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ETIQA TAKAFUL BERHAD
(266243-D)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2013

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

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ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the management of general takaful, family takaful and takaful investment-linked business.

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

RESULTS

	RM'000
Net profit for the financial year	<u>188,524</u>

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

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

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The directors do not recommend the payment of any final dividend in respect of the current financial year.

MAYBANK GROUP EMPLOYEES' SHARE SCHEME

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by Malayan Banking Berhad's ("MBB") shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011 and is in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within the MBB Group.

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MAYBANK GROUP EMPLOYEES' SHARE SCHEME (CONT'D.)

The maximum number of ordinary shares of RM1 each in MBB available under the ESS should not exceed 10% of the total number of issued and paid-up capital of MBB at any point of time during the duration of the scheme.

ISSUE OF SHARES

On 30 October 2013, the Company issued 300,000,000 new ordinary shares of RM1.00 each to its holding company, Maybank Ageas Holdings Berhad ("MAHB"), at par for cash as disclosed in Note 9 to the financial statements. The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary shares of the Company in existence as of the issue date above.

DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

Dato' Mohd Salleh Hj Harun (Chairman)	
Gary Lee Crist (Vice Chairman)	
Dato' Johan Ariffin	
Zainal Abidin Jamal	
Loh Lee Soon	
Frank J.G Van Kempen	
Dr. Ismail Mohd @ Abu Hassan	(Appointed on 23 September 2013)
Koh Heng Kong	(Appointed on 23 September 2013)
Hans J. J. De Cuyper	(Resigned on 28 February 2013)
Mohamed Nor Abdul Hamid	(Resigned on 16 May 2013)
Datuk Dr. Syed Othman Syed Hussin Alhabshi	(Retired on 11 July 2013)

Pursuant to Article 96 of the Company's Articles of Association, Y. Bhg. Dato' Mohd Salleh Hj Harun and Y. Bhg. Dato' Johan Ariffin shall retire at the forth coming Annual General Meeting ("AGM") of the Company and being eligible, offer themselves for re-election.

Pursuant to Article 102 of the Company's Articles of Association, Dr. Ismail Mohd @ Abu Hassan and Koh Heng Kong shall retire at the forthcoming AGM of the Company and being eligible, offers themselves for re-election.

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SHARIAH COMMITTEE

The Company is advised by a Shariah Committee ("SC"), whose composition is as follows:

	Number of SC meetings attended	%
Tan Sri Dato' Seri (Dr.) Haji Harussani Haji Zakaria (Chairman)	7/8	87.5
Datuk Dr. Syed Othman Syed Hussin Alhabshi	8/8	100
Dr. Ismail Mohd @ Abu Hassan	8/8	100
Dr. Mohammad Deen Mohd Napiah	8/8	100
Dr. Ahcene Lahsasna	8/8	100
Sarip Adul	8/8	100

The SC met 8 times during the financial year.

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed to ensuring that the highest standards of corporate governance are practised in the Company. This is a fundamental part in discharging their responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

(a) Board Responsibilities

In discharging their duties, the Board is equally responsible to ensure compliance with the Islamic Financial Services Act 2013, and Bank Negara Malaysia's Policy Documents, including BNM/RH/GL 004-1: *Guidelines on Directorship for Takaful Operators*. It also complies with the tenets of corporate governance by adopting its best practices as stipulated under BNM/RH/GL 003-2: *Prudential Framework of Corporate Governance for Insurers*.

Apart from its statutory responsibilities, the Board approves the Company's major investments, disposals and funding decisions. It ensures the implementation of appropriate systems to manage risks and also reviews and approves the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly and/or through their various Committees.

The Board is responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

The Company has an organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees and formal performance appraisals are done annually.

ETIQA TAKAFUL BERHAD
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CORPORATE GOVERNANCE (CONT'D.)

(a) Board Responsibilities (Cont'd.)

The directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

The Board met 8 times during the financial year and the attendance of the directors was as follows:

	Number of Board meetings attended	%
Dato' Mohd Salleh Hj Harun (Chairman)	8/8	100
Gary Lee Crist (Vice Chairman)	7/8	87.5
Dato' Johan Ariffin	7/8	87.5
Zainal Abidin Jamal	7/8	87.5
Loh Lee Soon	7/8	87.5
Frank J.G Van Kempen	7/8	87.5
Dr. Ismail Mohd @ Abu Hassan (Appointed on 23 September 2013)	3/3	100
Koh Heng Kong (Appointed on 23 September 2013)	3/3	100
Hans J. J. De Cuyper (Resigned on 28 February 2013)	1/1	100
Mohamed Nor Abdul Hamid (Resigned on 16 May 2013)	3/3	100
Datuk Dr. Syed Othman Syed Hussin Alhabshi (Retired on 11 July 2013)	4/4	100

(b) Management Accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should be operating, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

(c) Corporate Independence

All material related party transactions have been disclosed in Note 34 to the financial statements.

ETIQA TAKAFUL BERHAD
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CORPORATE GOVERNANCE (CONT'D.)

(d) Internal Controls and Audit

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

The internal audit reports are tabled at the first scheduled Audit Committee ("AC") meeting after the date of receipt of these reports. The internal audit function reports to the Board through the AC, and its findings and recommendations are communicated to senior management and all levels of staff concerned.

The composition of the AC established at the level of the holding company, MAHB and the attendance of the directors are as follows:

	Number of AC meetings attended	%
Loh Lee Soon (Chairman) Independent, Non-Executive Director	4/4	100
Gary Lee Crist Non-Independent, Non-Executive Director	4/4	100
Koh Heng Kong (Appointed on 23 September 2013) Independent, Non-Executive Director	1/1	100
Datuk Dr. Syed Othman Syed Hussin Alhabshi (Retired on 11 July 2013) Independent, Non-Executive Director	2/2	100

ETIQA TAKAFUL BERHAD
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CORPORATE GOVERNANCE (CONT'D.)

(d) Internal Controls and Audit (cont'd.)

	Number of AC meetings attended	%
Zainal Abidin Jamal (Appointed on 12 July 2013 and resigned on 31 December 2013) Non-Independent, Non-Executive Director	2/2	100

The AC met 4 times during the financial year.

(e) Risk Management

The Board established Risk Management Committee ("RMC") to support sound corporate governance and processes. The primary objective of the RMC is to oversee senior management's activities in managing key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The RMC is established at the holding company's level. In discharging its responsibilities, the RMC is complemented by the Investment Committee of the Board and assisted by the Asset Liability Committee ("ALCO") established by the management.

The Shariah Committee ("SC"), set up in compliance with the Islamic Financial Services Act 2013, will oversee the operations of the Company to ensure that they are in line with the principles of Shariah.

The risk management framework of the Company comprises three main components, i.e. policy-making, monitoring and control and risk acceptance while the risk management approach would premise on three lines of defence i.e. risk-taking units, risk control units and internal audit. Risks have been classified into major risk categories, which are made up of financial, insurance operational, enterprise and shariah risks.

There is an on-going process in identifying, evaluating and managing the significant risks faced by the Company. This is achieved through designated management functions and internal controls, which include the setting up of operational risk limits for all core activities.

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CORPORATE GOVERNANCE (CONT'D.)

(e) Risk Management (cont'd.)

The composition of the RMC established at MAHB is as follows:

	Number of RMC meetings attended	%
Datuk R. Karunakaran (Chairman) (Redesignated as Chairman on 18 June 2013) Independent, Non-Executive Director	7/7	100
Gary Lee Crist Non-Independent, Non-Executive Director	7/7	100
Koh Heng Kong (Appointed on 23 September 2013) Independent, Non-Executive Director	3/3	100
Mohamed Nor Abdul Hamid (Resigned on 16 May 2013) Non-Independent, Non-Executive Director	3/3	100
Dato' Johan Ariffin (Appointed on 18 June 2013 and resigned on 31 December 2013) Independent, Non-Executive Director	4/4	100

The RMC met 7 times during the financial year.

(f) Nomination and Remuneration Committee

The Company will continue to leverage on the existing Nomination and Remuneration Committee ("NRC") of the Board which had taken effect as a merged committee of the ultimate holding company, MBB on 27 May 2010 as part of its governance structure.

The primary objective of the NRC is to establish a documented, formal and transparent procedure for the appointment of directors and the chief executive officer ("CEO") and key senior officers as well as assessment of the effectiveness of directors, the Board as a whole and the performance of the CEO and key senior officers.

Further, the NRC is also responsible to provide a formal and transparent procedure for developing remuneration policy for directors, the CEO and key senior officers and ensuring that compensation is competitive and consistent with the Company's culture, objectives and strategy.

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CORPORATE GOVERNANCE (CONT'D.)

(f) Nomination and Remuneration Committee (cont'd.)

The composition of the NRC are as follows:

	Number of NRC meetings attended	%
Dato' Mohd Salleh Hj Harun Independent, Non-Executive Director	12/12	100
Tan Sri Dr. Hadenan A. Jalil Independent, Non-Executive Director	12/12	100
Zainal Abidin Jamal Non-independent, Non-Executive Director	12/12	100
Dato' Dr. Tan Tat Wai Independent, Non-Executive Director	11/12	92
Alister Maitland (Retired on 28 March 2013) Independent, Non-Executive Director	3/3	100

The NRC met 12 times during the financial year.

(g) Investment Committee

The IC reports to the Board of all the operating companies under MAHB.

