The notes on pages 26 to 135 are an integral part of these financial statements.

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Incorporated in Malaysia)

### STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

	<u>Note</u>	/-----31.12.2015-----/			Company RM'000
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	
<b>ASSETS</b>					
Plant and equipment	4	360	-	-	360
Intangible assets	5	17,840	-	-	17,840
Investment assets	6	144,872	50,113	952,046	1,147,031
Retakaful assets	7	-	43,158	39,391	82,549
Current tax assets		5,475	-	-	2,825
Financing receivables, excluding takaful receivables	8	45,211	792	7,251	38,174
Takaful receivables	9	-	7,513	5,460	12,973
Deferred tax assets	10	2,258	408	836	3,502
Cash and cash equivalents	11	3,074	4,549	43,604	51,227
<b>TOTAL ASSETS</b>		<b>219,090</b>	<b>106,533</b>	<b>1,048,588</b>	<b>1,356,481</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	12	100,000	-	-	100,000
Retained earnings		18,467	-	-	18,467
Available-for-sale assets fair value reserves		(128)	-	-	(128)
<b>TOTAL EQUITY</b>		<b>118,339</b>	<b>-</b>	<b>-</b>	<b>118,339</b>
<b>LIABILITIES</b>					
Takaful contract liabilities	13	-	94,288	1,012,782	1,107,070
Expense reserves	14	50,644	-	-	50,644
Takaful payables	15	1,515	4,518	12,965	18,998
Other payables	16	21,592	7,727	20,191	34,430
Current tax liabilities		-	-	2,650	-
Amount due to shareholders	17	27,000	-	-	27,000
<b>TOTAL LIABILITIES</b>		<b>100,751</b>	<b>106,533</b>	<b>1,048,588</b>	<b>1,238,142</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>219,090</b>	<b>106,533</b>	<b>1,048,588</b>	<b>1,356,481</b>

The notes on pages 26 to 135 are an integral part of these financial statements.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016**

		/-----31.12.2016-----/			
	<u>Note</u>	<u>Takaful Operator RM'000</u>	<u>General Takaful Fund RM'000</u>	<u>Family Takaful Fund RM'000</u>	<u>Company RM'000</u>
<b>Operating revenue</b>	19	54,179	43,807	171,311	226,598
<b>Takaful Operator income</b>		<u>60,029</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross contributions	20	-	41,824	141,907	183,731
Contributions ceded to retakaful	20	-	(2,962)	(18,989)	(21,951)
Changes in unearned contribution reserves	20	-	(3)	-	(3)
Change in contribution refund reserve	20	-	(433)	-	(433)
<b>Net earned contributions</b>		<u>-</u>	<u>38,426</u>	<u>122,918</u>	<u>161,344</u>
Gross benefits and claims paid		-	(6,917)	(103,950)	(110,867)
Claims ceded to retakaful		-	3,344	19,111	22,455
Gross changes in claims liabilities		-	12,894	1,358	14,252
Changes in claims liabilities ceded to retakaful		-	(9,736)	145	(9,591)
<b>Net benefits and claims</b>		<u>-</u>	<u>(415)</u>	<u>(83,336)</u>	<u>(83,751)</u>
Investment income	21	7,229	1,983	29,404	42,867
Fee and commission income	22	-	-	2,886	2,886
Reversal of allowance for impairment		-	500	4	504
Other operating income		283	-	2,495	2,778
<b>Other income</b>		<u>7,512</u>	<u>2,483</u>	<u>34,789</u>	<u>49,035</u>
Wakalah fees		-	(26,210)	(16,489)	-
Commission paid		(12,836)	-	-	(12,836)
Expense reserves		3,630	-	-	3,630
Realised loss		-	-	(13,806)	(13,806)
Fair value losses (unrealised)		-	-	(963)	(963)
Management expenses	23	(45,946)	-	-	(45,946)
Other expenses		(1,200)	(119)	-	(1,319)
<b>Other expenses</b>		<u>(56,352)</u>	<u>(26,329)</u>	<u>(31,258)</u>	<u>(71,240)</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Incorporated in Malaysia)

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

	<u>Note</u>	/-----31.12.2016-----/			
		Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Total profit for the year/Net underwriting surplus from operations</b>		11,189	14,165	43,113	55,388
<b>Surplus attributable to participants' risk fund</b>		-	(5,788)	(5,347)	(11,135)
<b>Surplus attributable to Takaful Operator</b>		-	(5,788)	(7,291)	-
<b>Net surplus retained in takaful funds</b>		-	(1,286)	(30,663)	(31,949)
<b>Profit/surplus/(deficit) before Zakat and taxation</b>		11,189	1,303	(188)	12,304
Zakat		-	-	-	-
Taxation	24	(10,474)	(1,303)	188	(11,589)
<b>Profit for the year attributable to owners of the Company</b>		715	-	-	715
<b>Other comprehensive income/(loss)</b>					
Fair value of available-for-sale financial assets					
- (Losses)/gains arising during the year		(409)	(58)	1,643	1,176
Tax effect thereon		96	13	(131)	(22)
Other comprehensive income/(loss) attributable to Takaful Operator/change in participants' liabilities		-	45	(1,512)	(1,467)
<b>Total other comprehensive loss for the year</b>		(313)	-	-	(313)
<b>Total comprehensive income for the year attributable to owners of the company</b>		402	-	-	402

The notes on pages 26 to 135 are an integral part of these financial statements.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**

		/-----31.12.2015-----/			
	<u>Note</u>	<u>Takaful Operator RM'000</u>	<u>General Takaful Fund RM'000</u>	<u>Family Takaful Fund RM'000</u>	<u>Company RM'000</u>
<b>Operating revenue</b>	19	74,612	56,774	229,770	297,972
<b>Takaful Operator income</b>		77,645	-	-	-
Gross contributions	20	-	54,930	205,451	260,381
Contributions ceded to retakaful	20	-	(5,852)	(30,175)	(36,027)
Changes in unearned contribution reserves	20	-	(1,356)	-	(1,356)
Change in contribution refund reserve	20	-	(912)	-	(912)
<b>Net earned contributions</b>		-	46,810	175,276	222,086
Gross benefits and claims paid		-	(19,114)	(136,378)	(155,492)
Claims ceded to retakaful		-	9,293	24,538	33,831
Gross changes in claims liabilities		-	962	1,766	2,728
Changes in claims liabilities ceded to retakaful		-	3,636	(1,199)	2,437
<b>Net benefits and claims</b>		-	(5,223)	(111,273)	(116,496)
Investment income	21	7,147	1,844	24,319	37,591
Realised loss		(605)	-	(110)	(715)
Fee and commission income	22	29	-	2,013	2,042
Allowance for impairment		-	(836)	41	(794)
<b>Other income</b>		6,571	1,008	26,263	38,124
Wakalah fees		-	(31,168)	(32,016)	-
Commission paid		(20,358)	-	-	(20,358)
Expense reserves		(70)	-	-	(70)
Fair value losses (unrealised)		-	-	(3,918)	(3,918)
Management expenses	23	(46,739)	-	-	(46,739)
Other expenses		(1,996)	121	(1,306)	(3,181)
<b>Other expenses</b>		(69,163)	(31,047)	(37,240)	(74,266)

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

(Incorporated in Malaysia)

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

		/-----31.12.2015-----/			
	<u>Note</u>	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>Total profit for the year/Net underwriting surplus from operations</b>		15,053	11,548	53,026	69,448
<b>Surplus attributable to participants' risk fund</b>		-	(5,082)	(4,762)	(9,844)
<b>Surplus attributable to Takaful Operator</b>		-	(5,082)	(5,097)	-
<b>Net surplus retained in takaful funds</b>		-	(1,129)	(42,845)	(43,974)
<b>Profit/surplus before zakat and taxation</b>		15,053	255	322	15,630
Zakat		(333)	-	-	(333)
Taxation	24	(2,835)	(255)	(322)	(3,412)
<b>Profit for the year attributable to owners of the Company</b>		11,885	-	-	11,885
<b>Other comprehensive income/(loss)</b>					
Fair value of available-for-sale financial assets					
- (Losses)/gains arising during the year		132	41	(200)	(27)
Tax effect thereon		(33)	(10)	16	(27)
Other comprehensive income/(loss) attributable to Takaful Operator/change in participants' liabilities		-	(31)	184	153
<b>Total other comprehensive income for the year</b>		99	-	-	99
<b>Total comprehensive income for the year attributable to owners of the company</b>		11,984	-	-	11,984

The notes on pages 26 to 135 are an integral part of these financial statements.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED  
31 DECEMBER 2016**

	<i>/-----Non-distributable-----/</i>	<i>Distributable</i>		
	Share Capital RM'000	Available-for- sale financial assets ("AFS") fair value reserves RM'000	Retained earnings RM'000	Total RM'000
<b>At 1 January 2015</b>	100,000	(227)	6,582	106,355
Total other comprehensive income for the year	-	99	-	99
Profit for the year	-	-	11,885	11,885
<b>At 31 December 2015/ 1 January 2016</b>	<u>100,000</u>	<u>(128)</u>	<u>18,467</u>	<u>118,339</u>
Total other comprehensive loss for the year	-	(313)	-	(313)
Profit for the year	-	-	715	715
<b>At 31 December 2016</b>	<u><u>100,000</u></u>	<u><u>(441)</u></u>	<u><u>19,182</u></u>	<u><u>118,741</u></u>

The notes on pages 26 to 135 are an integral part of these financial statements.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016**

	<u>Note</u>	2016 RM'000	2015 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operating activities	25	2,829	49,089
Income tax paid		(10,656)	(7,749)
Net cash (used in)/generated from operating activities		<u>(7,827)</u>	<u>41,340</u>
<b>CASH FLOWS GENERATED FROM INVESTING ACTIVITIES</b>			
Acquisition of plant and equipment		(36)	(11)
Acquisition of intangible assets		(3,868)	(10,015)
Acquisition of investments		(343,116)	(208,732)
Proceeds from disposal of investments		181,034	36,800
Proceeds from maturities of investments		125,000	79,447
Proceeds from disposal of plant and equipment		-	1
Profit from fixed deposits placed with Islamic licensed financial institutions		1,660	1,719
Profit from government guaranteed sukuk		9,882	8,877
Profit from government investment issues		4,376	4,273
Profit from corporate debt securities		19,336	18,886
Dividend received from quoted equity securities		17,136	12,902
<b>NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES</b>		<u>11,404</u>	<u>(55,853)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		3,577	(14,513)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		51,227	65,740
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<u><u>54,804</u></u>	<u><u>51,227</u></u>

**Cash and cash equivalents**

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

	<u>Note</u>	2016 RM'000	2015 RM'000
Fixed deposits with licensed Islamic financial institutions	11	23,480	3,010
Cash and bank balances	11	31,324	48,217
		<u>54,804</u>	<u>51,227</u>

The notes on pages 26 to 135 are an integral part of these financial statements.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**1 GENERAL INFORMATION**

HSBC Amanah Takaful (Malaysia) Berhad (formerly known as HSBC Amanah Takaful (Malaysia) Sdn. Bhd.) is a public 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:

<b>Principal place of business</b>	<b>Registered office</b>
8 <sup>th</sup> - 9 <sup>th</sup> Floor, North Tower No. 2, Leboh Ampang 50100 Kuala Lumpur, Malaysia	10 <sup>th</sup> 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. There have been no significant changes in the nature of these activities during the financial year.

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 22 March 2017.

**2 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") and comply with requirements of the Companies Act, 1965 in Malaysia.

In preparing the Company's financial statements as a whole, the assets, liabilities, income and expenses of the Takaful fund are combined with those of the Takaful Operator. Interfund balances and transactions are eliminated in arriving at the Company's 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, Islamic Financial Services Act 2013 in Malaysia to segregate assets, liabilities, income and expenses of Takaful funds from its own. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for transactions and events in similar circumstances.

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

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION (CONTINUED)**

**(a) Statement of compliance (continued)**

- (i) Standards, amendments to published standards and interpretations that are effective and applicable to the Company

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

- Amendments to MFRS 101 'Presentation of financial statements' - Disclosure initiative
- Annual Improvements to MFRSs 2012 – 2014 Cycle

The adoption of the new accounting standards, amendments and improvements to published standards did not have a material impact on the financial statements of the Company.

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

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

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

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

The amendments shall be applied retrospectively.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**2 BASIS OF PREPARATION (CONTINUED)**

**(a) Statement of compliance (continued)**

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

- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

An entity has the option to apply IC Interpretation 22 retrospectively or prospectively.

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

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

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

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

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

**2 BASIS OF PREPARATION (CONTINUED)**

**(a) Statement of compliance (continued)**

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

The initial application of the above accounting standards, amendments and interpretation are not expected to have any material financial impacts to the current and prior year's financial statement of the Company upon their first adoption, except for MFRS 9.

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

- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018) replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or services.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

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

**2 BASIS OF PREPARATION (CONTINUED)**

**(a) Statement of compliance (continued)**

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

- MFRS 16 'Leases' (effective from 1 January 2019) supersedes MFRS 117 'Leases' and the related interpretations.

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

There are no other MFRSs that are not yet effective that would be expected to have a material impact on the Company.

**(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.

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

**2 BASIS OF PREPARATION (CONTINUED)**

**(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 significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 3(b) – Financial instruments
- Note 3(m) and (n) – Claims and contributions liabilities
- Note 3(p) – Expenses liability

**3 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.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(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.

**(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.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (b) Financial instruments (continued)

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

Financial assets (continued)

###### (b) Financing receivables, excluding takaful receivables

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

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

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 profit 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 3(g) to the financial statements).

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Financial instruments (continued)**

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

Financial liabilities

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

**(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 control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. 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, 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.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Plant and equipment**

**(i) Recognition and measurement**

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 bring the asset to working condition for its intended use.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that 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 credited or charged to the income statement.