The objectives of the IC include, to present an opinion on the long-term strategic investment policy including real estate, as a recommendation for the Risk Management Meeting ("RMM")/RMC/Board based on the Asset Liability Committee ("ALCO")'s advice, to establish the tactical investment policy on the basis of proposals made by the investment manager and within the boundaries laid out in the Investment Management Mandates ("IMM"), to test the policy conducted by the investment manager against the strategic and tactical investment policy, to evaluate, review and maintain the Investment Management Guidelines ("IMG"), based on ALCO's advice, to evaluate, negotiate conditions with, appoint or dismiss external fund managers, custodians, banks and other financial intermediaries; to assess investment performance of proprietary portfolios and unit linked funds, and to discuss peer review on investment performance.

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CORPORATE GOVERNANCE (CONT'D.)

(g) Investment Committee (cont'd.)

The composition of the IC are as follows:

	Number of IC meetings attended	%
Datuk Abdul Farid Alias (Chairman) (Appointed on 25 November 2013) Non-Independent, Executive Director	-	-
Frank J.G Van Kempen (Appointed on 25 June 2013) Non-Independent, Non-Executive Director	-	-
Datuk R. Karunakaran Independent, Non-Executive Director	2/2	100
Dato' Sri Abdul Wahid Omar (Resigned on 4 June 2013) Non-Independent, Non-Executive Director	1/2	50
Datuk Dr. Syed Othman Syed Hussin Alhabshi (Retired on 11 July 2013) Independent, Non-Executive Director	2/2	100

The IC met 2 times during the financial year.

(h) Public Accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

(i) Financial Reporting

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements to shareholders. The AC of the Board assists by scrutinising the information to be disclosed to ensure accuracy, adequacy and completeness.

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DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, other than as may arise from the share options to be granted pursuant to the MBB Group ESS of the ultimate holding company, MBB.

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors, or the fixed salary of a full-time employee of the Company as disclosed in Notes 25 and 34 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares of the ultimate holding company, MBB, during the financial year were as follows:

	Numbers of ordinary shares of RM1 each			
	1 January 2013	DRP*	Bought	31 December 2013
Direct Interest:				
Dato' Mohd Salleh Haji Harun	322,651	14,748	-	337,399
Dato' Johan Ariffin	160,473	8,294	81,159	249,926

*DRP = Dividend Reinvestment Plan

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

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OTHER STATUTORY INFORMATION

- (a) Before the statement of financial position and income statement of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.

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OTHER STATUTORY INFORMATION (CONT'D.)

(f) In the opinion of the directors:

- (i) no material contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

(g) Before the statement of financial position and income statement of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for claims reported, claims incurred but not reported ("IBNR") and the actuarial valuation of family takaful liabilities.

SIGNIFICANT EVENT

There were no significant event during the financial year.

SUBSEQUENT EVENT

There were no material events subsequent to the end of the financial year that require disclosures or adjustments to the financial statements.

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ETIQA TAKAFUL BERHAD
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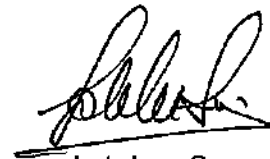
AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the directors dated 14 February 2014.

A handwritten signature in black ink, consisting of a large, stylized initial 'S' followed by the name 'Mohd Salleh Haji Harun' written in a cursive script.

Dato' Mohd Salleh Haji Harun

A handwritten signature in black ink, consisting of a large, stylized initial 'L' followed by the name 'Loh Lee Soon' written in a cursive script.

Loh Lee Soon

Kuala Lumpur, Malaysia
14 February 2014

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ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato' Mohd Salleh Haji Harun and Loh Lee Soon, being two of the directors of Etiqa Takaful Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 19 to 177 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2013 and of the results and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors.



Dato' Mohd Salleh Haji Harun



Loh Lee Soon

Kuala Lumpur, Malaysia
14 February 2014

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Ahmad Rizlan Azman, being the Officer primarily responsible for the financial management of Etiqa Takaful Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 19 to 177 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the above named Ahmad Rizlan Azman
Kuala Lumpur in Wilayah Persekutuan
on 14 February 2014

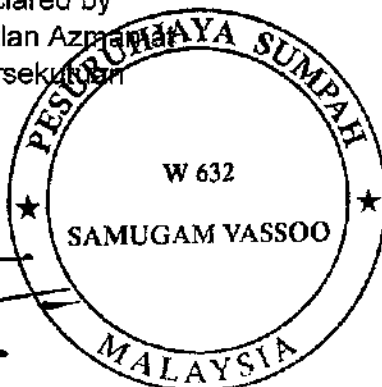


Ahmad Rizlan Azman

Before me,



Commissioner for Oaths



No. 10-2, Jalan Bangsar Utama 1,
Bangsar Utama,
59000 Kuala Lumpur

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

In the name of Allah, the Beneficent, the Merciful

We, Tan Sri Dato' Seri (Dr.) Haji Harussani Haji Zakaria and Dr. Mohammad Deen Mohd Napiah, being two of the members of the Shariah Committee of Etiqa Takaful Berhad, do hereby report on behalf of the Committee that to the best of our knowledge and belief:

We have reviewed and approved the principles, policies, products and the contracts relating to the transactions undertaken by the Company during the financial year ended 31 December 2013. We have also conducted our review to form an opinion pursuant to Section 30(1) of Islamic Financial Services Act 2013 ("IFSA"), as to whether the Company has complied with the principles of Shariah, Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia ("BNM"), Shariah standards issued by BNM pursuant to Section 29 of the IFSA as well as Shariah decisions resolved by us.

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

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

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

In our opinion:

1. the relevant contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2013 that we have reviewed are in compliance with the Shariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been realised from sources or by means prohibited by the principles of Shariah have been put aside in a separate account for disposal to charitable causes; and
4. the calculation of zakat is in compliance with the principles of Shariah.

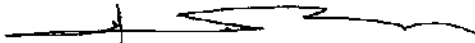
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REPORT OF THE SHARIAH COMMITTEE (CONT'D.)

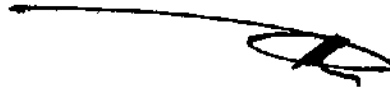
In the name of Allah, the Beneficent, the Merciful

This opinion is rendered based on what has been presented to us by the management of the Company and its Shariah Division. We, the members of the Shariah Committee of Etiqa Takaful Berhad, do hereby confirm that the operations of the Company for the financial year ended 31 December 2013 have been conducted in conformity with the rules and principles of Shariah.

Signed on behalf of the Committee.



Tan Sri Dato' Seri (Dr.) Haji
Harussani Haji Zakaria



Dr. Mohammad Deen Mohd Napiah

Kuala Lumpur, Malaysia
14 February 2014

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**Independent auditors' report to the member of
Etiqa Takaful Berhad
(Incorporated in Malaysia)**

Report on the financial statements

We have audited the financial statements of Etiqa Takaful Berhad, which comprise the statement of financial position as at 31 December 2013 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the financial year ended 31 December 2013, and a summary of significant accounting policies and other explanatory notes, as set out on pages 19 to 177.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements so as 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 are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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



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**Independent auditors' report to the member of
Etiqa Takaful Berhad (Cont'd.)
(Incorporated in Malaysia)**

Opinion

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

Report on other legal and regulatory requirements

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

Other matters

This report is made solely to the member 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.


Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

14 February 2014



Brandon Bruce Sta Maria

No. 2937/09/15(J)

Chartered Accountant

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

Note	31.12.2013				31.12.2012			
	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
ASSETS								
Property, plant and equipment	2,401	-	-	2,401	2,199	1	-	2,200
Intangible assets	4,236	3	67	4,306	8,672	18	473	9,163
Investments	1,278,482	1,348,786	7,773,436	10,400,704	877,094	1,251,862	7,321,356	9,450,312
Financing receivables	20,970	-	7,309	28,279	20,319	-	16,922	37,241
Relakaful assets	-	205,298	15,817	221,115	-	273,365	18,634	291,999
Takaful receivables	-	66,097	140,019	206,116	-	100,971	97,362	198,333
Other receivables	283,038	19,094	78,808	125,553	246,091	19,311	112,566	142,307
Deferred tax assets	5,071	4,933	-	9,062	-	-	-	-
Qard receivable	36,684	-	-	-	36,684	-	-	-
Current tax assets	5,046	-	803	5,849	-	-	-	-
Cash and bank balances	45,166	52,673	89,822	187,661	16,486	20,240	40,041	76,767
Total assets	1,681,094	1,696,884	8,106,081	11,191,046	1,207,545	1,665,768	7,607,354	10,208,322
EQUITY, LIABILITIES AND PARTICIPANTS' FUNDS								
Equity								
Share capital	400,000	-	-	400,000	100,000	-	-	100,000
Reserves	814,099	-	-	814,099	659,296	-	-	659,296
Total equity	1,214,099	-	-	1,214,099	759,296	-	-	759,296
Liabilities and Participants' Funds								
Participants' funds	-	159,705	2,146,638	2,306,343	-	123,172	1,929,239	2,052,411
Takaful certificates liabilities	-	1,242,814	5,519,963	6,762,777	-	1,294,156	5,303,462	6,597,638
Qard payable	-	-	36,684	-	-	-	36,684	-
Expense liabilities	353,742	-	-	353,742	306,128	-	-	306,128
Deferred tax liabilities	-	-	942	-	5,245	-	67	5,312
Takaful payables	9,360	68,628	67,786	145,774	3,008	90,494	61,247	154,749
Other payables	103,893	225,737	334,068	408,311	122,986	157,946	273,638	318,910
Current tax liabilities	-	-	-	-	10,882	-	2,997	13,879
Total liabilities and participants' funds	466,995	1,696,884	8,106,081	9,976,947	448,249	1,665,768	7,607,354	9,449,026
Total equity, liabilities and participants' funds	1,681,094	1,696,884	8,106,081	11,191,046	1,207,545	1,665,768	7,607,354	10,208,322

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

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

Note	2013				2012			
	Shareholder's fund	General takaful fund	Family takaful fund	Company	Shareholder's fund	General takaful fund	Family takaful fund	Company
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
17	576,972	934,875	1,789,284	2,767,843	545,231	910,746	2,048,608	2,984,081
18	-	888,273	1,453,476	2,341,591	-	797,696	1,744,795	2,542,341
16	-	(87,205)	(32,647)	(119,852)	-	(80,420)	(12,163)	(92,583)
	-	801,068	1,420,829	2,221,739	-	717,276	1,732,632	2,449,758
19	533,130	11,224	34	11,268	520,354	15,747	1,888	17,635
20	43,842	49,227	335,808	428,877	24,877	43,487	303,813	372,177
21	22,736	61,418	153,027	237,181	10,362	23,564	149,195	183,121
22	(540)	(854)	(216,280)	(217,674)	-	-	10,141	10,141
23	(7,263)	(1,045)	(9,516)	(17,824)	939	(11,570)	(62,389)	(73,020)
	591,905	119,970	263,073	441,818	556,532	71,228	402,648	510,054
24	-	(548,792)	(725,436)	(1,274,228)	-	(372,058)	(640,193)	(1,012,251)
24	-	84,430	42,334	126,764	-	6,707	3,565	10,272
24	-	48,717	(212,690)	(594,470)	-	(86,717)	(501,124)	(1,051,589)
24	-	(63,668)	(2,817)	(66,485)	-	(20,722)	(198)	(20,920)
	-	(479,313)	(858,609)	(1,308,419)	-	(472,790)	(1,137,950)	(2,074,488)
25	(227,444)	(1,064)	(32,292)	(260,642)	(224,134)	(354)	(64,792)	(289,630)
26	(47,614)	-	-	(47,614)	(88,155)	-	-	(88,155)
27	(232,460)	(221,314)	(352,082)	(272,726)	(214,999)	(217,192)	(390,227)	(302,084)
28	-	3,784	(11,222)	(7,438)	-	-	(216)	(216)
	(507,518)	(218,594)	(395,596)	(588,420)	(527,288)	(218,046)	(485,235)	(680,065)
	84,387	223,131	389,697	266,718	29,244	97,668	542,095	205,259
	-	(129,149)	(301,348)	-	-	(48,834)	(414,914)	-
	182,331	(93,982)	(88,349)	-	176,015	(48,834)	(127,181)	-
	266,718	-	-	266,718	205,259	-	-	205,259
28	(69,705)	-	-	(69,705)	(71,419)	-	-	(71,419)
	(8,489)	-	-	(8,489)	(8,117)	-	-	(8,117)
	188,524	-	-	188,524	125,723	-	-	125,723
29	124,21	-	-	124,21	125,72	-	-	125,72

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

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ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

Note	2013			2012			
	Shareholder's fund RM'000	General fund takaful fund RM'000	Family fund takaful fund RM'000	Shareholder's fund RM'000	General fund takaful fund RM'000	Family fund takaful fund RM'000	Company RM'000
Net profit for the year	188,524	-	-	125,723	-	-	125,723
Other comprehensive (loss)/income:							
Item that may be subsequently reclassified to income statement							
Net (losses)/gains on AFS financial assets:							
(Losses)/gains on fair value changes	(22,225)	(5,508)	76,887	14,796	26,253	92,236	133,285
Realised gains transferred to income statement	(22,736)	(61,418)	(122,909)	(10,357)	(23,564)	(105,784)	(139,705)
Tax effects relating to components of other comprehensive income/(loss)	11,240	8,669	(7,057)	(1,110)	-	-	(1,110)
Other comprehensive income/(loss) attributable to participants	-	58,257	52,979	-	(2,689)	13,548	10,859
Other comprehensive (loss)/income for the year, net of tax	(33,721)	-	-	3,329	-	-	3,329
Total comprehensive income for the year	154,803	-	-	129,052	-	-	129,052

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

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ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Attributable to Equity Holder of the Company					
	Share Capital RM'000	Non-Distributable		Distributable		Total Equity RM'000
		Available-for-sale		Retained Profits		
	RM'000	Reserve RM'000	RM'000	RM'000		
At 1 January 2013	100,000	14,119	645,177		759,296	
Issue of shares (Note 9)	300,000	-	-		300,000	
Total comprehensive income for the year	-	(33,721)	188,524		154,803	
At 31 December 2013	400,000	(19,602)	833,701		1,214,099	
At 1 January 2012	100,000	10,790	519,454		630,244	
Total comprehensive income for the year	-	3,329	125,723		129,052	
At 31 December 2012	100,000	14,119	645,177		759,296	

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

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation and zakat		266,718	205,259
Adjustments for:			
Depreciation of property and equipment		809	653
Amortisation of intangible assets		7,470	6,361
Fair value losses/(gains) on investments		217,674	(10,141)
Realised gains on disposal of investments		(237,181)	(183,116)
Unrealised (gains)/losses on foreign exchange		(153)	154
Realised losses on foreign exchange		30	137
Impairment losses/(reversal of impairment losses) on:			
Investments		8,898	41,224
Takaful receivables		9,705	24,459
Other receivables		(91)	1,579
Financing receivables		(7,640)	226
Intangible assets		6,324	-
Profit income		(407,011)	(347,874)
Gross dividend income		(31,219)	(26,764)
Amortisation of premium		7,174	2,452
Reversal of withholding tax		-	25,601
Increase in net contribution liabilities		1,774	53,584
Surplus transferred from general takaful fund		129,149	48,834
Surplus transferred from family takaful fund		301,348	414,914
Operating cash flows before working capital changes		<u>273,778</u>	<u>257,542</u>
Changes in working capital:			
Proceeds from sale of investments		4,645,549	2,583,864
Purchase of investments		(5,789,832)	(4,142,460)
Increase in takaful receivables		(17,488)	(61,691)
Decrease/(increase) in other receivables		29,880	(12,935)
Increase/(decrease) in other payables		103,159	(62,854)
Increase in expense liabilities		47,614	88,155
(Decrease)/increase in takaful payables		(8,975)	26,701
Decrease in financing receivables		16,602	24,466
Decrease in placements of			
deposits with financial institutions		39,650	431,027
Decrease in retakaful assets		66,485	20,920
Decrease in takaful certificate liabilities		167,764	590,815
Operating cash flows after working capital changes		<u>(425,814)</u>	<u>(256,450)</u>

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS (CONT'D.)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
CASH FLOW FROM OPERATING ACTIVITIES (CONT'D.)			
Profit income received		398,490	319,684
Gross dividend income received		26,075	26,518
Zakat paid		(10,089)	(5,846)
Taxation paid		(119,029)	(60,406)
Tax refund		21,262	-
Mudharabah paid to participants		(70,025)	(19,379)
Net cash flows (used in)/generated from operating activities	32	<u>(179,130)</u>	<u>4,121</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of shares		300,000	-
Cancellation of units		-	(12,650)
Net cash flows generated from/(used in) financing activities	32	<u>300,000</u>	<u>(12,650)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of intangible assets		(8,972)	(2,149)
Purchase of property, plant and equipment		(1,004)	(1,383)
Net cash flows used in investing activities	32	<u>(9,976)</u>	<u>(3,532)</u>
Increase/(decrease) in cash and cash equivalents	32	110,894	(12,061)
Cash and cash equivalents at beginning of year		76,767	88,828
Cash and cash equivalents at end of year		<u>187,661</u>	<u>76,767</u>
Cash and cash equivalents comprise:			
Cash and bank balances of:			
Shareholder's fund		45,166	16,486
General takaful fund		52,673	20,240
Family takaful fund		89,822	40,041
		<u>187,661</u>	<u>76,767</u>

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

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

1. CORPORATE INFORMATION

The principal activity of the Company is the management of general takaful, family takaful and takaful investment linked business.

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 14 February 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

The financial statements of the Company have been prepared on a historical cost convention, unless otherwise indicated in the summary of significant accounting policies. The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency, and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

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

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

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of Preparation (cont'd.)

Takaful operations and its funds

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

In accordance with the Islamic Financial Services Act 2013 and, previously, the Takaful Act 1984, the assets and liabilities of the takaful funds are segregated from those of the takaful operator: a concept known as segregation of funds. However, in compliance with MFRS 10 *Consolidated Financial Statements*, the assets, liabilities, income and expenses of the takaful funds are consolidated with those of the takaful operator to represent the control possessed by the operator over the respective funds.

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

At the beginning of the current financial year, the Company had adopted all new and revised MFRSs, amendments to MFRS and Issues Committee ("IC") Interpretations effective for annual periods beginning on or after 1 January 2013. The adoption of these new and revised MFRs, amendments to MFRS and IC Interpretations did not result in any significant impact to the financial position or performance of the Company.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies

(a) Property, Plant and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. The costs of an item of property, plant and equipment is recognised as an asset, if and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

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

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

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

Furniture, fittings, office equipment and renovations	20%
Computers and peripherals	25%
Motor vehicles	25%

The residual values, useful lives and depreciation method are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

(b) Intangible assets

Intangible assets include software development costs and computer software. Intangible assets acquired separately are measured on initial recognition at fair value. The costs of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses, if any. The useful lives of intangible assets are assessed to be either finite or indefinite.