**(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. 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 from the date that they are available for 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.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Plant and equipment (continued)**

(iii) Depreciation (continued)

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Refer to accounting policy Note 3(g) on impairment of assets.

**(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.

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) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, balances and deposits with licensed Islamic financial institutions and highly liquid investments which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the Company in the management of their short term commitments.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (g) 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 market rate of return. 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.

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.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (g) Impairment (continued)

###### (ii) Takaful receivables (continued)

Individual impairment allowances are made for any contributions including agents, brokers and retakaful balances, which remain outstanding for more than three (2015: three) months from the date on which they become receivable, and for all other debts, which are considered impaired.

###### (iii) Non-financial 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 of disposal. 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 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.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) 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.

**(i) 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) Defined benefit plans**

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.

**(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.

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

#### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **(k) Income taxes**

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.

##### **(l) Takaful product classification**

A takaful contract means an arrangement based on mutual assistance under which takaful participants agree to contribute to a common fund (General Risk Fund or Family Risk Fund) providing for mutual financial benefits payable to the takaful participants or their beneficiaries on the occurrence of pre-agreed events. 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. The Company defines Takaful risk to be significant when the ratio of the Takaful risk over the deposit component is not less than 110% of the deposit component at any point of the Takaful contract in force. Based on this definition, all Takaful contracts issued by the Company met the definition of Takaful contracts as at the date of this statement of financial position.

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.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (m) General Takaful Fund

The General Takaful Fund is maintained in accordance with the requirements of IFSA 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 distributable in each financial year is distributed 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.

##### (i) Contribution income

Contribution for direct and co-takaful business 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 certificates are issued subsequent to the end of reporting date are accrued for at the reporting date.

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 consist 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 and co-takaful business. The claim liabilities are the best estimate together with related provision of risk margin for adverse deviation as well as expenses less retakaful recoveries, if any, to settle the present contractual 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 claim costs 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 actuarial assumptions. The liability is not discounted for the time value of money and is derecognised when the contract expired, discharged or cancelled.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (m) General Takaful Fund (continued)

##### (ii) General takaful contract liabilities recognition (continued)

##### (a) Claim liabilities (continued)

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. However, these uncertainties are partly addressed by holding the claim liabilities at 75% confidence level as per required by Bank Negara Malaysia ("BNM") Guideline, Guidelines on Valuation Basis for Liabilities of General Takaful Business.

##### (b) Contribution liabilities

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 most prevalent method, 1/365 method, is used. 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 Guideline.

At each reporting date, the Company reviews its unexpired risk reserve (inclusive of Fund Provision of Risk Margin for Adverse Deviation, "FPRAD") to determine whether there is any overall excess of expected claims over unearned contributions at portfolio level. This calculation uses current estimates of future contractual losses (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 (inclusive of Provision of Risk Margin for Adverse Deviation, "PRAD").

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

#### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **(n) Family Takaful Fund**

The Family Takaful Fund is maintained in accordance with the requirements of the IFSA 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 Risk 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.

##### **(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. Contribution income from the Family Takaful fund is recognised as soon as the amount can be reliably measured. Initial contribution is recognised from inception date and subsequent contribution is recognised when due. At the end of the financial year, all due contributions are accounted for to the extent that they can be reliably measured.

Contribution income of the Investment linked fund includes net creation of units, which represent contributions paid by participants as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on receipt basis.

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 collective investment schemes and structured investments. Fair value of equity and corporate debt securities are determined based on methods described in Note 3(b)(ii) to the financial statements.

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## **HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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

#### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **(n) Family Takaful Fund (continued)**

###### **(ii) Investment-linked business (continued)**

The gain or loss arising from disposal of any of the aforesaid investments is the difference between net disposal proceeds and the carrying value of the investment. 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.

###### **(iv) Provision for outstanding claims**

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

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.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(n) 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 zeroised. The cash flows include the monthly Tabarru', future benefits and netted of retakaful sessions.

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

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.

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.

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

#### **3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **(n) Family Takaful Fund (continued)**

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

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 is 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 and morbidity assumptions.

##### **(o) 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 3(g) to the financial statements.

##### **(p) 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.

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.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (p) Expenses liability (continued)

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. The expense liabilities are released over the term of the Takaful certificate and recognised in the income statement.

##### (i) 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 Reserves

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 Reserve

The UER reserve is the estimated expenses costs to service all in-force certificates as well as to process all outstanding claims and future incurred losses as at valuation date. This reserve is estimated via a range of standard actuarial approaches. This reserve is then loaded with a provision of risk margin for adverse deviations. The final provision is called as Unexpired Expense Risk Reserve at 75% sufficiency.

##### (ii) 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.

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, then discounted using the zero coupon curve of the government investment issues sukuk 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 Takaful Operator in managing the family fund.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(p) Expenses liability (continued)**

**(ii) Expenses liability of Family Takaful Fund (continued)**

Future expenses for Takaful Operator 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), investment income fees and surplus distribution from the Takaful fund (from products with participant 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 zerorisation.

**(q) 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 the income statement when the right to receive payment is established.

Gain or loss arising on disposals of investments are credited or charged to the income statement.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) 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.

**(s) Commission and acquisition costs**

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.

**(t) Wakalah fee**

The wakalah fee is defined as a fee arranged under wakalah contract where the Company is entitled to receive fees for carrying out the authorised task that have been delegated to the Company. The wakalah fee is an income to the Takaful Operator and is charged to the participant and correspondingly recognised as an expense in the respective funds' profit and loss. The fee can be a fixed amount or as a percentage ratio of the contribution or fund value. The manner of payment can be in one lump sum or in several payments. This is in accordance with the principal of wakalah as approved by the Shariah Committee and the fee is determined and agreed between the participant and the Company at the time of entering into the contract.

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.

**(u) Contingencies**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) Fair value measurements**

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.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The Company recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 4 PLANT AND EQUIPMENT

Takaful Operator and Company

	Computer equipment RM'000	Motor vehicles RM'000	Office, equipment, fixtures and fittings RM'000	Total RM'000
<b>Cost</b>				
<b>At 1 January 2015</b>	1,310	4	1,256	2,570
Additions	-	7	4	11
Disposal	-	(4)	(71)	(75)
<b>At 31 December 2015/ 1 January 2016</b>	1,310	7	1,189	2,506
Additions	-	-	36	36
Disposal	-	-	(133)	(133)
Reclassification (Note 5)	(198)	-	-	(198)
<b>31 December 2016</b>	<u>1,112</u>	<u>7</u>	<u>1,092</u>	<u>2,211</u>
<b>Accumulated depreciation</b>				
<b>At 1 January 2015</b>	1,259	4	797	2,060
Charge for the year	32	1	128	161
Disposal	-	(4)	(71)	(75)
<b>At 31 December 2015/ 1 January 2016</b>	1,291	1	854	2,146
Charge for the year	19	1	95	115
Disposal	-	-	(133)	(133)
Reclassification (Note 5)	(198)	-	-	(198)
<b>At 31 December 2016</b>	<u>1,112</u>	<u>2</u>	<u>816</u>	<u>1,930</u>
<b>Carrying amount</b>				
<b>At 31 December 2015</b>	<u>19</u>	<u>6</u>	<u>335</u>	<u>360</u>
<b>At 31 December 2016</b>	<u>-</u>	<u>5</u>	<u>276</u>	<u>281</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5 INTANGIBLE ASSETS

##### Takaful Operator and Company

	Development of computer software RM'000	Computer software RM'000	Total RM'000
<b>Cost</b>			
<b>At 1 January 2015</b>	937	32,603	33,540
Additions	9,917	98	10,015
Reclassification	(4,962)	4,962	-
<b>At 31 December 2015/1 January 2016</b>	5,892	37,663	43,555
Additions	3,769	99	3,868
Disposal	-	(1,305)	(1,305)
Reclassification (Note 4)	(8,502)	8,700	198
<b>At 31 December 2016</b>	1,159	45,157	46,316
<b>Accumulated depreciation</b>			
<b>At 1 January 2015</b>	-	21,545	21,545
Amortisation for the year	-	4,170	4,170
<b>At 31 December 2015/1 January 2016</b>	-	25,715	25,715
Amortisation for the year	-	4,894	4,894
Disposal	-	(1,096)	(1,096)
Reclassification (Note 4)	-	198	198
<b>At 31 December 2016</b>	-	29,711	29,711
<b>Carrying amount</b>			
<b>At 31 December 2015</b>	5,892	11,948	17,840
<b>At 31 December 2016</b>	1,159	15,446	16,605

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6 INVESTMENT ASSETS**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
<u>Available-for-sale financial assets</u>				
Government investment issues	25,030	-	78,335	103,365
Government guaranteed sukuk	25,030	14,865	162,224	202,119
Corporate debt securities	89,851	34,993	226,559	351,403
<u>Financial assets at fair value through profit or loss</u>				
Government investment issues	-	-	10,104	10,104
Government guaranteed sukuk	-	-	59,158	59,158
Corporate debt securities	-	-	81,129	81,129
Collective investment schemes	-	-	363,761	363,761
Quoted equity securities	-	-	13,020	13,020
	<u>139,911</u>	<u>49,858</u>	<u>994,290</u>	<u>1,184,059</u>
<b>2015</b>				
<u>Available-for-sale financial assets</u>				
Government investment issues	25,140	-	78,282	103,422
Government guaranteed sukuk	20,049	10,027	155,627	185,703
Corporate debt securities	99,683	40,086	226,060	365,829
<u>Financial assets at fair value through profit or loss</u>				
Government investment issues	-	-	10,148	10,148
Government guaranteed sukuk	-	-	53,597	53,597
Corporate debt securities	-	-	75,437	75,437
Collective investment schemes	-	-	340,157	340,157
Quoted equity securities	-	-	12,738	12,738
	<u>144,872</u>	<u>50,113</u>	<u>952,046</u>	<u>1,147,031</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 6 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
<b>At 1 January 2015</b>	635,557	423,569	1,059,126
Purchases	80,181	128,551	208,732
Maturities	(60,000)	(19,447)	(79,447)
Disposals	-	(36,800)	(36,800)
Fair value loss recorded in profit or loss	-	(3,918)	(3,918)
AFS reserves	(27)	-	(27)
(Amortisation)/accretion	(757)	122	(635)
<b>At 31 December 2015/1 January 2016</b>	654,954	492,077	1,147,031
Purchases	126,143	216,973	343,116
Maturities	(125,000)	-	(125,000)
Disposals	-	(181,034)	(181,034)
Fair value loss recorded in profit or loss	-	(963)	(963)
AFS reserves	1,176	-	1,176
(Amortisation)/accretion	(386)	119	(267)
<b>At 31 December 2016</b>	656,887	527,172	1,184,059

##### (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.

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

**6 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
<b>2016</b>				
Available-for-sale financial assets	104,930	15,013	462,117	582,060
Financial assets at fair value through profit or loss	-	-	145,376	145,376
	<u>104,930</u>	<u>15,013</u>	<u>607,493</u>	<u>727,436</u>
<b>2015</b>				
Available-for-sale financial assets	89,786	15,050	429,902	534,738
Financial assets at fair value through profit or loss	-	-	139,182	139,182
	<u>89,786</u>	<u>15,050</u>	<u>569,084</u>	<u>673,920</u>

**7 RETAKAFUL ASSETS**

	<u>Note</u>	<b>2016 RM'000</b>	<b>2015 RM'000</b>
General Takaful Fund	13(a)	32,851	43,158
Family Takaful Fund	13(b)	34,415	39,391
		<u>67,266</u>	<u>82,549</u>
Company			

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8 FINANCING RECEIVABLES, EXCLUDING TAKAFUL RECEIVABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Profit due and accrued	1,495	477	6,519	8,491
Fixed deposits with licensed Islamic financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	27,638	-	-	27,638
Other receivables	1,910	1,053	208	1,592
Amount due from:				
General Takaful Fund	4,092	-	-	-
Family Takaful Fund	12,125	-	-	-
	<u>47,260</u>	<u>1,530</u>	<u>6,727</u>	<u>37,721</u>
<b>2015</b>				
Profit due and accrued	1,516	393	6,305	8,214
Fixed deposits with licensed Islamic financial institutions with maturities of more than 3 months				
- Licensed bank in Malaysia	27,000	-	-	27,000
Other receivables	2,151	399	410	2,960
Amount due from:				
Shareholder Fund	-	-	536	-
General Takaful Fund	5,528	-	-	-
Family Takaful Fund	9,016	-	-	-
	<u>45,211</u>	<u>792</u>	<u>7,251</u>	<u>38,174</u>

The fixed deposits with maturities of more than 3 months placed with a licensed Islamic bank that are held with related parties amounted to RM27,000,000 (2015: RM27,000,000).

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 9 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>			
Due contributions including agents/ brokers and co-insurers balances	1,892	1,925	3,817
Due from retakaful companies and cedants	1,755	2,446	4,201
	<u>3,647</u>	<u>4,371</u>	<u>8,018</u>
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	4,385	4,920	9,305
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(738)	(549)	(1,287)
Net amounts of financial assets presented in the statement of financial position	<u>3,647</u>	<u>4,371</u>	<u>8,018</u>
<b>2015</b>			
Due contributions including agents/ brokers and co-insurers balances	697	1	698
Due from retakaful companies and cedants	6,816	5,459	12,275
	<u>7,513</u>	<u>5,460</u>	<u>12,973</u>
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	7,513	29,666	37,179
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	-	(24,206)	(24,206)
Net amounts of financial assets presented in the statement of financial position	<u>7,513</u>	<u>5,460</u>	<u>12,973</u>

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2016 (2015: nil).