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(b) Intangible assets (cont'd)

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

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

(i) Software development costs

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

(ii) Computer software and licences

The useful lives of computer software and licences are amortised using the straight-line method over their estimated useful lives of 4 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each reporting date.

(c) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risk and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(c) Leases (cont'd)

(i) Classification

All leases that do not transfer substantially all the risk and rewards incidental to ownership are classified as operating leases.

(ii) Operating leases - the Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

(d) Financial assets

Financial assets are recognised in the statement of financial position when, and only when, the Company and/or the takaful funds become a party to the contractual provisions of the financial instrument.

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

The Company determines the classification of its financial assets at initial recognition and this depends on the purpose for which the financial assets were acquired or originated. The categories include financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale ("AFS") financial assets.

(i) Financial assets at FVTPL

Financial assets at FVTPL include financial assets held-for-trading ("HFT") and financial assets designated upon initial recognition at FVTPL. Financial assets are classified as HFT if they are acquired for the purpose of selling or repurchasing in the near term. HFT financial assets also include derivatives and separated embedded derivatives.

Financial assets can only be designated at FVTPL upon initial recognition the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

ETIQA TAKAFUL BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(d) Financial assets (cont'd.)

(i) Financial assets at FVTPL (cont'd)

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

(ii) LAR

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as LAR. For the accounting policies with respect to retakaful assets and takaful receivables, refer to Notes 2.2(h) and 2.2(n) respectively. Financial assets classified in this category include financing receivables, advances and other receivables.

These financial assets are initially recognised at fair value including direct and incremental transaction cost and subsequently measured at amortised cost using the effective interest method less accumulated impairment losses.

(iii) AFS financial assets

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

After initial recognition, AFS financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income except for impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective profit method which are recognised in profit or loss.

ETIQA TAKAFUL BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(d) Financial assets (cont'd.)

(iii) AFS financial assets (cont'd)

Investments in equity instruments whose fair values cannot be reliably measured are measured at cost less impairment losses.

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired or the Company have transferred substantially all the risks and rewards of the financial asset. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gains or losses that had been recognised in other comprehensive income is recognised in profit or loss.

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

(e) Fair value of financial assets at FVTPL and AFS financial assets

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

For financial assets in quoted unit and real estate investment trusts, fair value is determined by reference to published prices. Investments in unquoted equity instrument that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are stated at cost and assessed for impairment at each reporting date.

For financial assets where there is no active market such as unquoted fixed income securities i.e. unquoted bonds, Malaysian Governments Securities, ("MGS"), Government Investment Issues ("GII"), government guaranteed bonds, Khazanah bonds, fair values are determined by reference to indicative bid prices obtained from Bondweb. The fair values of structured deposits are based on latest market prices obtained from financial institutions. In case of any downgraded or defaulted bond, internal valuation will be performed to determine the fair value of the bonds. The fair values of structured deposits are based on market prices obtained from respective issuers. The market value of Negotiable Islamic Certificate of Deposit ("NICDs") are determined by reference to BNM's (rates on) Interest Rate Swap.

ETIQA TAKAFUL BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(e) Fair value of financial assets at FVTPL and AFS financial assets (cont'd)

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

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

(f) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets (other than a financial asset at FVTPL) is impaired. A financial asset is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event(s) has an impact on the estimated future cash flows of the financial asset.

(i) Takaful receivables

To determine whether there is objective evidence that an impairment loss on takaful receivables has been incurred, the Company consider factors such as the probability of insolvency or significant financial difficulties of the issuer or obligor and default or significant delay in payments.

Takaful receivables are initially assessed individually for those receivables that are deemed to be individually significant. If such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective profit rate. The impairment loss is recognised in profit or loss.

Receivables that are not individually significant or that have been individually assessed with no evidence of impairment are grouped together for collective impairment assessment. These receivables are grouped within similar risk credit risk characteristics for collective assessment using such data as considered appropriate for purposes of grouping.

ETIQA TAKAFUL BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Impairment of financial assets (cont'd.)

(i) Takaful receivables (cont'd.)

Collective loss estimates are based on the historical loss experience of the Company which could include the Company's past experience in collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables. The product of collective loss estimates and grouped receivables represents the expected impairment losses for that portfolio of receivables. The impairment loss is recognised in profit or loss.

The methodology and assumptions used in determining collective loss estimates are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

Impairment losses on takaful receivables are recognised as a reduction against the carrying amount through the use of an allowance account. When a takaful receivable becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off in the financial statements are recognised in profit or loss.

Subsequent reversals of impairment loss are recognised when the decrease can be related objectively to an event occurring after the impairment was recognised to the extent that the carrying amount of the asset does not exceed its amortised cost had the impairment loss not been recognised. The reversal is recognised in profit or loss.

(ii) AFS financial assets

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

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

ETIQA TAKAFUL BERHAD
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SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Impairment (cont'd.)

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

Impairment losses on AFS equity investments are not reversed through profit or loss in subsequent period. Increases in fair value, if any, subsequent to impairment is recognised in other comprehensive income. For debt investments classified as AFS financial assets, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after impairment.

(iii) Unquoted equity securities carried at cost

If there is objective evidence that an impairment loss on unquoted equity carried at cost has been incurred, the carrying amount is written down to the estimated recoverable amount which is determined as the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The impairment loss is recognised in profit and loss and such impairment losses are not reversed subsequent to its recognition.

(iv) Loans and receivables

LAR are impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of the occurrence of loss event(s) after initial recognition. An impairment loss 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 profit rate. The carrying amount of the asset is reduced through the use of an allowance account.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(g) Impairment of non-financial assets

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

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

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(h) Retakaful Assets

The Company, as the operator of the participants' fund, cedes takaful risk in the normal course of business for all its takaful business. Ceded retakaful arrangements do not relieve the Company from its obligations to participants. For both ceded and assumed retakaful, contributions, claims and benefits paid or payable are presented on a gross basis.

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

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

At each reporting date, or more frequently, retakaful assets are assessed whether objective evidence exists that retakaful assets are impaired. Objective evidence of impairment for retakaful assets are similar to those noted for insurance/takaful receivables as described in Note 2.2 (f)(i). If any such evidence exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective profit rate. The impairment loss is recorded in profit or loss.

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

(i) Product classification

The Company, as the operator of the participants' funds, issues certificates that contain takaful risk or both takaful underwriting and financial risk.

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Product classification (cont'd.)

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

Investment contracts are those contracts that transfer financial with no significant takaful risk.

Once a certificate has been classified as a takaful certificate, it remains a takaful certificate for the remainder of its life-time, even if the underwriting risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as takaful certificates after inception if takaful risk becomes significant.

Takaful and investment contracts are further classified as being either with or without discretionary participation features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- (a) likely to be a significant portion of the total contractual benefits;
- (b) whose amount or timing is contractually at the discretion of the issuer; and
- (c) contractually based on the:
 - (i) performance of a specified pool of contracts or a specified type of contract;
 - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - (iii) the profit or loss of the company, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and the Company may exercise their discretion as to the quantum and timing of their payment to contract holders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, are held within takaful contract liabilities as at the end of the reporting period.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Product classification (cont'd.)

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself a takaful contract and/or investment contract with DPF, or if the host takaful contract and/or investment contract itself is measured at fair value through profit or loss.

When takaful certificates contain both a financial risk component and a significant underwriting risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any contributions relating to the underwriting risk component are accounted for on the same basis as takaful certificates and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

Based on the company's product classification review, all products meet the definition of a takaful certificate.

(j) Shareholder's fund

Expense liabilities

The expense liabilities of the shareholder's fund consist of expense liabilities of the general and family takaful funds which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the takaful certificates and recognised in the income statement.

(i) Expense liabilities of general takaful fund

Expense liabilities of the general takaful fund are reported as the higher of the aggregate of the provision for unearned wakalah fees ("UWF") and the unexpired expense reserves ("UER") and a provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the total fund level as at the reporting date, as prescribed by BNM.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (cont'd.)

(j) Shareholder's fund (cont'd.)

(i) Expense liabilities of general takaful fund (cont'd)

(a) Provision for unearned wakalah fee

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

(b) Unexpired expense reserves

UER consists of the best estimate value of the unexpired expense reserves at the valuation date and a PRAD calculated at 75% confidence level at the total fund level, as prescribed by BNM. The best estimate UER is determined based on the expected claims handling expenses to be incurred as well as the expected expenses for certificate maintenance of unexpired risks. The method used in computing UER is consistent with the calculation of URR.

(ii) Expense liabilities of family takaful fund

The valuation of expense liabilities in relation to certificates of the family takaful fund is conducted separately by the Appointed Actuary in the shareholder's fund. The method used to value expense liabilities is consistent with the method used to value takaful liabilities of the corresponding family takaful certificates. In valuing the expense liabilities, the present value of expected future expenses payable by the shareholder's fund in managing the takaful fund for the full contractual obligation of the takaful certificates less any expected cash flows from future wakalah fee income, and any other income due to the shareholder's fund that can be determined with reasonable certainty, are taken into consideration.

Expense liabilities are recognised when projected future expenses exceed the projected future income of takaful certificates.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(j) Shareholder's fund (cont'd.)

Expense liabilities (cont'd.)

(iii) Liability adequacy test

At each reporting date, the Company reviews the expense liabilities of the shareholder's fund to ensure that the carrying amount is sufficient or adequate to cover the obligations of the shareholder's fund for all managed takaful certificates.

In performing this review, the Company considers all contractual cashflows and compares this against the carrying value of expense liabilities. Any deficiency is recognised in the income statement.

(k) General takaful fund

The general takaful fund is maintained in accordance with the Islamic Financial Services Act 2013 and consists of AFS reserves and any surplus/deficit attributable to participants which represents the participants' share in the net surplus/deficit of the general takaful fund. Any deficit in the general takaful fund will be made good by the shareholder's fund via a benevolent loan or Qard. Surplus is distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

The general takaful underwriting results are determined for each class of business after taking into account retakaful, changes in takaful certificate liabilities, wakalah fees and management expenses.

(i) Contribution income

Contribution income is recognised in a financial year in respect of risks assumed during that particular financial year. Contribution from direct business are recognised during the financial year upon the issuance of debit notes. Contributions in respect of risks incepted for which debit notes have not been issued as at the reporting date are accrued at that date.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) General takaful fund (cont'd.)

(i) Contribution income (cont'd)

Inward treaty retakaful contributions are recognised on the basis of periodic advices received from ceding takaful operators. Inward facultative retakaful contributions are recognised in the financial year in respect of the facultative risks accepted during that particular financial year as in the case of direct certificates, following the individual risks' inception dates.

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

(ii) Contribution liabilities

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

Contribution liabilities are reported at the higher of the aggregate of the Unearned contribution reserves ("UCR") for all lines of business or the total fund's unexpired risk reserves ("URR") at 75% confidence level at the end of the financial year.

(a) *Unearned Contribution Reserves*

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

Mudharabah

Short-term UCR represent the portion of net contribution income that relate to the unexpired period of certificates, with a duration not exceeding one year, at the reporting date.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) General takaful fund (cont'd.)

(ii) Contribution liabilities (cont'd.)

(a) *Unearned Contribution Reserves (cont'd.)*

Mudharabah (cont'd)

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

- earned upon maturity method for bond business;
- 25% method for marine, aviation, cargo and transit business; and
- 1/365th method for all other classes of general business, reduced by the corresponding percentage of accounted gross direct business commissions to the corresponding contributions, not exceeding limits specified by BNM as follows:

Motor and bond	10%
Fire, engineering, aviation and marine hull	15%
Workmen compensation and employers' liability:	
- Foreign workers	10%
- Others	25%
Other classes	25%

Long-term UCR represent the portion of net contribution income of takaful certificates, with a duration exceeding one year, that relate to the unexpired periods of certificates at the reporting date. The earned contribution income is recognised on a time apportionment basis over the duration of the certificates.

Wakalah

The UCR for wakalah business is calculated on net contribution income with a further deduction for wakalah fee expenses to reflect the wakalah business principle. The method used to calculate UCR is similar to that used for mudharabah business. No further deduction for commission expenses is made as commission expenses are borne by the shareholder's fund.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) General takaful fund (cont'd.)

(ii) Contribution liabilities (cont'd.)

(b) *Unexpired risk reserves*

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

(iii) Claim liabilities

Claim liabilities represent the Company's obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at reporting date.

Claim liabilities are the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and other recoveries.

Claim liabilities are comprised of claims incurred and reported but still outstanding as at reporting date, as well as claims incurred but not reported ("IBNR"). The estimation includes a provision of risk margin for adverse deviation ("PRAD") at a level of sufficiency higher than 75% as required by Bank Negara Malaysia.

Liabilities for outstanding claims are recognised upon notification by participants. Claims liabilities are estimated via an actuarial valuation performed by a qualified actuary, using a range of actuarial claim projection techniques based on, amongst others, actual claim development patterns. Liabilities are not discounted for the time value of money.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) General takaful fund (cont'd.)

(iv) Liability adequacy test

At each reporting date, the Company reviews all takaful certificate liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the general takaful fund, contractual or otherwise, with respect to takaful certificates issued. In performing this review, the Company estimates all contractual cash flows and compares this against the carrying value of takaful certificate liabilities. Any deficiency is recognised in the income statement.

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

(v) Claim expenses

Claim expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to certificate holders or third parties damaged by the certificate holders. They include direct and indirect claims and settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

(vi) Commission expenses/acquisition costs

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

Mudharabah principle

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(k) General takaful fund (cont'd.)

(vi) Commission expenses/acquisition costs (cont'd.)

Wakalah principle

Commission expenses are borne by the shareholder's fund at an agreed percentage of the gross contributions. This is in accordance with the principles of Wakalah as approved by the Shariah Committee and agreed between the participants and the Company.

(l) Family takaful fund

The family takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act 2013 and consists of AFS reserves and any surplus/deficit attributable to participants which represents the participants' share in net surplus/deficit of the family takaful fund.

The family takaful fund surplus or deficit is determined by an annual actuarial valuation of the family takaful funds. Surplus distributable to participants is determined after deducting retakaful, claims/benefits paid and payable, expenses, provisions and reserves and is distributed in accordance with the terms and conditions prescribed by the Shariah Committee.

(i) Contribution income

Contributions are recognised as soon as the amount of the contributions can be reliably measured in accordance with the principles of Shariah as advised by the Shariah Committee. Initial contribution is recognised from inception date and subsequent contributions are recognised on due dates.

At the end of the financial year, all due contributions are accounted for to the extent that they can be reliably measured.

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

(ii) Benefits and claims expenses

Benefits and claims expenses incurred during the financial year are recognised when a claimable event occurs and/or the Company is notified.

Recoveries on retakaful claims are accounted for in the same financial year as the original claims are recognised.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(I) Family takaful fund (cont'd.)

(ii) Benefits and claims expenses (cont'd)

Benefits and claims expenses arising on 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 a certificate are recognised as follows:

- maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates; and
- death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of the contingency covered.

(iii) Creation/cancellation of units

Net creation of units which represents contributions paid by participants or unitholders as payment for a new contract or subsequent payments to increase the amount of that contract are reflected in the income statement of the investment-linked funds. Net creation of units is recognised on a receipt basis.

Creation/cancellation of units is recognised in the financial statements at the next valuation date, after the request to purchase/sell units is received from the participants or unitholders.

(iv) Commission expenses/acquisition costs

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

Mudharabah principle

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

Wakalah principle

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(i) Family takaful fund (cont'd.)

(v) Family takaful certificate liabilities

Family takaful certificate liabilities are recognised when certificates are in-force and contributions are charged.

The family takaful certificate liabilities are derecognised when the certificate expires, is discharged or is cancelled. At each reporting date, an assessment is made of whether the recognised family takaful certificate liabilities are adequate through the performance of a liability adequacy test.

Liabilities of family takaful business are determined in accordance with valuation guidelines for takaful operators issued by BNM. All family takaful liabilities have been valued using a prospective actuarial valuation based on the sum of the present value of future benefits and expenses less future gross considerations arising from the certificates, discounted at the appropriate risk discount rate. This method is known as the gross contribution valuation method.

For the family takaful risk fund, the expected future cash flows of benefits are determined using best estimate assumptions with an appropriate allowance for PRAD from expected experience such that an overall level of sufficiency of certificate reserves at a 75% confidence level is secured.

The liabilities in respect of the non-unit component of an investment-linked certificate have been valued at the risk-free discount rate by projecting future cash flows to ensure that all future outflows can be met at the product level without recourse to additional finance or capital support at any future time during the duration of the investment-linked certificate. The value of the unit component is the net asset value of the fund which is treated as a liability.

For a one year family certificate or a one year extension to a family certificate covering contingencies other than life or survival, the liability for such family takaful certificates comprises contribution and claim liabilities with an appropriate allowance for PRAD from the expected experience.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originating from margins of adverse deviation on run-off contracts are recognised in profit or loss over the period of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(m) Measurement and impairment of Qard

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

At each reporting date, the Qard position and the ability of the affected fund to generate sufficient surplus to repay the shareholder is monitored and measured. The likelihood that the Qard will be repaid and the duration of time that will be required to repay the Qard is determined and ascertained via projected cash flows which take into account past experience of the affected fund. The projected cash flows are then discounted to determine the recoverable value of the Qard.

If the Qard is impaired, an amount comprising the difference between its cost and its recoverable amount, less any impairment loss previously recognised is recognised in income statement. Impairment losses are subsequently reversed in the income statement if objective evidence exists that the Qard is no longer impaired.

(n) Takaful receivables

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

If there is objective evidence that a takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises the impairment loss in profit or loss. Objective evidence of impairment for takaful receivables and the determination of consequential impairment losses are as described in Note 2.2(f)(i).

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(o) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash and short-term funds and deposits and placements with financial institutions, with the remaining maturity of less than one month.

(p) Income tax

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

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

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

(q) Zakat

This represent business zakat payable by the Company in compliance with Shariah principles and as approved by the Company's Shariah Committee.

(r) Takaful payables

Takaful payables are recognised when due and measured on initial recognition at the fair value of the consideration payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(s) Financial liabilities

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

Financial liabilities, within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement*, are recognised in the statement of financial position when, and only when, the Company and/or the takaful funds become a party to the contractual provisions of the financial instrument. All financial liabilities are measured initially at fair value plus directly attributable transaction costs, except in the case of financial liabilities at FVTPL. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

During the financial year and as at the reporting date, the Company and the takaful funds did not classify any of its financial liabilities at FVTPL.