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10 DEFERRED TAX ASSETS/(LIABILITIES)

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
<b>At 1 January 2015</b>	(2,240)	20	536	(1,684)
Charged/(credited) to income statement:				
Plant and equipment	505	-	-	505
Investment assets	222	55	284	561
Financing receivable		343	-	343
Expenses reserves	2,973	-	-	2,973
Other payable	831	-	-	831
	<u>4,531</u>	<u>398</u>	<u>284</u>	<u>5,213</u>
Charged/(credited) to other comprehensive income :				
Investment assets	(33)	(10)	16	(27)
	<u>2,258</u>	<u>408</u>	<u>836</u>	<u>3,502</u>
<b>At 31 December 2015/1 January 2016</b>				
Charged/(credited) to income statement:				
Plant and equipment	(1,356)	-	-	(1,356)
Investment assets	(196)	(47)	120	(123)
Financing receivable	-	(249)	-	(249)
Expenses reserves	389	-	-	389
Other payable	(519)	-	-	(519)
Unabsorbed losses	-	-	790	790
Change in tax rate	63	(2)	-	61
	<u>(1,619)</u>	<u>(298)</u>	<u>910</u>	<u>(1,007)</u>
Charged/(credited) to other comprehensive income :				
Investment assets	98	13	(131)	(20)
Change in tax rate	(2)	-	-	(2)
	<u>735</u>	<u>123</u>	<u>1,615</u>	<u>2,473</u>
<b>At 31 December 2016</b>	<u><u>735</u></u>	<u><u>123</u></u>	<u><u>1,615</u></u>	<u><u>2,473</u></u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 10 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The composition of deferred tax assets/(liabilities) before and after appropriate offsetting, is as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Subject to income tax:				
Deferred tax assets:(before offsetting)				
Investment assets	157	29	825	1,011
Financing receivables	-	94	-	94
Expenses reserves	3,362	-	-	3,362
Other payables	311	-	-	311
Unabsorbed losses	-	-	790	790
	<u>3,830</u>	<u>123</u>	<u>1,615</u>	<u>5,568</u>
Offsetting	(3,095)	-	-	(3,095)
Deferred tax assets after offsetting	<u>735</u>	<u>123</u>	<u>1,615</u>	<u>2,473</u>
Deferred tax liabilities: (before offsetting)				
Plant and equipment	(3,095)	-	-	(3,095)
Offsetting	3,095	-	-	3,095
Deferred tax liabilities after offsetting	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>2015</b>				
Subject to income tax:				
Deferred tax assets:(before offsetting)				
Investment assets	265	65	836	1,166
Financing receivables	-	343	-	343
Expenses reserves	2,973	-	-	2,973
Other payables	831	-	-	831
	<u>4,069</u>	<u>408</u>	<u>836</u>	<u>5,313</u>
Offsetting	(1,811)	-	-	(1,811)
Deferred tax assets after offsetting	<u>2,258</u>	<u>408</u>	<u>836</u>	<u>3,502</u>
Deferred tax liabilities: (before offsetting)				
Plant and equipment	(1,811)	-	-	(1,811)
Offsetting	1,811	-	-	1,811
Deferred tax liabilities after offsetting	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 CASH AND CASH EQUIVALENTS**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Subject to income tax:				
Cash and bank balances	2,896	3,918	24,510	31,324
Fixed deposits with licensed Islamic financial institutions with maturities of less than 3 months - Licensed bank in Malaysia	-	3,410	20,070	23,480
	<u>2,896</u>	<u>7,328</u>	<u>44,580</u>	<u>54,804</u>
<b>2015</b>				
Subject to income tax:				
Cash and bank balances	3,074	4,549	40,594	48,217
Fixed deposits with licensed Islamic financial institutions with maturities of less than 3 months - Licensed bank in Malaysia	-	-	3,010	3,010
	<u>3,074</u>	<u>4,549</u>	<u>43,604</u>	<u>51,227</u>

The fixed deposits with maturities of less than 3 months placed with a Islamic licensed bank that are held with related parties is NIL (2015: NIL). It is subjected to profit rate range of [2.80%] – [3.35%] (2015: 3.15% – 3.30%).

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 12 CAPITAL AND RESERVES

##### Takaful Operator and Company

##### 12.1 Share capital

	2016		2015	
	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
Issued and fully paid: Ordinary shares of RM50 Each				
At 1 January/31 December	2,000	100,000	2,000	100,000

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.

##### 12.2 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.

##### 12.3 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 2015.

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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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 13 TAKAFUL CONTRACT LIABILITIES

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
<b>2016</b>				
General Takaful Fund	13(a)	88,431	(32,851)	55,580
Family Takaful Fund	13(b)	1,050,191	(34,415)	1,015,776
		<u>1,138,622</u>	<u>(67,266)</u>	<u>1,071,356</u>
<b>2015</b>				
General Takaful Fund	13(a)	94,288	(43,158)	51,130
Family Takaful Fund	13(b)	1,012,782	(39,391)	973,391
		<u>1,107,070</u>	<u>(82,549)</u>	<u>1,024,521</u>

#### (a) General Takaful Fund

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
<b>2016</b>				
Provision for claims reported by participants		34,399	(27,919)	6,480
Provision for IBNR		19,286	(4,598)	14,688
		<u>53,685</u>	<u>(32,517)</u>	<u>21,168</u>
Provision for outstanding claims	(i)	53,685	(32,517)	21,168
Provision for unearned contributions	(ii)	18,234	(334)	17,900
Participants' funds	(iii)	16,512	-	16,512
		<u>88,431</u>	<u>(32,851)</u>	<u>55,580</u>
<b>2015</b>				
Provision for claims reported by participants		38,728	(30,997)	7,731
Provision for IBNR		27,851	(11,256)	16,595
		<u>66,579</u>	<u>(42,253)</u>	<u>24,326</u>
Provision for outstanding claims	(i)	66,579	(42,253)	24,326
Provision for unearned contributions	(ii)	18,801	(905)	17,896
Participants' funds	(iii)	8,908	-	8,908
		<u>94,288</u>	<u>(43,158)</u>	<u>51,130</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

##### (a) General Takaful Fund (continued)

##### (i) Provision for outstanding claims

	Gross RM'000	Retakaful RM'000	Net RM'000
<b>At 1 January 2016</b>	66,579	(42,253)	24,326
Claims incurred in the current year	(5,977)	6,392	415
Claims paid during the year	(6,917)	3,344	(3,573)
<b>At 31 December 2016</b>	<u>53,685</u>	<u>(32,517)</u>	<u>21,168</u>
<b>At 1 January 2015</b>	67,542	(38,617)	28,925
Claims incurred in the current year	18,151	(12,928)	5,223
Claims paid during the year	(19,114)	9,292	(9,822)
<b>At 31 December 2015</b>	<u>66,579</u>	<u>(42,253)</u>	<u>24,326</u>

##### (ii) Provision for unearned contributions

	Gross RM'000	Retakaful RM'000	Net RM'000
<b>At 1 January 2016</b>	18,801	(905)	17,896
Contributions written in the year (Note 19)	41,824	(2,962)	38,862
Contributions earned during the year	(42,391)	3,533	(38,858)
<b>At 31 December 2016</b>	<u>18,234</u>	<u>(334)</u>	<u>17,900</u>
<b>At 1 January 2015</b>	19,768	(3,227)	16,541
Contributions written in the year (Note 19)	54,930	(5,852)	49,078
Contributions earned during the year	(55,897)	8,174	(47,723)
<b>At 31 December 2015</b>	<u>18,801</u>	<u>(905)</u>	<u>17,896</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

##### (a) General Takaful Fund (continued)

##### (iii) Participants' fund

	2016 RM'000	2015 RM'000
Unallocated surplus	4,457	2,577
AFS reserves	(76)	(31)
Revenue account accumulated surplus	12,131	6,362
	<u>16,512</u>	<u>8,908</u>
<b>Unallocated surplus</b>		
<b>At 1 January</b>	2,577	1,526
Transfer from surplus	1,286	1,129
Retained surplus	(20)	(78)
Transfer from other liabilities	614	-
	<u>4,457</u>	<u>2,577</u>
<b>At 31 December</b>	<u>4,457</u>	<u>2,577</u>
<b>AFS reserves</b>		
<b>At 1 January</b>	(31)	62
Decrease in reserves	(45)	(93)
	<u>(76)</u>	<u>(31)</u>
<b>At 31 December</b>	<u>(76)</u>	<u>(31)</u>
<b>Revenue account accumulated surplus</b>		
<b>At 1 January</b>	6,362	2,926
Surplus for the year	7,074	6,211
Profit paid to participants	(19)	(1,229)
Transfer to unallocated surplus	(1,286)	(1,129)
Transfer to withholding tax	-	(417)
	<u>12,131</u>	<u>6,362</u>
<b>At 31 December</b>	<u>12,131</u>	<u>6,362</u>

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

**13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(b) Family Takaful Fund**

	Note	Gross RM'000	Retakaful RM'000	Net RM'000
<b>2016</b>				
Provision for outstanding claims	(i)	13,804	(11,173)	2,631
Participants' funds	(ii)	1,036,387	(23,242)	1,013,145
		<u>1,050,191</u>	<u>(34,415)</u>	<u>1,015,776</u>
<b>2015</b>				
Provision for outstanding claims	(i)	12,446	(11,028)	1,418
Participants' funds	(ii)	1,000,336	(28,363)	971,973
		<u>1,012,782</u>	<u>(39,391)</u>	<u>973,391</u>
<b>(i) Provision for outstanding claims</b>				
		<b>Gross RM'000</b>	<b>Retakaful RM'000</b>	<b>Net RM'000</b>
<b>At 1 January 2016</b>		12,446	(11,028)	1,418
Claims incurred during the year		22,488	(19,256)	3,232
Claims paid during the year		(21,130)	19,111	(2,019)
<b>At 31 December 2016</b>		<u>13,804</u>	<u>(11,173)</u>	<u>2,631</u>
<b>At 1 January 2015</b>		14,212	(12,228)	1,984
Claims incurred during the year		73,977	(23,338)	50,639
Claims paid during the year		(75,743)	24,538	(51,205)
<b>At 31 December 2015</b>		<u>12,446</u>	<u>(11,028)</u>	<u>1,418</u>

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

**13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(b) Family Takaful Fund (continued)**

**(ii) Participants' fund**

	<b>Gross RM'000</b>	<b>Retakaful RM'000</b>	<b>Net RM'000</b>
<b>31.12.2016</b>			
Actuarial reserves	238,027	(23,242)	214,785
Unallocated surplus	53,934	-	53,934
AFS reserve	(2,231)	-	(2,231)
Net asset value attributable to participants	380,821	-	380,820
Net asset value attributable to unitholders	365,836	-	365,836
	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>
<b>At 1 January 2016</b>	1,000,336	(28,363)	971,973
Contributions received	47,347	-	47,347
Liabilities paid for death, maturities, surrenders, benefits and claims	(38,453)	-	(38,453)
Benefits and claims experience variation	-	-	-
Fees deducted	(8,293)	-	(8,293)
Investment income	13,099	-	13,099
Retakaful reserve credit	(5,121)	5,121	-
Net asset value attributable to unitholders	24,390	-	24,390
Surplus attributable to Takaful Operator	(7,291)	-	(7,291)
Write back of impairment	4	-	4
AFS reserve	1,512	-	1,512
Transfer to unallocated surplus	2,713	-	2,713
Deferred tax on fair value gains	(921)	-	(921)
Investment income distribution	12,202	-	12,202
Transfer surplus distribution to other liabilities	(10,602)	-	(10,602)
Others	5,465	-	5,465
	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>
<b>At 31 December 2016</b>	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>

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

**13 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(b) Family Takaful Fund (continued)**

**(ii) Participants' fund (continued)**

	<b>Gross RM'000</b>	<b>Retakaful RM'000</b>	<b>Net RM'000</b>
<b>31.12.2015</b>			
Actuarial reserves	246,146	(28,363)	217,783
Unallocated surplus	52,918	-	52,918
AFS reserve	(3,742)	-	(3,742)
Net asset value attributable to participants	363,568	-	363,568
Net asset value attributable to unitholders	341,446	-	341,446
	<u>1,000,336</u>	<u>(28,363)</u>	<u>971,973</u>
<b>At 1 January 2015</b>	940,521	(24,146)	916,375
Contributions received	95,870	-	95,870
Liabilities paid for death, maturities, surrenders, benefits and claims	(51,205)	-	(51,205)
Benefits and claims experience variation	567	-	567
Fees deducted	(22,881)	-	(22,881)
Investment income	11,510	-	11,510
Retakaful reserve credit	4,217	(4,217)	-
Profit paid to participants	(87)	-	(87)
Net asset value attributable to unitholders	18,541	-	18,541
Surplus attributable to Takaful Operator	(5,097)	-	(5,097)
Write back of impairment	41	-	41
AFS reserve	(184)	-	(184)
Deferred tax on fair value gains	(93)	-	(93)
Investment income distribution	11,516	-	11,516
Transfer surplus distribution to other liabilities	(3,449)	-	(3,449)
Others	549	-	549
	<u>1,000,336</u>	<u>(28,363)</u>	<u>971,973</u>
<b>At 31 December 2015</b>	<u>1,000,336</u>	<u>(28,363)</u>	<u>971,973</u>

**14 EXPENSE RESERVES**

	<b>Takaful Operator and Company</b>	
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
At 1 January	50,644	50,574
Provision for the year, net	(3,630)	70
	<u>47,014</u>	<u>50,644</u>
At 31 December	<u>47,014</u>	<u>50,644</u>

**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****15 TAKAFUL PAYABLES**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Due to agents and intermediaries	817	-	-	817
Due to retakaful companies and cedants	-	910	5,338	6,247
	<u>817</u>	<u>910</u>	<u>5,338</u>	<u>7,064</u>
Offsetting financial assets and financial liabilities				
Gross amounts of recognised financial liabilities	817	910	31,576	33,302
Less:				
Gross amounts of recognised financial assets set off in the statement of financial position	-	-	(26,238)	(26,238)
Net amounts of financial liabilities presented in the statement of financial position	<u>817</u>	<u>910</u>	<u>5,338</u>	<u>7,064</u>
<b>2015</b>				
Due to agents and intermediaries	1,515	-	2,731	4,246
Due to retakaful companies and cedants	-	4,518	10,234	14,752
	<u>1,515</u>	<u>4,518</u>	<u>12,965</u>	<u>18,998</u>
Offsetting financial assets and financial liabilities				
Gross amounts of recognised financial liabilities	1,515	4,518	37,171	43,204
Less:				
Gross amounts of recognised financial assets set off in the statement of financial position	-	-	(24,206)	(24,206)
Net amounts of financial liabilities presented in the statement of financial position	<u>1,515</u>	<u>4,518</u>	<u>12,965</u>	<u>18,998</u>

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

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16 OTHER PAYABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Accrued expenses	5,688	-	-	5,688
Due to:				
Takaful Operator	-	4,092	12,124	-
Related companies	9,736	-	-	9,736
Profit payable to Profit Sharing Investment Account (Note 17)	1,257	-	-	1,257
Surplus Payable to Participant	-	-	7,327	7,327
Others	2,711	898	7,472	9,502
	<u>19,392</u>	<u>4,990</u>	<u>26,923</u>	<u>33,510</u>
<b>2015</b>				
Accrued expenses	6,782	-	-	6,782
Due to:				
Takaful Operator	-	5,528	9,016	-
Investment linked fund	536	-	-	-
Immediate holding company	278	-	-	278
Related companies	10,617	-	-	10,617
Profit payable to Profit Sharing Investment Account (Note 17)	1,269	-	-	1,269
Others	2,110	2,199	11,175	15,484
	<u>21,592</u>	<u>7,727</u>	<u>20,191</u>	<u>34,430</u>

Included in Other Payables is zakat payable of RM377,412 (2015: RM377,000). The method of zakat payable is based on net assets of the Company as approved by the Shariah Committee.