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

Subsequent to initial recognition, loans and borrowings are recognised at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Company have a conditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

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

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(f) Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plan

As required by law, the Company makes such contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Share-based compensation

- **ESOS**

The ESOS is an equity-settled share-based compensation plan that allows the Directors and employees to acquire shares of MBB. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to MBB over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, MBB revises its estimates of the number of options that are expected to become exercisable over the vesting period.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(t) Employee benefits (cont'd.)

(iii) Share-based compensation (cont'd.)

- **Restricted share units ("RSU")**

Senior management personnel of MBB including personnel of the Company are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new MBB shares or by cash at the absolute discretion of the ESS Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within the parent's equity over the vesting period and taking into account the probability that the RSU will vest. The Company's share of the RSU is recognised as an employee cost with a corresponding increase in the amount due to MBB. The fair value of the RSU is measured at grant date, taking into account, the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

At each reporting date, MBB revises its estimates of the number of RSU that are expected to be awarded on vesting date.

(u) Foreign currency transactions

In preparing the financial statements, transactions in currencies other than the functional currency ("foreign currencies") are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the financial year.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(u) Foreign currency transactions (cont'd.)

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

(v) Other revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the Company and/or takaful funds, and the amount of the revenue can be measured reliably.

(i) Dividend income

Dividend income is recognised when the Company's and/or takaful funds' right to receive payment is established.

(ii) Profit income

Profit income is recognised using the effective yield method.

(iii) Wakalah fees

Wakalah fees represent fees charged by the shareholder's fund to manage takaful certificates issued by the general and family takaful funds under the principle of Wakalah and are recognised as soon as the contributions to which they relate can be reliably measured in accordance with the principles of Shariah.

(iv) Fund management fees

Fund management fees are recognised when services are rendered.

(w) Fee and commission income

Participants are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, these fees are deferred and recognised over those future financial years.

Management fee income earned from investment-linked business is recognised on an accrual basis based on the net asset value of the investment-linked funds.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of Significant Accounting Policies (Cont'd.)

(x) Equity instruments

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

2.3 Standards issued but not yet effective

The following are standards and interpretations issued by MASB, but not yet effective, up to the date of issuance of the Company's financial statements. The Company intend to adopt these standards and interpretations, if applicable, when they become effective:

Description	Effective for annual periods beginning on or after
MFRS 9 <i>Financial Instruments</i> (IFRS 9 issued by IASB in November 2009)	To be announced by MASB
MFRS 9 <i>Financial Instruments</i> (IFRS 9 issued by IASB in October 2009)	To be announced by MASB
MFRS 9 <i>Mandatory Effective Date of MFRS 9 and Transition Disclosures</i> (Amendments to MFRS 9 and MFRS 7)	To be announced by MASB
MFRS 9 <i>Financial Instruments</i> (Hedge Accounting and Amendments to MFRS 9, MFRS 7 and MFRS 139)	To be announced by MASB
MFRS 10 <i>Consolidated Financial Statements - Investment Entities</i> (Amendments to MFRS 10)	1 January 2014
MFRS 12 <i>Disclosure of Interest in Other entities - Investment Entities</i> (Amendments to MFRS 12)	1 January 2014
MFRS 119 <i>Employee Benefits - Defined Benefits Plans: Employee Contributions</i> (Amendments to MFRS 119)	1 July 2014
MFRS 127 <i>Separate Financial Statements - Investment Entities</i> (Amendments to MFRS 127)	1 January 2014
MFRS 132 <i>Financial Instruments - Presentation - Offsetting Financial Assets and Financial Liabilities</i> (Amendments to MFRS 132)	1 January 2014
MFRS 136 <i>Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets</i> (Amendments to MFRS 136)	1 January 2014
MFRS 139 <i>Financial Instruments: Recognition and measurement - Novation of Derivatives and Continuation of Hedge</i>	1 January 2014
IC Interpretation 21 <i>Levies</i>	1 January 2014
Annual Improvements to MFRS 2010 - 2012 Cycle	1 July 2014
Annual Improvements to MFRS 2011 - 2013 Cycle	1 July 2014

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective (contd.)

MFRS 9 *Financial Instruments*

MFRS 9 reflects the work on the replacement of MFRS 139 and the first phase applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The first phase of the standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9 *Mandatory Effective Date of MFRS 9 and Transition Disclosures*, issued in March 2012 moved the mandatory effective date to 1 January 2015 (see below for the latest amendment on the mandatory effective date). The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of the Company's financial liabilities.

As part of the Amendments issued in February 2014, an entity is now allowed to change the accounting for liabilities that it has to measure at fair value, before applying any of the other requirements in MFRS 9. This change in accounting would mean that gains or losses caused by a change in the entity's own credit risk on such liabilities are no longer recognised in the profit & loss. The Company currently do not have any financial liabilities measured at fair value other than derivatives and embedded derivatives.

The Amendments in February 2014 also remove the mandatory effective date from MFRS 9. The International Accounting Standards Board ("IASB") has decided that a mandatory date of 1 January 2015 would not allow sufficient time for entities to prepare and to apply the new standard because the second phase of the standard, i.e. the impairment methodology phase of IFRS 9 has not yet been completed. On 24 July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9 and that the mandatory effective date should be left open pending finalisation of the impairment and classification and measurement requirements. Nevertheless, IFRS 9 would still be available for early adoption.

The Company will quantify the effects of the new standard when the final standard including all phases are issued.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Standards issued but not yet effective (contd.)

MFRS 136 Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets (Amendments to MFRS 136)

These amendments remove the unintended consequences of MFRS 13 on the disclosures required under MFRS 136. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided MFRS 13 is also applied. The Group and the Company do not anticipate significant impact to the financial statements upon adoption of these amendments, except for the additional disclosure requirements.

Annual Improvements to MFRS

The following amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application is permitted.

Annual Improvements to MFRS 2010 - 2012 Cycle

(i) MFRS 13 *Fair Value Measurement*

The amendment relates to the IASB's Basis for Conclusions which is not an integral part of the Standard. The Basis for Conclusions clarifies that when IASB issued IFRS 13, it did not remove the practical ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, if the effect of discounting is immaterial.

(ii) MFRS 124 *Related Party Disclosures*

The amendment to MFRS 124 extends the definition of 'related party' to include an entity, or any member of a group of which it is a part, that provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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2.4 Significant accounting estimates and judgements

(a) Critical judgements made in applying accounting policies

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and the accompanying disclosures and the disclosure of contingent liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ. The most significant uses of judgements and estimates are as follows:

(i) Impairment of AFS financial assets

Significant judgement is required to assess impairment for AFS financial assets. The Company evaluates the duration and extent to which the fair value of an investment is less than its cost; the financial health and near term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology; and operational and financial cash flows.

(ii) Impairment of receivables

The Company assess at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Company complies with BNM's Guidelines on Financial Reporting for Takaful Operators (BNM/RH/GL004-24). According to the Guidelines, objective evidence of impairment is deemed to exist where the receivables are individually assessed for impairment is past due for more than 90 days or 3 months. Other factors considered by the Company are probability of insolvency or significant financial difficulties of the receivables and default or significant delay in payments.

(b) Key sources of estimation uncertainty

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

(i) Amortisation and impairment of intangible assets

Intangible assets that can be separated and sold and have a finite useful life are amortised over their estimated useful lives.

The determination of the estimated useful lives of these intangible assets require management to analyse the circumstances, the industry and market practice and also to use judgement. At each reporting date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(i) Amortisation and impairment of intangible assets (cont'd.)

If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the assets with its recoverable amount.

(ii) Uncertainty in accounting estimates for general takaful business

The principal uncertainty in the general takaful certificate liabilities arises from the technical provisions which include the contribution and claim liabilities. The basis of valuation of the contribution and claim liabilities is explained in Notes 2.2 (k)(ii) and 2.2 (k)(iii) of the financial statements.

The estimation bases for contribution liabilities is explained in the related accounting policy statement whilst claim liabilities comprise provision for outstanding claims and IBNR. Generally, claims liabilities are estimated based upon historical claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience of similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions and claims handling procedure. It is certain that actual, future contribution and claim liabilities will not exactly develop as projected and they vary from the projections.

The estimates of contribution liabilities and claims liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, as a consequence of this uncertainty, the eventual settlement of contribution and claims liabilities may vary from the initial estimates.

(iii) Uncertainty in accounting estimates for family takaful business

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, judicial interpretations, legislative changes and claims handling procedures.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(iii) Uncertainty in accounting estimates for family takaful business (cont'd)

For family takaful certificates, estimates are made for future deaths, disabilities, maturities, investment returns in accordance with the Company experience. The family takaful fund bases the estimate of expected number of deaths on applied mortality tables, adjusted where appropriate to reflect the fund's unique risk exposures. The estimated number of deaths determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future contributions.

For those certificates that cover risks related to disability, estimates are made based on recent past experience and emerging trends.

At each reporting date, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

(iv) Uncertainty in accounting estimates for shareholder's fund expenses liabilities

Management expenses are categorized into 2 categories to reflect the nature of the spending.

(a) Acquisition costs include the expenses incurred to write the business, such as medical costs for underwriting, printing costs for the necessary documents, cost of setting up the product in the IT system and etc; and

(b) Maintenance expenses include system maintenance costs, policy servicing, claim handling expenses, overhead and etc that associated with on-going business operations.