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

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 17 AMOUNT DUE TO SHAREHOLDERS

	Takaful Operator and Company	
	2016 RM'000	2015 RM'000
Amount due to shareholders	27,000	27,000

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.

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

	2016 RM'000	2015 RM'000
Takaful Operator and Company		
HSBC Insurance (Asia Pacific) Holdings Limited	13,230	13,230
JAB Capital Berhad	8,370	8,370
Lembaga Kumpulan Wang Simpanan Pekerja	5,400	5,400
	<u>27,000</u>	<u>27,000</u>

The amount due to shareholders subject to profit rate of [2.85%] – [3.15%] (2015: 3.05% - 3.15%), is unsecured and repayable within 3 years.

The profit payable to PSIA is as disclosed in Note 16 to the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****18 EMPLOYEE BENEFITS****(a) Equity-based compensation**

The Company participated in the following equity-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.

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

	2016		2015	
	Number	Weighted Average exercise price £	Number	Weighted average exercise price £
<b>At 1 January</b>	-	-	8,739	6.62
Forfeited/lapsed in the year	-	-	(8,739)	-
<b>At 31 December</b>	-	-	-	-
Options vested at 31 December	-	-	-	-
			<b>2016</b>	<b>2015</b>
			<b>RM'000</b>	<b>RM'000</b>
Compensation cost recognised during the year			-	4

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

**18 EMPLOYEE BENEFITS (CONTINUED)**

**(a) Equity-based compensation (continued)**

**(ii) 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.

	<b>2016 Number</b>	<b>2015 Number</b>
<b>At 1 January</b>	508	3,836
Additions during the year	621	594
Forfeited/lapsed in the year	-	(3,922)
Exercise during the year	(412)	-
<b>At 31 December</b>	<u>717</u>	<u>508</u>
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Compensation cost recognised during the year	<u>16</u>	<u>-</u>

The weighted average purchase price for all shares purchased by the Company for awards under the Restricted Share Plan is £5.87 (2015: £5.98). The closing price of the HSBC shares at 31 December 2016 was £6.57 (2015: £5.36). The weighted average remaining vesting period as at 31 December 2016 was 0.32 years (2015: 0.86 years).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****18 EMPLOYEE BENEFITS (CONTINUED)****(a) Equity-based compensation (continued)****(iii) Performance Share Award**

HSBC Holdings ordinary shares and deferred cash are awarded to senior executives, with corporate performance conditions and will be released to the individual after three years, provided participants remain continuously employed within the HSBC Group. Additional awards are made during the three-year life of the award. These represent the equivalent value of dividends reinvested in shares. At the end of three years, the original Award together with the Additional Share Awards (added to the original award) will be released. The cost of the awards is recognised through an annual charge based on the cost of the shares purchased, apportioned over a period of three years to which the award relates.

	<b>2016 Number</b>	<b>2015 Number</b>
<b>At 1 January</b>	4,192	9,427
Additions during the year	327	364
Forfeited/lapsed in the year	-	(5,599)
<b>At 31 December</b>	<u>4,519</u>	<u>4,192</u>
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Compensation cost recognised during the year	<u>41</u>	<u>12</u>

The weighted average purchase price for all shares purchased by the Company for awards under the Performance Share Award is £6.72 (2015 : £6.82). The closing price of the HSBC shares at 31 December 2016 was £6.57 (2015 : £5.36). The weighted average remaining vesting period as at 31 December 2016 was 0 years (2015 : 0.92).

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 18 EMPLOYEE BENEFITS (CONTINUED)

##### (iv) Savings-Related Share Match Schemes

The Savings-Related Share Match Schemes was first introduced in Malaysia in 2014. Eligible employee are granted option to acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to the maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

	2016 Number	2015 Number
<b>At 1 January</b>	1,411	-
Additions during the year	2,003	1,579
Forfeited/lapsed in the year	(28)	(28)
<b>At 31 December</b>	<u>3,386</u>	<u>1,411</u>
	<b>2016 RM'000</b>	<b>2015 RM'000</b>
Compensation cost recognised during the year	<u>55</u>	<u>4</u>

The weighted average purchase price for all shares purchased by the Company for awards under the Share Match Scheme is £5.39 (2015 : £5.79). The closing price of the HSBC shares at 31 December 2016 was £6.57 (2015 : £5.36). The weighted average remaining vesting period as at 31 December 2016 was 1.25 years (2015 : 1.75 years).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****19 OPERATING REVENUE**

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Gross contributions (Note 20)	-	41,824	141,907	183,731
Investment income (Note 21)	7,229	1,983	29,404	42,867
Wakalah fee	46,950	-	-	-
	<u>54,179</u>	<u>43,807</u>	<u>171,311</u>	<u>226,598</u>
<b>2015</b>				
Gross contributions (Note 20)	-	54,930	205,451	260,381
Investment income (Note 21)	7,147	1,844	24,319	37,591
Wakalah fees	67,465	-	-	-
	<u>74,912</u>	<u>56,774</u>	<u>229,770</u>	<u>297,972</u>

Wakalah fee by type:

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Upfront wakalah	40,680	26,210	14,470	-
Service fee	1,766	-	1,766	-
Surrender fee	253	-	253	-
	<u>42,699</u>	<u>26,210</u>	<u>16,489</u>	<u>-</u>
Wakalah fund management fee (Note 21)	4,251	-	4,251	-
	<u>46,950</u>	<u>26,210</u>	<u>20,740</u>	<u>-</u>
<b>2015</b>				
Upfront wakalah	61,346	31,168	30,178	-
Service fee	1,625	-	1,625	-
Surrender fee	213	-	213	-
	<u>63,184</u>	<u>31,168</u>	<u>32,016</u>	<u>-</u>
Wakalah fund management fee (Note 21)	4,281	-	4,281	-
	<u>67,465</u>	<u>31,168</u>	<u>36,297</u>	<u>-</u>

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

**20. NET EARNED CONTRIBUTIONS**

	<b>2016</b>	<b>2015</b>
	<b>RM'000</b>	<b>RM'000</b>
Gross contributions		
General Takaful Fund	41,824	54,930
Family Takaful Fund	141,907	205,451
	<u>183,731</u>	<u>260,381</u>
Changes in unearned contribution reserves	567	966
Changes in contribution refund reserve	(433)	(912)
	<u>183,865</u>	<u>260,435</u>
Contributions ceded to retakaful		
General Takaful Fund	(2,962)	(5,852)
Family Takaful Fund	(18,989)	(30,175)
Changes in unearned contribution reserves	(570)	(2,322)
	<u>(22,521)</u>	<u>(38,349)</u>
	<u>161,344</u>	<u>222,086</u>
By line of business:		
General Takaful Fund	38,426	46,810
Family Takaful Fund	122,918	175,276
	<u>161,344</u>	<u>222,086</u>

**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****21 INVESTMENT INCOME**

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Profit from government guaranteed sukuk	894	400	8,588	9,882
Profit from government investment issues	881	-	3,495	4,376
Profit from corporate debt securities	3,614	1,399	14,323	19,336
Profit from fixed deposits with licensed Islamic financial institutions	271	255	1,134	1,660
Dividend income from quoted equity securities	-	-	17,136	17,136
Investment income/(expense) sharing				
- Takaful Operator	1,748	-	(1,748)	-
- Participants	-	-	(13,264)	(13,264)
Accretion/(amortisation) of government guaranteed sukuk	(68)	64	651	647
Accretion/(amortisation) of government investment issues	23	-	(168)	(145)
Amortisation of corporate debt securities	(114)	(118)	(536)	(768)
Wakalah fund management fee	-	-	(4,251)	-
Fund management fee rebate	-	-	4,204	4,204
Investment expense	(20)	(17)	(160)	(197)
	<u>7,229</u>	<u>1,983</u>	<u>29,404</u>	<u>42,867</u>
<b>2015</b>				
Profit from government guaranteed sukuk	365	573	7,939	8,877
Profit from government investment issues	817	-	3,456	4,273
Profit from corporate debt securities	4,466	1,383	13,037	18,886
Profit from fixed deposits with licensed Islamic financial institutions	235	183	1,301	1,719
Dividend from quoted equity securities	-	-	12,902	12,902
Investment income/(expense) sharing				
- Takaful Operator	1,578	-	(1,578)	-
- Participants	-	-	(12,519)	(12,519)
Accretion/(amortisation) of government guaranteed sukuk	(18)	(67)	614	529
Accretion/(amortisation) of government investment issues	25	-	(159)	(134)
Amortisation of corporate debt securities	(321)	(228)	(481)	(1,030)
Wakalah fund management fee	-	-	(4,281)	-
Fund management fee rebate	-	-	4,165	4,165
Investment expense	-	-	(77)	(77)
	<u>7,147</u>	<u>1,844</u>	<u>24,319</u>	<u>37,591</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 22 FEE AND COMMISSION INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Retakaful commission income	-	-	2,886	2,886
Fee and commission income related to takaful contracts	-	-	2,886	2,886
<b>2015</b>				
Participant fund administration and investment management services	29	-	-	29
Retakaful commission income	-	-	2,013	2,013
Fee and commission income related to takaful contracts	29	-	2,013	2,042

#### 23 MANAGEMENT EXPENSES

	Takaful Operator and Company	
	2016 RM'000	2015 RM'000
Personnel expenses		
Contributions to defined contribution plans	2,971	2,769
Salaries and bonus	16,956	16,695
Shariah Committee fee	204	221
Others	2,269	2,347
	22,400	22,032
Auditor remuneration		
Statutory audit fees	216	216
Other services	9	9
Amortisation of intangible assets	4,894	4,170
Depreciation of plant and equipment	115	162
Directors' fees	295	250
Information technology costs	2,634	3,159
Marketing and research	1,976	2,414
Printing and stationery	1,302	1,804
Professional and consultancy	6,997	8,275
Postage and stamp duties	14	13
Rental of office premises	1,862	2,578
Utilities, assessment and maintenance	79	113
Others	3,153	1,544
	45,946	46,739

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 24 INCOME TAX EXPENSE

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2016</b>				
Current tax expense				
- Current	7,868	240	-	8,108
- Under provision in prior year	987	765	722	2,474
Deferred tax expense/(income) (Note 10)				
- Origination and reversal of temporary Differences	1,682	296	(73)	1,905
- Unabsorbed losses	-	-	(790)	(790)
- Under/(over) provision in prior year	(63)	2	(47)	(108)
	<u>10,474</u>	<u>1,303</u>	<u>(188)</u>	<u>11,589</u>
<b>2015</b>				
Current tax expense				
- Current	6,295	653	606	7,554
- Under provision in prior year	1,071	-	-	1,071
Deferred tax income (Note 10)	(4,531)	(398)	(284)	(5,213)
	<u>2,835</u>	<u>255</u>	<u>322</u>	<u>3,412</u>

The income tax for the Takaful Operator and General Takaful Fund is calculated based on the standard corporate tax rate of 24% (2015: 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% (2015: 8%) of the assessable investment income net of allowable deductions for the financial year.

#### Reconciliation of effective tax expense

	2016 RM'000	2015 RM'000
Profit before taxation	<u>12,304</u>	<u>15,630</u>
Taxation at Malaysian statutory tax rate 24% (2015: 25%)	2,953	3,907
Income not subject to tax	(5,141)	(7,428)
Expenses not deductible for tax purposes	11,738	9,538
Tax expense attributable to participants	1,115	577
Previously unrecognised deductible temporary difference	(63)	(4,253)
Under provision in prior year	987	1,071
Total tax expenses	<u>11,589</u>	<u>3,412</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 25 CASH FLOWS FROM OPERATING ACTIVITIES

	Company	
	2016 RM'000	2015 RM'000
Profit before zakat and taxation	12,304	15,630
Profit from government guaranteed sukuk	(9,882)	(8,877)
Profit from government investment issues	(4,376)	(4,273)
Profit from corporate debt securities	(19,336)	(18,886)
Profit from fixed deposits with licensed Islamic financial institutions	(1,660)	(1,719)
Dividend income from quoted equity securities	(17,136)	(12,902)
Increase in takaful contract liabilities	(12,103)	(4,272)
Non-cash items		
Amortisation of intangible assets	4,894	4,170
(Decrease)/increase in impairment of receivables	(504)	794
Depreciation of plant and equipment	115	162
Gain from disposal of plant and equipment	-	1
Fair value movement of investments	963	3,917
Net amortisation of investments	266	636
Provision for expense reserves	(3,630)	70
Write off of intangible assets	209	-
Changes in working capital:		
Decrease in receivables	2,125	18,226
Decrease in payables	(6,891)	(3,665)
Increase in participants' fund	42,207	65,724
Profit paid to participants	(19)	(1,316)
Increase/(decrease) in retakaful assets	15,283	(4,331)
Cash generated from operating activities	<u>2,829</u>	<u>49,089</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.

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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") - Held for trading ("HFT");
- (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 -HFT RM'000	AFS RM'000
<b>2016</b>				
<b>Financial assets</b>				
<u>Takaful Operator</u>				
Investment assets	139,911	-	-	139,911
Financing receivables, excluding takaful receivables	47,260	47,260	-	-
Cash and cash equivalents	2,896	2,896	-	-
<u>General Takaful Fund</u>				
Investment assets	49,858	-	-	49,858
Financing receivables, excluding takaful receivables	1,530	1,530	-	-
Retakaful assets	32,851	32,851	-	-
Takaful receivables	3,647	3,647	-	-
Cash and cash equivalents	7,328	7,328	-	-
<u>Family Takaful Fund</u>				
Investment assets	994,290	-	527,172	467,118
Financing receivables, excluding takaful receivables	6,727	6,727	-	-
Retakaful assets	34,415	34,415	-	-
Takaful receivables	4,371	4,371	-	-
Cash and cash equivalents	44,580	44,580	-	-
<u>Company</u>				
Investment assets	1,184,059	-	527,172	656,887
Financing receivables, excluding takaful receivables	37,721	37,721	-	-
Retakaful assets	67,266	67,266	-	-
Takaful receivables	8,018	8,018	-	-
Cash and cash equivalents	54,804	54,804	-	-

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 26 FINANCIAL INSTRUMENTS (CONTINUED)

##### 26.1 Categories of financial instruments (continued)

	Carrying amount RM'000	(FL) RM'000
<b>2016</b>		
<b>Financial liabilities</b>		
<u>Takaful Operator</u>		
Takaful payables	(817)	(817)
Other payables	(19,392)	(19,392)
Amount due to shareholders	(27,000)	(27,000)
<u>General Takaful Fund</u>		
Takaful contract liabilities	(88,431)	(88,431)
Takaful payables	(910)	(910)
Other payables	(4,990)	(4,990)
<u>Family Takaful Fund</u>		
Takaful contract liabilities	(1,050,191)	(1,050,191)
Takaful payables	(5,338)	(5,338)
Other payables	(26,923)	(26,923)
<u>Company</u>		
Takaful contract liabilities	(1,138,622)	(1,138,622)
Takaful payables	(7,064)	(7,064)
Other payables	(33,510)	(33,510)
Amount due to shareholders	(27,000)	(27,000)

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.1 Categories of financial instruments (continued)**

	Carrying Amount RM'000	L&R/ (FL) RM'000	FVTPL -HFT RM'000	AFS RM'000
<b>2015</b>				
<b>Financial assets</b>				
<u>Takaful Operator</u>				
Investment assets	144,872	-	-	144,872
Financing receivables, excluding takaful receivables	45,211	45,211	-	-
Cash and cash equivalents	3,074	3,074	-	-
<u>General Takaful Fund</u>				
Investment assets	50,113	-	-	50,113
Financing receivables, excluding takaful receivables	792	792	-	-
Retakaful assets	43,158	43,158	-	-
Takaful receivables	7,513	7,513	-	-
Cash and cash equivalents	4,549	4,549	-	-
<u>Family Takaful Fund</u>				
Investment assets	952,046	-	492,077	459,969
Financing receivables, excluding takaful receivables	7,251	7,251	-	-
Retakaful assets	39,391	39,391	-	-
Takaful receivables	5,460	5,460	-	-
Cash and cash equivalents	43,604	43,604	-	-
<u>Company</u>				
Investment assets	1,147,031	-	492,077	654,954
Financing receivables, excluding takaful receivables	38,175	38,175	-	-
Retakaful assets	82,549	82,549	-	-
Takaful receivables	12,973	12,973	-	-
Cash and cash equivalents	51,227	51,227	-	-

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 26 FINANCIAL INSTRUMENTS (CONTINUED)

##### 26.1 Categories of financial instruments (continued)

	Carrying amount RM'000	(FL) RM'000
<b>2015</b>		
<b>Financial liabilities</b>		
<u>Takaful Operator</u>		
Takaful payables	(1,515)	(1,515)
Other payables	(21,592)	(21,592)
Amount due to shareholders	(27,000)	(27,000)
<u>General Takaful Fund</u>		
Takaful contract liabilities	(94,288)	(94,288)
Takaful payables	(4,518)	(4,518)
Other payables	(7,727)	(7,727)
<u>Family Takaful Fund</u>		
Takaful contract liabilities	(1,012,782)	(1,012,782)
Takaful payables	(12,965)	(12,965)
Other payables	(20,191)	(20,191)
<u>Company</u>		
Takaful contract liabilities	(1,107,070)	(1,107,070)
Takaful payables	(18,998)	(18,998)
Other payables	(34,430)	(34,430)
Amount due to shareholders	(27,000)	(27,000)

##### 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
<b>2016</b>				
Net gains on:				
Financing receivables	271	755	4,024	5,050
Fair value through profit or loss	-	-	2,367	2,367
Available-for-sale financial assets	6,645	1,684	12,646	24,546
	<u>6,916</u>	<u>2,439</u>	<u>19,037</u>	<u>31,963</u>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 26 FINANCIAL INSTRUMENTS (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<b>2015</b>				
Net gains/(losses) on:				
Financing receivables	234	(652)	3,355	2,937
Fair value through profit or loss	-	-	8,749	8,749
Available-for-sale financial assets	7,012	1,691	10,057	18,760
	<u>7,246</u>	<u>1,039</u>	<u>22,161</u>	<u>30,446</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.

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.

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

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
<b>2016</b>				
<u>AFS</u>				
Government investment issues	25,030	-	78,335	103,365
Government guaranteed sukuk	25,030	14,865	162,224	202,119
Corporate debt securities	89,851	34,993	226,559	351,403
<u>FVTPL</u>				
Government investment issues	-	-	10,104	10,104
Government guaranteed sukuk	-	-	59,158	59,158
Corporate debt securities	-	-	81,129	81,129
Collective investment schemes	-	-	363,761	363,761
<u>L&amp;R</u>				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	19,622	1,530	6,727	10,083
Retakaful assets	-	32,851	34,415	67,266
Takaful receivables	-	3,647	4,371	8,018
Cash and bank balances	2,896	7,328	44,580	54,804
	<u>190,067</u>	<u>95,214</u>	<u>1,071,363</u>	<u>1,338,848</u>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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
<b>2015</b>				
<u>AFS</u>				
Government investment issues	25,140	-	78,282	103,422
Government guaranteed sukuk	20,049	10,027	155,627	185,703
Corporate debt securities	99,683	40,086	226,060	365,829
<u>FVTPL</u>				
Government investment issues	-	-	10,148	10,148
Government guaranteed sukuk	-	-	53,597	53,597
Corporate debt securities	-	-	75,437	75,437
Collective investment schemes	-	-	340,157	340,157
<u>L&amp;R</u>				
Fixed deposits with licensed Islamic financial institutions	27,000	-	-	27,000
Financing receivables, excluding takaful receivables	18,211	792	7,251	11,175
Retakaful assets	-	43,158	39,391	82,549
Takaful receivables	-	7,513	5,460	7,514
Cash and bank balances	3,074	4,549	43,604	51,227
	<u>193,157</u>	<u>106,125</u>	<u>1,035,014</u>	<u>1,313,758</u>

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

**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 ("RAM") and MARC 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	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
2016						
<u>AFS</u>						
Government investment issues	-	-	-	-	25,030*	25,030
Government debt securities	-	-	-	-	25,030*	25,030
Corporate debt securities	75,016	14,835	-	-	-	89,851
<u>L&amp;R</u>						
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	-	-	27,638
Financing receivables, excluding takaful receivables	-	-	-	-	19,622	19,622
Cash and bank balances	2,896	-	-	-	-	2,896

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26 FINANCIAL INSTRUMENTS (CONTINUED)****26.4 Credit risk (continued)****(i) Takaful Operator (continued)**

2015

AFS

	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
Government investment issues	-	-	-	-	25,140*	25,140
Government debt securities	-	-	-	-	20,049*	20,049
Corporate debt securities	84,933	14,750	-	-	-	99,683
<u>L&amp;R</u>						
Fixed deposits with licensed Islamic financial institutions	27,000	-	-	-	-	27,000
Financing receivables, excluding takaful receivables	-	-	-	-	18,211	18,211
Cash and bank balances	3,074	-	-	-	-	3,074

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

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**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

**(ii) General Takaful Fund**

**2016**

	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>						
Government guaranteed sukuk	-	-	-	-	14,865*	14,865
Corporate debt securities	34,993	-	-	-	-	34,993
<u>L&amp;R</u>						
Financing receivables, excluding takaful receivables	-	-	-	-	1,530	1,530
Retakaful assets	-	-	-	-	32,851	32,851
Takaful receivables	-	-	-	-	3,647	3,647
Cash and bank balances	7,328	-	-	-	-	7,328

**2015**

	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>						
Government guaranteed sukuk	-	-	-	-	10,027*	10,027
Corporate debt securities	40,086	-	-	-	-	40,086
<u>L&amp;R</u>						
Financing receivables, excluding takaful receivables	-	-	-	-	792	792
Retakaful assets	-	-	-	-	43,158	43,158
Takaful receivables	-	-	4,135	318	3,060	7,513
Cash and bank balances	4,549	-	-	-	-	4,549

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

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

**(iii) Family Takaful Fund**

**2016**

	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>						
Government investment issues	-	-	-	-	78,335*	78,335
Government guaranteed sukuk	-	-	-	-	162,224*	162,224
Corporate debt securities	197,147	29,412	-	-	-	226,559
<u>FVTPL</u>						
Government investment issues	-	-	-	-	10,104*	10,104
Government guaranteed sukuk	-	-	-	-	59,158*	59,158
Corporate debt securities	81,129	-	-	-	-	81,129
Collective investment schemes	-	-	-	-	363,761**	363,761
<u>L&amp;R</u>						
Financing receivables, excluding takaful receivables	-	-	-	-	6,727	6,727
Retakaful assets	-	-	-	-	34,415	34,415
Takaful receivables	-	-	-	-	4,371	4,371
Cash and bank balances	44,580	-	-	-	-	44,580

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

\*\* Collective investment schemes are approved funds of Securities Commission of Malaysia

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

**(iii) Family Takaful Fund (continued)**

	2015	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>							
Government investment issues	-	-	-	-	-	78,282*	78,282
Government guaranteed sukuk	-	-	-	-	-	155,627*	155,627
Corporate debt securities	196,815	29,245	-	-	-	-	226,060
<u>EVTP</u>							
Government investment issues	-	-	-	-	-	10,148*	10,148
Government guaranteed sukuk	-	-	-	-	-	53,597*	53,597
Corporate debt securities	75,437	-	-	-	-	-	75,437
Collective investment schemes	-	-	-	-	-	340,157**	340,157
<u>L&amp;R</u>							
Financing receivables, excluding takaful receivables	-	-	-	-	-	7,251	7,251
Retakaful assets	-	-	-	-	-	39,391	39,391
Takaful receivables	-	-	-	-	-	5,460	5,460
Cash and bank balances	43,604	-	-	-	-	-	43,604

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

\*\* Collective investment schemes are approved funds of Securities Commission of Malaysia

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

(iv) Company	2016	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>							
Government investment issues	-	-	-	-	-	103,365*	103,365
Government guaranteed sukuk	-	-	-	-	-	202,119*	202,119
Corporate debt securities	307,157	44,246	-	-	-	-	351,403
<u>FVTPL</u>							
Government investment issues	-	-	-	-	-	10,104*	10,104
Government guaranteed sukuk	-	-	-	-	-	59,158*	59,158
Corporate debt securities	81,129	-	-	-	-	-	81,129
Collective investment schemes	-	-	-	-	-	363,761**	363,761
<u>L&amp;R</u>							
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	-	-	-	27,638
Financing receivables, excluding takaful receivables	-	-	-	-	-	10,083	10,083
Retakaful assets	-	-	-	-	-	67,266	67,266
Takaful receivables	-	-	-	-	-	8,018	8,018
Cash and bank balances	54,804	-	-	-	-	-	54,804

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

\*\* Collective investment schemes are approved funds of Securities Commission of Malaysia

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

**(iv) Company (continued)**

	2015	AAA RM'000	AA RM'000	AA RM'000	BBB RM'000	Not-rated RM'000	Total RM'000
<u>AFS</u>							
Government investment issues	-	-	-	-	-	103,422*	103,422
Government guaranteed sukuk	-	-	-	-	-	185,703*	185,703
Corporate debt securities	321,834	43,995	-	-	-	-	365,829
<u>EVTP</u>							
Government investment issues	-	-	-	-	-	10,148*	10,148
Government guaranteed sukuk	-	-	-	-	-	53,597*	53,597
Corporate debt securities	75,437	-	-	-	-	-	75,437
Collective investment schemes	-	-	-	-	-	340,157**	340,157
<u>L&amp;R</u>							
Fixed deposits with licensed Islamic financial institutions	27,000	-	-	-	-	-	27,000
Financing receivables, excluding takaful receivables	-	-	-	-	-	11,175	11,175
Retakaful assets	-	-	-	-	-	82,549	82,549
Takaful receivables	-	-	-	-	-	7,514	7,514
Cash and bank balances	51,227	-	-	-	-	-	51,227