Only maintenance expenses will be included in the expense liabilities calculations. The expenses liabilities for family takaful business are estimated using prospective actuarial valuations, by projecting future expenses and shareholder's future income.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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

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

(iv) Uncertainty in accounting estimates for shareholder's fund expenses liabilities (cont'd.)

The expected future cash flows used to compute the expense liabilities are based on best estimate assumptions with PRAD. The valuation was made in accordance to the Guidelines on Valuation Basis for Liabilities of Family Takaful Business (BNM/RH/GL/004-20).

The expense liabilities of general takaful fund refers to the higher of unearned wakalah fees and best estimate for unexpired expense reserves with provision of risk margin for adverse deviation. There are uncertainties in estimating these two components:

- (a) The unearned wakalah fees are estimated in a similar manner as the calculation for unearned contribution liabilities, for all lines of business; and
- (b) The method used to value unexpired expense reserve is calculated using adjusted parameters to provide expenses liabilities at 75% confidence level as required by the "Guidelines on Valuation Basis for Liabilities of General Takaful Business".

(v) Deferred taxation

Deferred tax implications arising from the changes in corporate income tax rates are measured with reference to the estimated realisation and settlement of temporary differences in the future periods in which the tax rates are expected to apply, based on the tax rates enacted or substantively enacted at the reporting date. While management's estimates on the realisation and settlement of temporary differences are based on the available information at the reporting date, changes in business strategy, future operating performance and other factors could impact on the actual timing and amount of temporary differences realised and settled. Any difference between the actual amount and the estimated amount would be recognised in the income statement in the financial year in which actual realisation and settlement occurs.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

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3. PROPERTY, PLANT AND EQUIPMENT

Shareholder's fund

	Furniture, fittings, office equipment and renovations RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Work in progress RM'000	Total RM'000
31.12.2013					
Cost					
At 1 January 2013	2,967	893	323	406	4,589
Additions	799	99	-	106	1,004
Write off	-	(238)	-	-	(238)
Transfer (to)/from Intangible assets (Note 4)	(83)	(16)	-	58	(41)
Transfer to Income statements	(41)	-	-	-	(41)
At 31 December 2013	<u>3,642</u>	<u>738</u>	<u>323</u>	<u>570</u>	<u>5,273</u>
Accumulated Depreciation					
At 1 January 2013	1,636	464	290	-	2,390
Charge for the year	603	172	33	-	808
Write off	-	(238)	-	-	(238)
Transfer to Intangible assets (Note 4)	(21)	(40)	-	-	(61)
Transfer to Income statements	(27)	-	-	-	(27)
At 31 December 2013	<u>2,191</u>	<u>358</u>	<u>323</u>	<u>-</u>	<u>2,872</u>
Net Book Value					
At 31 December 2013	<u>1,451</u>	<u>380</u>	<u>-</u>	<u>570</u>	<u>2,401</u>
31.12.2012					
Cost					
At 1 January 2012	19,390	15,998	589	-	35,977
Additions	560	417	-	406	1,383
Write off	(16,983)	(15,522)	(266)	-	(32,771)
At 31 December 2012	<u>2,967</u>	<u>893</u>	<u>323</u>	<u>406</u>	<u>4,589</u>
Accumulated Depreciation					
At 1 January 2012	18,127	15,871	520	-	34,518
Charge for the year	492	115	36	-	643
Write off	(16,983)	(15,522)	(266)	-	(32,771)
At 31 December 2012	<u>1,636</u>	<u>464</u>	<u>290</u>	<u>-</u>	<u>2,390</u>
Net Book Value					
At 31 December 2012	<u>1,331</u>	<u>429</u>	<u>33</u>	<u>406</u>	<u>2,199</u>

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ETIQA TAKAFUL BERHAD
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3. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

General takaful fund

	Furniture, fittings, office equipment and renovations RM'000	Computers and peripherals RM'000	Total RM'000
31.12.2013			
Cost			
At 1 January / 31 December 2013	23	-	23
Accumulated Depreciation			
At 1 January 2013	22	-	22
Charge for the year	1	-	1
At 31 December 2013	23	-	23
Net Book Value			
At 31 December 2013	-	-	-
31.12.2012			
Cost			
At 1 January 2012	579	1,514	2,093
Write off	(556)	(1,514)	(2,070)
At 31 December 2012	23	-	23
Accumulated Depreciation			
At 1 January 2012	573	1,514	2,087
Charge for the year	5	-	5
Write off	(556)	(1,514)	(2,070)
At 31 December 2012	22	-	22
Net Book Value			
At 31 December 2012	1	-	1

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3. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Family takaful fund

	Furniture, fittings, office equipment and renovations RM'000	Computers and peripherals RM'000	Total RM'000
31.12.2013			
Cost			
At 1 January / 31 December 2013	32	5	37
Accumulated Depreciation			
At 1 January / 31 December 2013	32	5	37
Net Book Value			
At 31 December 2013	-	-	-
31.12.2012			
Cost			
At 1 January 2012	1,838	1,859	3,697
Write off	(1,806)	(1,854)	(3,660)
At 31 December 2012	32	5	37
Accumulated Depreciation			
At 1 January 2012	1,833	1,859	3,692
Charge for the year	5	-	5
Write off	(1,806)	(1,854)	(3,660)
At 31 December 2012	32	5	37
Net Book Value			
At 31 December 2012	-	-	-

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3. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company

	Furniture, fittings, office equipment and renovations RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Work in progress RM'000	Total RM'000
31.12.2013					
Cost					
At 1 January 2013	3,022	898	323	406	4,649
Additions	799	99	-	106	1,004
Write off	-	(238)	-	-	(238)
Transfer (to)/from Intangible assets (Note 4)	(83)	(16)	-	58	(41)
Transfer to Income statements	(41)	-	-	-	(41)
At 31 December 2013	<u>3,697</u>	<u>743</u>	<u>323</u>	<u>570</u>	<u>5,333</u>
Accumulated Depreciation					
At 1 January 2013	1,690	469	290	-	2,449
Charge for the year	604	172	33	-	809
Write off	-	(238)	-	-	(238)
Transfer to Intangible assets (Note 4)	(21)	(40)	-	-	(61)
Transfer to Income statements	(27)	-	-	-	(27)
At 31 December 2013	<u>2,246</u>	<u>363</u>	<u>323</u>	<u>-</u>	<u>2,932</u>
Net Book Value					
At 31 December 2013	<u>1,451</u>	<u>380</u>	<u>-</u>	<u>570</u>	<u>2,401</u>

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3. PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

Company (cont'd.)

	Furniture, fittings, office equipment and renovations RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Work in progress RM'000	Total RM'000
31.12.2012					
Cost					
At 1 January 2012	21,807	19,371	589	-	41,767
Additions	560	417	-	406	1,383
Write off	(19,345)	(18,890)	(266)	-	(38,501)
At 31 December 2012	<u>3,022</u>	<u>898</u>	<u>323</u>	<u>406</u>	<u>4,649</u>
Accumulated Depreciation					
At 1 January 2012	20,533	19,244	520	-	40,297
Charge for the year	502	115	36	-	653
Write off	(19,345)	(18,890)	(266)	-	(38,501)
At 31 December 2012	<u>1,690</u>	<u>469</u>	<u>290</u>	<u>-</u>	<u>2,449</u>
Net Book Value					
At 31 December 2012	<u>1,332</u>	<u>429</u>	<u>33</u>	<u>406</u>	<u>2,200</u>

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4. INTANGIBLE ASSETS

Computer software and licenses

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Cost				
At 1 January 2013	34,595	11,234	9,922	55,751
Additions	8,972	-	-	8,972
Write off	(4,164)	-	-	(4,164)
Transfer from property, plant and equipment (Note 3)	41	-	-	41
Transfer to Income statements	(76)	-	-	(76)
At 31 December 2013	<u>39,368</u>	<u>11,234</u>	<u>9,922</u>	<u>60,524</u>
Accumulated Amortisation and Impairment				
At 1 January 2013	25,923	11,216	9,449	46,588
Amortisation charge for the year	7,049	15	406	7,470
Write off	(4,164)	-	-	(4,164)
Impairment	6,324	-	-	6,324
Transfer from property, plant and equipment (Note 3)	61	-	-	61
Transfer to Income statements	(61)	-	-	(61)
At 31 December 2013	<u>35,132</u>	<u>11,231</u>	<u>9,855</u>	<u>56,218</u>
Net Book Value				
At 31 December 2013	<u>4,236</u>	<u>3</u>	<u>67</u>	<u>4,306</u>

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4. INTANGIBLE ASSETS (CONT'D.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2012				
Cost				
At 1 January 2012	34,654	11,234	9,922	55,810
Additions	2,149	-	-	2,149
Write off	(2,208)	-	-	(2,208)
At 31 December 2012	<u>34,595</u>	<u>11,234</u>	<u>9,922</u>	<u>55,751</u>
Accumulated Amortisation and Impairment				
At 1 January 2012	22,223	11,201	9,011	42,435
Amortisation charge for the year	5,908	15	438	6,361
Write off	(2,208)	-	-	(2,208)
At 31 December 2012	<u>25,923</u>	<u>11,216</u>	<u>9,449</u>	<u>46,588</u>
Net Book Value				
At 31 December 2012	<u>8,672</u>	<u>18</u>	<u>473</u>	<u>9,163</u>

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5. INVESTMENTS

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Malaysian government papers	2,003	321,910	1,201,088	1,525,001
Unquoted debt securities in Malaysia	985,257	655,980	4,786,824	6,428,061
Equity securities:				
Quoted in Malaysia	150,195	24,725	1,025,903	1,200,823
Unquoted in Malaysia	32	-	-	32
Quoted unit and property trust funds in Malaysia	2,352	-	30,156	32,508
Structured products (Note 5 (a))	23,775	18,342	118,887	161,004
Negotiable Islamic certificates of deposit	-	9,176	119,096	128,272
Deposits with financial institutions	114,868	318,653	491,482	925,003
	<u>1,278,482</u>	<u>1,348,786</u>	<u>7,773,436</u>	<u>10,400,704</u>
31.12.2012				
Malaysian government papers	12,157	210,218	1,199,266	1,421,641
Unquoted debt securities in Malaysia	657,865	616,182	4,733,105	6,007,152
Equity securities:				
Quoted in Malaysia	91,237	185,617	601,145	877,999
Unquoted in Malaysia	32	-	-	32
Quoted unit and property trust funds in Malaysia	1,843	4,087	23,686	29,616
Negotiable Islamic certificates of deposit	-	24,688	116,800	141,488
Foreign notes	-	-	7,731	7,731
Deposits with financial institutions	113,960	211,070	639,623	964,653
	<u>877,094</u>	<u>1,251,862</u>	<u>7,321,356</u>	<u>9,450,312</u>

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5. INVESTMENTS (CONT'D.)