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

\*\* Collective investment schemes are approved funds of Securities Commission of Malaysia

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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
<b>2016</b>				
<u>AFS</u>				
Government investment issues	25,030	-	-	25,030
Government guaranteed sukuk	25,030	-	-	25,030
Corporate debt securities	89,851	-	-	89,851
<u>L&amp;R</u>				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	19,622	-	-	19,622
Cash and bank balances	2,896	-	-	2,896
	<u>190,067</u>	<u>-</u>	<u>-</u>	<u>190,067</u>
<b>2015</b>				
<u>AFS</u>				
Government investment issues	25,140	-	-	25,140
Government guaranteed sukuk	20,049	-	-	20,049
Corporate debt securities	99,683	-	-	99,683
<u>L&amp;R</u>				
Fixed deposits with licensed Islamic financial institutions	27,000	-	-	27,000
Financing receivables, excluding takaful receivables	18,211	-	-	18,211
Cash and bank balances	3,074	-	-	3,074
	<u>193,157</u>	<u>-</u>	<u>-</u>	<u>193,157</u>

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

**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
<b>2016</b>				
<u>AFS</u>				
Government guaranteed sukuk	14,865	-	-	14,865
Corporate debt securities	34,993	-	-	34,993
<u>L&amp;R</u>				
Financing receivables, excluding takaful receivables	1,530	-	-	1,530
Retakaful assets	32,851	-	-	32,851
Takaful receivables	1,395	2,252	391	4,038
Cash and bank balances	7,328	-	-	7,328
	<u>92,962</u>	<u>2,252</u>	<u>391</u>	<u>95,605</u>
<b>2015</b>				
<u>AFS</u>				
Government guaranteed sukuk	10,027	-	-	10,027
Corporate debt securities	40,086	-	-	40,086
<u>L&amp;R</u>				
Financing receivables, excluding takaful receivables	792	-	-	792
Retakaful assets	43,158	-	-	43,158
Takaful receivables	1,111	6,402	1,429	8,942
Cash and bank balances	4,549	-	-	4,549
	<u>99,723</u>	<u>6,402</u>	<u>1,429</u>	<u>107,554</u>

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

**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
<b>2016</b>				
<u>AFS</u>				
Government investment issues	78,335	-	-	78,335
Government guaranteed sukuk	162,224	-	-	162,224
Corporate debt securities	226,559	-	-	226,559
<u>FVTPL</u>				
Government investment issues	10,104	-	-	10,104
Government guaranteed sukuk	59,158	-	-	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes	363,761	-	-	363,761
<u>L&amp;R</u>				
Financing receivables, excluding takaful receivables	6,727	-	-	6,727
Retakaful assets	34,415	-	-	34,415
Takaful receivables	2,617	1,754	-	4,371
Cash and bank balances	44,580	-	-	44,580
	<u>1,069,609</u>	<u>1,754</u>	<u>-</u>	<u>1,071,363</u>

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

Impairment losses (continued)

**(iii) Family Takaful Fund (continued)**

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
<b>2015</b>				
<u>AFS</u>				
Government investment issues	78,282	-	-	78,282
Government guaranteed sukuk	155,627	-	-	155,627
Corporate debt securities	226,060	-	-	226,060
<u>FVTPL</u>				
Government investment issues	10,148	-	-	10,148
Government guaranteed sukuk	53,597	-	-	53,597
Corporate debt securities	75,437	-	-	75,437
Collective investment schemes	340,157	-	-	340,157
<u>L&amp;R</u>				
Financing receivables, excluding takaful receivables	7,251	-	-	7,251
Retakaful assets	39,391	-	-	39,391
Takaful receivables	-	5,460	4	5,464
Cash and bank balances	43,604	-	-	43,604
	<u>1,029,554</u>	<u>5,460</u>	<u>4</u>	<u>1,035,018</u>

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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
<b>2016</b>				
<u>AFS</u>				
Government investment issues	103,365	-	-	103,365
Government guaranteed sukuk	202,119	-	-	202,119
Corporate debt securities	351,404	-	-	351,403
<u>FVTPL</u>				
Government investment issues	10,104	-	-	10,104
Government guaranteed sukuk	59,158	-	-	59,158
Corporate debt securities	81,129	-	-	81,129
Collective investment schemes	363,761	-	-	363,761
<u>L&amp;R</u>				
Fixed deposits with licensed Islamic financial institutions	27,638	-	-	27,638
Financing receivables, excluding takaful receivables	10,083	-	-	10,083
Retakaful assets	67,266	-	-	67,266
Takaful receivables	4,011	4,006	391	8,408
Cash and bank balances	54,804	-	-	54,804
	<u>1,334,841</u>	<u>4,006</u>	<u>391</u>	<u>1,339,238</u>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 26 FINANCIAL INSTRUMENTS (CONTINUED)

##### 26.4 Credit risk (continued)

Impairment losses (continued)

(iv) Company (continued)

	Neither past due nor impaired RM'000	Past due but not impaired RM'000	Impaired RM'000	Total RM'000
<b>2015</b>				
<b><u>AFS</u></b>				
Government investment issues	103,422	-	-	103,422
Government guaranteed sukuk	185,703	-	-	185,703
Corporate debt securities	365,829	-	-	365,829
<b><u>FVTPL</u></b>				
Government investment issues	10,148	-	-	10,148
Government guaranteed sukuk	53,597	-	-	53,597
Corporate debt securities	75,437	-	-	75,437
Collective investment schemes	340,157	-	-	340,157
<b><u>L&amp;R</u></b>				
Fixed deposits with licensed Islamic financial institutions	27,000	-	-	27,000
Financing receivables, excluding takaful receivables	11,175	-	-	11,175
Retakaful assets	82,549	-	-	82,549
Takaful receivables	1,111	11,862	1,433	14,406
Cash and bank balances	51,227	-	-	51,227
	<u>1,307,355</u>	<u>11,862</u>	<u>1,433</u>	<u>1,320,650</u>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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
<b>At 1 January 2015</b>	-	593	45	638
Impairment loss	-	836	-	836
Write back of impairment loss	-	-	(41)	(41)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2015/ 1 January 2016</b>	-	1,429	4	1,433
Write back of impairment loss	-	(500)	(4)	(504)
Write off from takaful receivables	-	(538)	-	(538)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2016</b>	-	391	-	391
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

##### Aged analysis of financial assets past due but not impaired

	>90 days	>120 days	Total
<b>2016</b>			
<u>Takaful receivables</u>			
General Takaful Fund	123	2,129	2,252
Family Takaful Fund	142	1,612	1,754
	<hr/>	<hr/>	<hr/>
Company	265	3,741	4,006
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>2015</b>			
<u>Takaful receivables</u>			
General Takaful Fund	204	6,198	6,402
Family Takaful Fund	1,257	4,203	5,460
	<hr/>	<hr/>	<hr/>
Company	1,461	10,401	11,862
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.4 Credit risk (continued)**

Impairment losses (continued)

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.

At 31 December 2016, based on a collective assessment of receivables, there are impaired takaful receivables of RM391,000 (2015: RM797,000). There is no individual impairment loss provided during the financial year (2015: RM636,000). Relating to the individual impairment loss provided for one of the retakaful in previous financial year, RM 538,000 has been written off. 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 financing 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 certificates 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 regards to the liquidity requirement of each underlying fund, and withdrawal fee applies to reduce unexpected cash requirements.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26 FINANCIAL INSTRUMENTS (CONTINUED)****26.5 Liquidity risk (continued)**Maturity analysis

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

2016

	Up to a year RM'000	1 – 3 year RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity RM'000	Total RM'000
(i) Takaful Operator							
Takaful payables	817	-	-	-	-	-	817
Other payables	19,392	-	-	-	-	-	19,392
Amount due to shareholders	-	27,000	-	-	-	-	27,000
Total liabilities	20,209	27,000	-	-	-	-	47,209
(ii) General Takaful Fund							
Takaful contract liabilities	25,629	43,654	2,277	359	-	16,512	88,431
Takaful payables	910	-	-	-	-	-	910
Other payables	4,990	-	-	-	-	-	4,990
Total liabilities	31,529	43,654	2,277	359	-	16,512	94,331

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26 FINANCIAL INSTRUMENTS (CONTINUED)****26.5 Liquidity risk (continued)**Maturity analysis (continued)

2016

	Up to a year RM'000	1 – 3 year RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity RM'000	Total RM'000
(iii) Family Takaful Fund							
Takaful contract liabilities	14,165	49,532	40,544	227,360	648,416	70,174	1,050,191
Takaful payables	5,338	-	-	-	-	-	5,338
Other payables	26,923	-	-	-	-	-	26,923
<b>Total liabilities</b>	<b>46,426</b>	<b>49,532</b>	<b>40,544</b>	<b>227,360</b>	<b>648,416</b>	<b>70,174</b>	<b>1,082,452</b>
(iv) Company							
Takaful contract liabilities	39,794	93,186	42,821	227,719	648,416	86,686	1,138,622
Takaful payables	7,064	-	-	-	-	-	7,064
Other payables	33,510	-	-	-	-	-	33,510
Amount due to shareholders	-	27,000	-	-	-	-	27,000
<b>Total liabilities</b>	<b>80,368</b>	<b>120,186</b>	<b>42,821</b>	<b>227,719</b>	<b>648,416</b>	<b>86,686</b>	<b>1,206,196</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26 FINANCIAL INSTRUMENTS (CONTINUED)****26.5 Liquidity risk (continued)**Maturity analysis (continued)

2015

	Up to a year RM'000	1 – 3 year RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity RM'000	Total RM'000
(i) Takaful Operator							
Takaful payables	1,515	-	-	-	-	-	1,515
Other payables	21,592	-	-	-	-	-	21,592
Amount due to shareholders	-	-	27,000	-	-	-	27,000
Total liabilities	23,107	-	27,000	-	-	-	50,107
(ii) General Takaful Fund							
Takaful contract liabilities	37,992	53,918	2,409	-	-	(31)	94,288
Takaful payables	4,518	-	-	-	-	-	4,518
Other payables	7,727	-	-	-	-	-	7,727
Total liabilities	50,237	53,918	2,409	-	-	(31)	106,533

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2015

	Up to a year RM'000	1 – 3 year RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity RM'000	Total RM'000
(iii) Family Takaful Fund							
Takaful contract liabilities	16,035	30,408	50,496	216,239	642,841	56,763	1,012,782
Takaful payables	12,965	-	-	-	-	-	12,965
Other payables	20,191	-	-	-	-	-	20,191
Total liabilities	49,191	30,408	50,496	216,239	642,841	56,763	1,045,938
(iv) Company							
Takaful contract liabilities	54,027	84,326	52,905	216,239	642,841	56,732	1,107,070
Takaful payables	18,998	-	-	-	-	-	18,998
Other payables	34,430	-	-	-	-	-	34,430
Amount due to shareholders	-	-	27,000	-	-	-	27,000
Total liabilities	107,455	84,326	79,905	216,239	642,841	56,732	1,187,498

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**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.6 Market risk**

Market risk is the risk of loss in the valuation of the Company's investments due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises of profit rate risk and price risk.

**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:

	<b>Takaful Operator RM'000</b>	<b>General Takaful Fund RM'000</b>	<b>Family Takaful Fund RM'000</b>	<b>Company RM'000</b>
<b>2016</b>				
Fixed rate instruments Financial assets	<u>139,911</u>	<u>49,858</u>	<u>617,509</u>	<u>807,277</u>
<b>2015</b>				
Fixed rate instruments Financial assets	<u>144,872</u>	<u>50,113</u>	<u>599,151</u>	<u>794,136</u>

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**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.6 Market risk (continued)**

**26.6.1 Profit rate risk (continued)**

(a) Fair value sensitivity analysis for fixed rate instruments

The Company accounts for certain fixed rate financial assets at fair value through statement of 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		
		Takaful Fund RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
<b>2016</b>				
Profit rate	+100bps	-	-	(9,190)
Profit rate	-100bps	-	-	10,091
<b>2015</b>				
Profit rate	+100bps	-	-	(9,365)
Profit rate	-100bps	-	-	10,356

**26.6.2 Equity price risk**

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

Risk management objectives, policies and processes for managing the risk

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company outsources its investment function of the equity investment portfolio to external fund manager. The Company manages its equity price risk by continuous monitoring of the exposure against policies set and agreed in the investment mandate. These policies include monitoring the portfolio's exposure against benchmark set and single security exposure of the portfolio against the limits set.

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 26 FINANCIAL INSTRUMENTS (CONTINUED)

##### 26.6 Market risk (continued)

##### 26.6.2 Equity price 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 EMAS Shariah Index ("FBMS").

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	<u>Impact on equity/participants' funds</u>		
		Takaful Fund RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000
<b>2016</b>				
Equity price	+10bps	-	-	37,678
Equity price	-10bps	-	-	(37,678)
<b>2015</b>				
Equity price	+10bps	-	-	34,631
Equity price	-10bps	-	-	(34,631)

##### 26.7 Fair value information

The carrying amounts of takaful receivables, 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.

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

**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 RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<b>2016</b>								
<u>Takaful Operator</u>								
<u>Financial assets</u>								
Government investment issues	-	25,030	-	-	-	-	25,030	25,030
Government guaranteed sukuk	-	25,030	-	-	-	-	25,030	25,030
Corporate debt securities	-	89,851	-	-	-	-	89,851	89,851
<u>Financial liabilities</u>								
Amount due to shareholders	-	-	-	-	-	-	24,664	27,000
<u>General Takaful Fund</u>								
<u>Financial assets</u>								
Government guaranteed sukuk	-	14,865	-	-	-	-	14,865	14,865
Corporate debt securities	-	34,993	-	-	-	-	34,993	34,993

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.7 Fair value information (continued)**

2016

Family Takaful Fund

Financial assets

	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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
Quoted equity securities	13,020	-	-	-	-	-	13,020	13,020
Collective investment schemes	-	363,761	-	-	-	-	363,761	363,761
Government investment issues	-	88,439	-	-	-	-	88,439	88,439
Government guaranteed sukuk	-	221,382	-	-	-	-	221,382	221,382
Corporate debt securities	-	307,688	-	-	-	-	307,688	307,688
	<u>13,020</u>	<u>981,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>994,290</u>	<u>994,290</u>

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.7 Fair value information (continued)**

2016	Company	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	Level 1 RM'000	Level 2 RM'000		
	<u>Financial assets</u>								
	Quoted equity securities	13,020	-	-	13,020	-	-	-	13,020
	Collective investment schemes	-	363,761	-	363,761	-	-	-	363,761
	Government investment issues	-	113,469	-	113,469	-	-	-	113,469
	Government guaranteed sukuk	-	261,277	-	261,277	-	-	-	261,277
	Corporate debt securities	-	432,532	-	432,532	-	-	-	432,532
		<u>13,020</u>	<u>1,171,039</u>	<u>-</u>	<u>1,184,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,184,059</u>
	<u>Financial liabilities</u>								
	Amount due to shareholders	-	-	-	-	-	-	24,664	27,000

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.7 Fair value information (continued)**

2015	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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<u>Takaful Operator</u>								
<u>Financial assets</u>								
Government investment issues	-	25,140	-	-	-	-	25,140	25,140
Government guaranteed sukuk	-	20,049	-	-	-	-	20,049	20,049
Corporate debt securities	-	99,683	-	-	-	-	99,683	99,683
<u>Financial liabilities</u>								
Amount due to shareholders	-	-	-	-	-	(23,850)	(23,850)	(27,000)
<u>General Takaful Fund</u>								
<u>Financial assets</u>								
Government guaranteed sukuk	-	10,027	-	-	-	-	10,027	10,027
Corporate debt securities	-	40,086	-	-	-	-	40,086	40,086

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****26 FINANCIAL INSTRUMENTS (CONTINUED)****26.7 Fair value information (continued)**

2015

Family Takaful FundFinancial assets

	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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
Quoted equity securities	12,738	-	-	-	-	-	12,738	12,738
Collective investment schemes	-	340,157	-	-	-	-	340,157	340,157
Government investment issues	-	88,430	-	-	-	-	88,430	88,430
Government guaranteed sukuk	-	209,224	-	-	-	-	209,224	209,224
Corporate debt securities	-	301,497	-	-	-	-	301,497	301,497
	12,738	939,308	-	-	-	-	952,046	952,046

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

**26 FINANCIAL INSTRUMENTS (CONTINUED)**

**26.7 Fair value information (continued)**

2015	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	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
<u>Company</u>								
<u>Financial assets</u>								
Quoted equity securities	12,738	-	-	-	-	-	12,738	12,738
Collective investment schemes	-	340,157	-	-	-	-	340,157	340,157
Government investment issues	-	113,570	-	-	-	-	113,570	113,570
Government guaranteed sukuk	-	239,300	-	-	-	-	239,300	239,300
Corporate debt securities	-	441,266	-	-	-	-	441,266	441,266
	<u>12,738</u>	<u>1,134,293</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,147,031</u>	<u>1,147,031</u>
<u>Financial liabilities</u>								
Amount due to shareholders	-	-	-	-	-	(23,850)	(23,850)	(27,000)

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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.

##### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of expected future cash flows, discounted at the market rate of profit rate at the end of the reporting period.

##### 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 (2015: NIL).

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	
	2016	2015
	%	%
Amount due to shareholders	3.06	3.15

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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 capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the Risk Based Capital Framework is provided below:

	2016 RM'000	2015 RM'000
<b>Eligible Tier 1 Capital</b>		
Share capital	100,000	100,000
Reserve, including retained earnings	19,182	18,466
Valuation surplus maintained in the takaful funds	58,391	50,417
<b>Eligible Tier 2 Capital</b>		
AFS fair value reserves	(700)	(719)
PSIA	16,200	21,600
Amount deducted from capital	(17,463)	(20,506)
Capital available	<u>176,610</u>	<u>169,259</u>
Total capital available	<u>146,495</u>	<u>147,672</u>

#### 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 Risk 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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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 28 TAKAFUL RISK (CONTINUED)

##### 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 arrangements the retakaful operators 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 fails to meet the obligations assumed. Proportional and non-proportional retakaful is availed in order to reduce net exposure through treaty and facultative 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.

###### (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
<b>2016</b>			
Fire	35,953	(2,263)	33,690
Personal accident	5,349	(620)	4,759
Miscellaneous	434	(74)	360
Marine	88	(4)	(84)
	<u>41,824</u>	<u>(2,962)</u>	<u>38,862</u>
<b>2015</b>			
Fire	40,725	(5,094)	35,631
Personal accident	10,619	9	10,628
Miscellaneous	2,022	(408)	1,614
Marine	1,564	(359)	1,205
	<u>54,930</u>	<u>(5,852)</u>	<u>49,078</u>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 28 TAKAFUL RISK (CONTINUED)

##### 28.3 Other risks (continued)

###### (a) General takaful contracts (continued)

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.

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 (Gross) %	Impact on gross liabilities RM'000
<b>2016</b>		
Fire loss ratio	1.9	4,410
Personal accident loss ratio	5.5	3,734
<b>2015</b>		
Fire loss ratio	1.8	6,499
Personal accident loss ratio	5.6	5,268

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 28 TAKAFUL RISK (CONTINUED)

##### 28.3 Other risks (continued)

###### (a) General takaful contracts (continued)

	Change in Assumptions (Net) %	Impact on net liabilities RM'000	Impact on under-writing surplus RM'000
<b>2016</b>			
Fire loss ratio	0.9	1,839	(827)
Personal accident loss ratio	3.2	2,057	(926)
<b>2015</b>			
Fire loss ratio	0.6	1,965	(884)
Personal accident loss ratio	2.4	2,213	(996)

Sensitivity information will also vary according to current economic assumptions. The probability for 1% 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 for 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.

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

**28 TAKAFUL RISK (CONTINUED)**

**28.3 Other risks (continued)**

**(a) General takaful contracts (continued)**

Claims development table (continued)

Best Estimation for Gross General Takaful Certificate Liabilities for 2016

<u>Accident year</u>	Prior to 2010	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At the end of accident year	11,035	11,866	21,862	12,852	36,929	24,291	14,623	7,988	7,988
One year later	10,070	10,781	21,493	12,575	41,481	26,917	8,920	-	8,920
Two year later	7,196	8,273	19,314	12,310	41,608	25,162	-	-	25,162
Three year later	7,768	8,645	18,579	13,031	39,165	-	-	-	39,165
Four year later	7,544	8,372	17,579	12,143	-	-	-	-	12,143
Five year later	7,112	7,994	17,570	-	-	-	-	-	17,570
Six year later	6,962	7,994	-	-	-	-	-	-	7,994
Seven year later	6,963	-	-	-	-	-	-	-	6,963
Current Estimate of cumulative claim incurred	6,963	7,994	17,570	12,143	39,165	25,162	8,920	7,988	125,905

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****28 TAKAFUL RISK (CONTINUED)****28.3 Other risks (continued)****(a) General takaful contracts (continued)**

Claims development table (continued)

Best Estimation for Gross General Takaful Certificate Liabilities for 2016 (continued)

<u>Accident year</u>	<u>Prior to 2010</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At the end of accident year	4,835	3,670	7,841	3,795	3,559	3,195	2,456	1,511	1,511
One year later	6,080	7,965	8,449	8,154	10,215	11,520	3,466	-	3,466
Two year later	6,367	7,237	13,381	10,169	17,422	17,212	-	-	17,212
Three year later	6,961	7,237	13,385	11,290	17,808	-	-	-	17,808
Four year later	6,961	7,237	13,391	11,504	-	-	-	-	11,504
Five year later	6,962	7,240	13,392	-	-	-	-	-	13,392
Six year later	6,962	7,240	-	-	-	-	-	-	7,240
Seven year later	6,963	-	-	-	-	-	-	-	6,963
<b>Cumulative payments to date</b>	<b>6,963</b>	<b>7,240</b>	<b>13,392</b>	<b>11,504</b>	<b>17,808</b>	<b>17,212</b>	<b>3,466</b>	<b>1,511</b>	<b>79,096</b>
<b>Gross general takaful certificates liabilities</b>									
Best estimate of Claims	0	754	4,178	638	21,357	7,949	5,455	6,477	46,809
Liabilities (incl. ALAE)									
Fund PRAD at 75%									6,876
<b>Total</b>									<b>53,685</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****28 TAKAFUL RISK (CONTINUED)****28.3 Other risks (continued)****(a) General takaful contracts (continued)**

Claims development table (continued)

Best Estimation for Net General Takaful Certificate Liabilities for 2016

<u>Accident year</u>	<u>Prior to 2010</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2014</u> RM'000	<u>2015</u> RM'000	<u>2016</u> RM'000	<u>Total</u> RM'000
At the end of accident year	5,534	8,048	7,399	11,570	15,232	18,019	10,003	6,787	6,787
One year later	9,704	7,312	6,234	10,400	13,246	12,929	8,056	-	8,056
Two year later	6,934	7,086	5,594	9,902	11,990	10,242	-	-	10,242
Three year later	7,598	6,933	5,121	9,014	10,726	-	-	-	10,726
Four year later	7,339	6,718	4,325	8,794	-	-	-	-	8,794
Five year later	6,931	6,361	4,315	-	-	-	-	-	4,315
Six year later	6,781	6,362	-	-	-	-	-	-	6,362
Seven year later	6,782	-	-	-	-	-	-	-	6,782
Cumulative payments to date	6,782	6,362	4,315	8,794	10,726	10,242	8,056	6,787	62,064

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

**28 TAKAFUL RISK (CONTINUED)**

**28.3 Other risks (continued)**

**(a) General takaful contracts (continued)**

Claims development table (continued)

Best Estimation for Net General Takaful Certificate Liabilities for 2016 (continued)

<u>Accident year</u>	<u>Prior to 2010</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
At the end of accident year	4,713	2,867	2,808	3,500	3,004	2,765	2,355	1,489	1,489
One year later	5,862	5,364	3,419	6,696	6,230	7,224	3,286	-	3,286
Two year later	6,128	6,031	3,880	8,028	9,049	8,195	-	-	8,195
Three year later	6,771	6,031	3,883	8,198	9,201	-	-	-	9,201
Four year later	6,771	6,075	3,889	8,221	-	-	-	-	8,221
Five year later	6,781	6,075	3,890	-	-	-	-	-	3,890
Six year later	6,781	6,075	-	-	-	-	-	-	6,075
Seven year later	6,782	-	-	-	-	-	-	-	6,782
<b>Cumulative payments to date</b>	<b>6,782</b>	<b>6,075</b>	<b>3,890</b>	<b>8,221</b>	<b>9,201</b>	<b>8,195</b>	<b>3,286</b>	<b>1,489</b>	<b>47,139</b>
<b>Net general takaful certificates liabilities</b>									
Best estimate of Claims	-	287	425	573	1,525	2,047	4,770	5,297	14,924
Liabilities (incl. ALAE)									6,245
Fund PRAD at 75%									
<b>Total</b>									<b>21,169</b>

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 28 TAKAFUL RISK (CONTINUED)

##### 28.3 Other risks (continued)

###### (b) Family takaful contracts

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

	Gross RM'000	Retakaful RM'000	Net RM'000
<b>2016</b>			
Endowment	378,773	-	378,773
Mortgage	291,778	(23,242)	268,536
Investment-linked	365,836	-	365,836
Total family reserves	<u>1,036,387</u>	<u>(23,242)</u>	<u>1,013,145</u>
<b>2015</b>			
Endowment	360,385	-	360,385
Mortgage	298,505	(28,363)	270,142
Investment-linked	341,446	-	341,446
Total family reserves	<u>1,000,336</u>	<u>(28,363)</u>	<u>971,973</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 rates

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****28 TAKAFUL RISK (CONTINUED)****28.3 Other risks (continued)****(b) Family takaful contracts (continued)**

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

	<b>Mortality and morbidity rates</b>	<b>Investment returns</b>	<b>Expense</b>	<b>Lapse and surrender rates</b>	<b>Discount rate</b>
<u>2016</u>					
Endowment	+10% <sup>(ii)</sup>	+1.0%	+10%	+50%	-1.0%
Mortgage	+10% <sup>(ii)</sup>	+1.0%	+10%	+50%	-1.0%
Investment-linked	+10% <sup>(i)&amp;(ii)</sup>	+1.0%	+10%	+50%	-1.0%
<u>2015</u>					
Endowment	+10% <sup>(ii)</sup>	+1.0%	+10%	+50%	-1.0%
Mortgage	+10% <sup>(ii)</sup>	+1.0%	+10%	+50%	-1.0%
Investment-linked	+10% <sup>(i)&amp;(ii)</sup>	+1.0%	+10%	+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.

	<b>Change in assumptions</b>	<b>Impact on gross liabilities RM'000</b>	<b>Impact on net liabilities RM'000</b>	<b>Impact on under- writing surplus RM'000</b>
<u>2016</u>				
Mortality and morbidity	+10	15,769	3,194	(3,194)
Investment returns	+100bps	(374)	(68)	68
Expense*	+10	(7,269)	(7,269)	-
Lapse and surrender rates	+50	4,792	6,577	(6,577)
Discount rates	-100bps	19,216	17,913	(17,913)

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 28 TAKAFUL RISK (CONTINUED)

##### 28.3 Other risks (continued)

##### (b) Family takaful contracts (continued)

##### Sensitivities (continued)

	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on under-writing surplus RM'000
<b>2015</b>				
Mortality and morbidity	+10	18,177	3,236	(3,236)
Investment returns	+100bps	-	-	-
Expense*	+10	7,734	7,734	-
Lapse and surrender rates	+50	5,120	7,134	(7,134)
Discount rates	-100bps	19,699	18,276	(18,276)

\* This assumption applies on Operator Expense Liability in relation to family fund.

#### 29 CAPITAL AND OTHER COMMITMENTS

	Takaful Operator and Company	
	2016 RM'000	2015 RM'000
Capital expenditure commitments		
Intangible assets		
Approved and contracted for	3,270	8,052
Approved but not contracted for	2,249	-

#### 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, related companies, Directors and key management personnel.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**30 RELATED PARTIES (CONTINUED)**

Significant related party transactions

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

	2016 RM'000	2015 RM'000
<u>Immediate holding company</u>		
Profit expenses (PSIA)	(410)	(398)
<u>Related companies</u>		
Contribution income for Family Takaful	3,744	1,586
Contribution income for General Takaful	1,106	4,180
Investment income	123	1,611
Claims expense for Family Takaful	(1,299)	(537)
Claims expense for General Takaful	(1,910)	(99)
Fees and commission	(10,764)	(15,203)
Information technology costs and professional and consultancy fees	(1,858)	(4,086)
Rental and maintenance expenses	(1,795)	(2,453)
Shared cost for service centre and support service and administrative recharges	(6,336)	(7,605)
Profit expenses (PSIA)	(427)	(421)
Marketing allowance and campaigns	(1,414)	(1,336)

The significant outstanding balances of the Company as at 31 December 2016 with its related parties are as follows:

	2016 RM'000	2015 RM'000
Amount due from/(to):		
Fixed deposits with licensed Islamic financial institutions	27,638	27,000
Bank balances	31,307	47,991
Financing receivables	-	330
Amount due to shareholders	(28,257)	(28,269)
Other payables	(9,736)	(10,895)

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 31 KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensations are as follows:

	Takaful Operator and Company	
	2016	2015
	RM'000	RM'000
Key management personnel		
<u>Chief executive officer:</u>		
Yahya Adnan Ahmad (appointed on August 2015)		
Salary	655	295
Bonus	212	-
Contributions to defined contribution plans	177	59
Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	195	52
Zainudin bin Ishak (resigned on 31 January 2015)		
Salary	-	55
Contributions to defined contribution plans	-	12
Other short-term employee benefits (including estimated monetary value of benefits-in-kind)	-	28
<u>Non-executive directors:</u>		
Fees:		
Kasim bin Zakaria	92	50
Datuk Haron bin Siraj	79	50
K . Vithyatharan A/L V Karunakaran	81	33
Sazaliza bin Zainuddin	65	25
Saiful Yazan Ahmad	45	-
<u>Shariah committee members</u>		
Fees:		
En. Muhammad Ali Jinnah Ahmad	24	24
En. Khairul Anuar Ahmad	20	20
En. Muhamad Faisal Ashaari	20	20
Assoc. Prof. Dr. Md. Som Sujimon	20	20
Asst. Prof. Dr. Ghazali Jaapar	20	20
Other emoluments:		
En. Muhammad Ali Jinnah Ahmad	6	8
En. Khairul Anuar Ahmad	6	7
En. Muhamad Faisal Ashaari	6	7
Assoc. Prof. Dr. Md. Som Sujimon	5	6
Asst. Prof. Dr. Ghazali Jaapar	5	7
	1,733	798
	1,733	798

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## HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 31 KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Value of remuneration awards

	<-----2016----->		<-----2015----->	
	Unrestricted RM'000	Deferred RM'000	Unrestricted RM'000	Deferred RM'000
Fixed remuneration				
- Cash	2,317	-	1,877	-
	<u>2,317</u>	<u>-</u>	<u>1,877</u>	<u>-</u>
Variable remuneration				
- Cash	433	624	502	-
	<u>433</u>	<u>624</u>	<u>502</u>	<u>-</u>
Number of officer received fixed & variable Remuneration	6	5	6	-

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.

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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**32 FAMILY TAKAFUL FUNDS**

Statement of financial position by fund

	Note	Family Takaful Fund RM'000	Investment- linked Funds RM'000	Total 2016 RM'000	2015 RM'000
<b>Assets</b>					
Investment assets	6	630,529	363,761	994,290	952,046
Retakaful assets	7	34,415	-	34,415	39,391
Financing receivables, excluding takaful receivables	8	6,558	169	6,727	7,251
Takaful receivables	9	4,371	-	4,371	5,460
Deferred tax assets	10	(186)	1,801	1,615	836
Cash and cash equivalents	11	48,575	(3,995)	44,580	43,604
<b>Total family takaful assets</b>		<b>724,262</b>	<b>361,736</b>	<b>1,085,998</b>	<b>1,048,588</b>
<b>Liabilities</b>					
Takaful contract liabilities	13	684,355	365,836	1,050,191	1,012,782
Takaful payables	15	5,338	-	5,338	12,965
Other payables	16	32,516	(5,593)	26,923	20,191
Current tax liabilities		2,053	1,493	3,546	2,650
<b>Total family takaful liabilities</b>		<b>724,262</b>	<b>361,736</b>	<b>1,085,998</b>	<b>1,048,588</b>

**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****32 FAMILY TAKAFUL FUNDS (CONTINUED)**

Statement of profit or loss by fund

	Note	Family Takaful Fund RM'000	Investment- linked Funds RM'000	Total	
				2016 RM'000	2015 RM'000
Gross contributions	20	66,336	75,571	141,907	205,451
Contributions ceded to retakaful	20	(18,989)	-	(18,989)	(30,175)
<b>Net earned contributions</b>		<u>47,347</u>	<u>75,571</u>	<u>122,918</u>	<u>175,276</u>
Gross benefits and claims paid		(59,067)	(44,883)	(103,950)	(136,378)
Claims ceded to retakaful		19,111	-	19,111	24,538
Gross changes in claims liabilities		1,359	-	1,359	1,766
Changes in claims liabilities ceded to retakaful		145	-	145	(1,199)
<b>Net benefits and claims</b>		<u>(38,453)</u>	<u>(44,883)</u>	<u>(83,336)</u>	<u>(111,273)</u>
Investment income	21	12,657	16,747	29,404	24,319
Fee and commission income	22	2,886	-	2,886	2,013
Writeback of impairment of receivables		4	-	4	41
Other operating income		2,578	(83)	2,495	-
<b>Other income</b>		<u>18,125</u>	<u>16,663</u>	<u>34,789</u>	<u>26,263</u>
Wakalah fees		(8,293)	(8,196)	(16,489)	(32,016)
Realised gain and losses		575	(14,381)	(13,806)	(110)
Fair value losses (unrealised)		(133)	(830)	(963)	(3,918)
Other expenses		-	-	-	(1,306)
<b>Other expenses</b>		<u>(7,851)</u>	<u>(23,407)</u>	<u>(31,258)</u>	<u>(37,240)</u>
Net underwriting surplus from operations		19,169	23,944	43,113	53,026
Surplus attributable to participants		(5,347)	-	(5,347)	(4,762)
Surplus attributable to Takaful Operator		(7,291)	-	(7,291)	(5,097)
Net surplus retained in takaful funds		<u>(5,610)</u>	<u>(25,053)</u>	<u>(30,663)</u>	<u>(42,845)</u>
<b>Surplus/(deficit) before taxation</b>		<u>921</u>	<u>(1,109)</u>	<u>(188)</u>	<u>322</u>



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

**33 COMPARATIVE FIGURES (CONTINUED)**

	31.12.2015				31.12.2015 (As previously stated)			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(c) Investment income (note 21)								
Wakalah fund management fee	-	-	(4,281)	-	-	-	-	-
Fund management fee rebate	-	-	4,165	4,165	-	-	-	-
Investment expense/ (income)	-	-	(77)	(77)	-	-	(193)	3,073
(d) Fee and commission income (note 22)								
Participant fund administration and investment management services	29	-	-	29	5,133	-	-	48

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

#### **34 SIGNIFICANT EVENT**

Bank Negara Malaysia via its letters, have stated it has no objections for our shareholders to commence negotiations with certain parties for the possible acquisition of up to 100% equity interest in the Company, subject to the negotiations being concluded within a specified period.

Pursuant to the Islamic Financial Services Act 2013, the parties concerns are required to obtain the prior written approval from BNM or the Minister of Finance on the recommendation of BNM, as the case may be, before entering into any agreement to effect the Proposed Acquisition.

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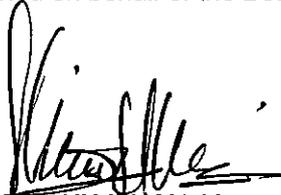
**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**

(Incorporated in Malaysia)

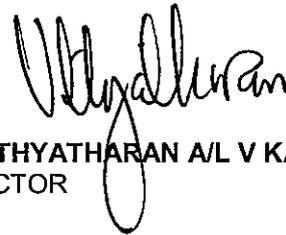
**STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT, 2016**

In the opinion of the Directors, the financial statements set out on pages 18 to 135 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with 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 2016 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:



**KASIM BIN ZAKARIA**  
CHAIRMAN



**K. VITHYATHARAN A/L V KARUNAKARAN**  
DIRECTOR

Kuala Lumpur, Malaysia  
22 MARCH 2017

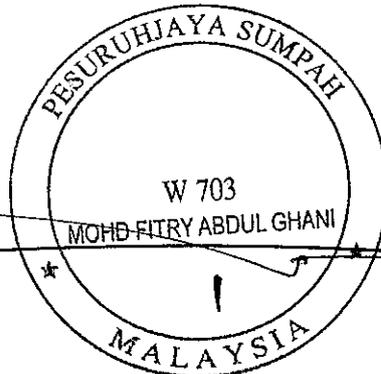
**STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT, 2016**

I, Sanjeev Suresh the officer primarily responsible for the financial management of HSBC Amanah Takaful (Malaysia) Berhad, do solemnly and sincerely declare that to the best of my knowledge and belief, the financial statements set out on pages 18 to 135 are correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur on 22 March 2017.



**SANJEEV SURESH**



Before me:

NO: 58A, JALAN BUKIT RAJA  
TAMAN SEPUTEH  
58000 KUALA LUMPUR

Company No.

731530	M
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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**REPORT OF THE SHARIAH COMMITTEE**

In the name of Allah, the Beneficent, the Merciful

Pursuant to our duties and responsibilities as Shariah Committee Members of HSBC Amanah Takaful (M) Berhad, we hereby submit our report for the financial year ended 31st December 2016:

We held eleven (11) meetings whereby we deliberated and confirmed on the principles and the contracts relating to the products; business transactions and operation applied by HSBC Amanah Takaful (Malaysia) Berhad ("the Company") for the period 1 January 2016 to 31 December 2016. 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 addition, we hereby report the following:

1. Throughout the financial year; we discussed and deliberated various issues in relation to Takaful products, marketing and operations. Besides; we also approved rectification plans for the issues related to takaful operation;
2. We approved 1 new product and several revision or enhancement made to existing products; and
3. We also approved new Shariah policy that relate to utilization of retained surplus and revision made to surplus allocation policies;

Company No.

731530	M
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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**REPORT OF THE SHARIAH COMMITTEE (CONTINUED)**

In our opinion:

1. the contracts applicable to products, transactions and dealings entered into by the Company during the period 1 January 2016 to 31 December 2016 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 had 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 2016 and to the best of our knowledge, have been conducted in conformity with the Shariah principles.



.....  
**MUHAMMAD ALI JINNAH BIN AHMAD**



.....  
**KHAIRUL ANUAR AHMAD**

Kuala Lumpur,

Date: 22 March 2017

Company No.

731530	M
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**HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**REPORT OF THE SHARIAH COMMITTEE (CONTINUED)**

**SHARIAH COMMITTEE MEETINGS OF  
HSBC AMANAH TAKAFUL MALAYSIA BERHAD YEAR 2016**

No	Month	Meeting Ref No.	Meeting Date
1.	January	01 (16)	21st January 2016
2.	February	02 (16)	25th February 2016
3.	March	03 (16)	17th March 2016
4.	April	04 (16)	21st April 2016
5.	May	05 (16)	19th May 2016
6.	July	07 (16)	27th July 2016
7.	August	08 (16)	23rd August 2016
8.	Ad Hoc	Ad Hoc (01/08)	30th August 2016
9.	September	09 (16)	27th September 2016
10.	November	11 (16)	15th November 2016
11.	December	12 (16)	20th December 2016

**ATTENDANCE**

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

No.	Name	Attendance
1.	En. Muhammad Ali Jinnah Ahmad	10/11
2.	En. Khairul Anuar Ahmad	11/11
3.	En. Muhammad Faisal Ashaari	11/11
4.	Assoc. Prof. Dr. Md. Som Sujimon	09/11
5.	Asst. Prof. Dr. Ghazali Jaapar	09/11



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD  
(Company No. 731530-M)  
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS

Opinion

In our opinion, the financial statements of HSBC Amanah Takaful (Malaysia) Berhad ("the Company") give a true and fair view of the financial position of the Company as of 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies, as set out on pages 7 to 120.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)  
(Company No. 731530-M)  
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 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 of the Company that are free from material misstatement, whether due to fraud or error.

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)  
(Company No. 731530-M)  
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
HSBC AMANAH TAKAFUL (MALAYSIA) BERHAD (CONTINUED)  
(Company No. 731530-M)  
(Incorporated in Malaysia)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

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

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

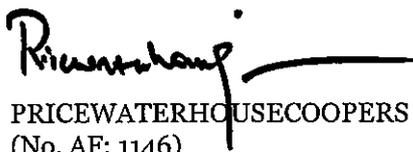
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

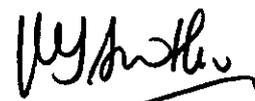
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

  
PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

  
SOO HOO KHOON YEAN  
(No. 2682/10/17 (J))  
Chartered Accountant

Kuala Lumpur  
22 March 2017