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

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Available-for-sale ("AFS") Designated upon initial recognition as Fair Value Through Profit or Loss ("FVTPL")	1,165,722	1,033,854	2,657,088	4,856,664
Loans and receivables ("LAR")	(2,108)	(3,721)	4,624,866	4,619,037
	114,868	318,653	491,482	925,003
	<u>1,278,482</u>	<u>1,348,786</u>	<u>7,773,436</u>	<u>10,400,704</u>

31.12.2012

Available-for-sale ("AFS") Designated upon initial recognition as Fair Value Through Profit or Loss ("FVTPL")	763,134	1,040,792	2,225,372	4,029,298
Held for Trading ("HFT")	-	-	4,442,783	4,442,783
Loans and receivables ("LAR")	-	-	13,578	13,578
	113,960	211,070	639,623	964,653
	<u>877,094</u>	<u>1,251,862</u>	<u>7,321,356</u>	<u>9,450,312</u>

The following investments mature after 12 months:

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
AFS	980,218	976,711	1,592,940	3,549,869
FVTPL	-	-	4,556,526	4,556,526
	<u>980,218</u>	<u>976,711</u>	<u>6,149,466</u>	<u>8,106,395</u>

31.12.2012

AFS	670,022	568,050	1,501,326	2,739,398
FVTPL	-	-	4,221,142	4,221,142
	<u>670,022</u>	<u>568,050</u>	<u>5,722,468</u>	<u>6,960,540</u>

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5. INVESTMENTS (CONT'D.)

(i) Available-for-sale ("AFS")

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
<u>At fair value:</u>				
Malaysian government papers	2,003	321,910	245,021	568,934
Unquoted debt securities in Malaysia	985,257	655,980	1,339,095	2,980,332
Equity securities:				
Quoted in Malaysia	150,195	24,725	1,025,903	1,200,823
Unquoted in Malaysia	32	-	-	32
Quoted unit and property trust funds in Malaysia	2,352	-	30,156	32,508
Structured products (Note 5 (a))	25,883	22,063	-	47,946
Negotiable Islamic certificates of deposit	-	9,176	16,913	26,089
	<u>1,165,722</u>	<u>1,033,854</u>	<u>2,657,088</u>	<u>4,856,664</u>
31.12.2012				
<u>At fair value:</u>				
Malaysian government papers	12,157	210,218	277,861	500,236
Unquoted debt securities in Malaysia	657,865	616,182	1,306,083	2,580,130
Equity securities:				
Quoted in Malaysia	91,237	185,617	601,145	877,999
Unquoted in Malaysia	32	-	-	32
Quoted unit and property trust funds in Malaysia	1,843	4,087	23,686	29,616
Negotiable Islamic certificates of deposit	-	24,688	16,597	41,285
	<u>763,134</u>	<u>1,040,792</u>	<u>2,225,372</u>	<u>4,029,298</u>

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5. INVESTMENTS (CONT'D.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
(ii) Designated upon initial recognition as Fair Value Through Profit or Loss ("FVTPL")				
31.12.2013				
<u>At fair value:</u>				
Malaysian government papers	-	-	956,067	956,067
Unquoted debt securities in Malaysia	-	-	3,447,729	3,447,729
Structured products (Note 5 (a))	(2,108)	(3,721)	118,887	113,058
Negotiable Islamic certificates of deposit	-	-	102,183	102,183
	<u>(2,108)</u>	<u>(3,721)</u>	<u>4,624,866</u>	<u>4,619,037</u>
31.12.2012				
<u>At fair value:</u>				
Malaysian government papers	-	-	921,405	921,405
Unquoted debt securities in Malaysia	-	-	3,421,175	3,421,175
Negotiable Islamic certificates of deposit	-	-	100,203	100,203
	<u>-</u>	<u>-</u>	<u>4,442,783</u>	<u>4,442,783</u>
			Family takaful fund RM'000	Company RM'000
(iii) Held for Trading ("HFT")				
31.12.2013				
<u>At fair value:</u>				
Unquoted debt securities in Malaysia			-	-
Foreign notes			-	-
			<u>-</u>	<u>-</u>
31.12.2012				
<u>At fair value:</u>				
Unquoted debt securities in Malaysia			5,847	5,847
Foreign notes			7,731	7,731
			<u>13,578</u>	<u>13,578</u>

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5. INVESTMENTS (CONT'D.)

(iv) LAR

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Deposits and placements with financial institutions				
Islamic investment accounts with:				
Licensed financial institutions	110,251	292,121	439,673	842,045
Others	4,617	26,532	51,809	82,958
	<u>114,868</u>	<u>318,653</u>	<u>491,482</u>	<u>925,003</u>
31.12.2012				
Deposits and placements with financial institutions				
Islamic investment accounts with:				
Licensed financial institutions	113,824	211,070	630,410	955,304
Others	136	-	9,213	9,349
	<u>113,960</u>	<u>211,070</u>	<u>639,623</u>	<u>964,653</u>

An analysis of the different fair value measurement bases used in the determination of the fair values of investments is further disclosed in Note 39.

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5. INVESTMENTS (CONT'D.)

(a) STRUCTURED PRODUCTS

Structured products of the Company are classified as either FVTPL or AFS. For structured products classified as AFS, the derivative embedded in the product is bifurcated from the host contract in line with the requirements of MFRS 139 *Financial Instruments: Recognition and Measurement*. Bifurcated derivatives are classified as FVTPL and changes in their fair value are recognised in profit or loss.

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

	<---31.12.2013 --->	
	Principal/ Notional Amount RM'000	Net Carrying Amount RM'000
Financial assets designated as at FVTPL		
Structured products of the Family takaful fund	125,000	118,887
Bifurcated derivatives relating to structured products of * :		
Shareholder's fund	-	(2,108)
General takaful fund	-	(3,721)
	125,000	113,058
AFS financial assets		
Host contract relating to structured products of * :		
Shareholder's fund	25,000	25,883
General takaful fund	20,000	22,063
	45,000	47,946
Grand total	170,000	161,004

* The notional amount of structured products categorised as AFS represents the notional amount of the product as a whole and, accordingly, segregation between the host contract and the embedded derivative is not appropriate.

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

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6. FINANCING RECEIVABLES

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Corporate loans	-	3,331	24,457	27,788
Staff loans:				
Secured	18,856	-	-	18,856
Unsecured	54	-	-	54
Others	3,123	-	17	3,140
Allowance for impairment losses	(1,063)	(3,331)	(17,165)	(21,559)
	<u>20,970</u>	<u>-</u>	<u>7,309</u>	<u>28,279</u>
Receivable within 12 months	2,156	-	-	2,156
Receivable after 12 months	18,814	-	7,309	26,123
	<u>20,970</u>	<u>-</u>	<u>7,309</u>	<u>28,279</u>
31.12.2012				
Corporate loans	-	3,381	42,099	45,480
Staff loans:				
Secured	18,334	-	-	18,334
Unsecured	115	-	-	115
Others	2,492	-	19	2,511
Allowance for impairment losses	(622)	(3,381)	(25,196)	(29,199)
	<u>20,319</u>	<u>-</u>	<u>16,922</u>	<u>37,241</u>
Receivable within 12 months	2,228	-	-	2,228
Receivable after 12 months	18,091	-	16,922	35,013
	<u>20,319</u>	<u>-</u>	<u>16,922</u>	<u>37,241</u>

The carrying amounts of financing receivables approximate their fair values as these loans are issued at profit rates that are comparable to instruments in the market with similar characteristics and risk profiles and, accordingly, the impact of discounting thereon is not material.

The weighted average effective profit rate of financing receivables at the reporting date was 4.69% (31.12.2012: 6.29%).

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7. TAKAFUL RECEIVABLES

	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013			
Due contributions including agents/ brokers and co-takaful balances	58,056	158,235	216,291
Due from retakaful operators	28,748	33,120	61,868
	<u>86,804</u>	<u>191,355</u>	<u>278,159</u>
Allowance for impairment losses	(20,707)	(51,336)	(72,043)
	<u>66,097</u>	<u>140,019</u>	<u>206,116</u>
31.12.2012			
Due contributions including agents/ brokers and co-takaful balances	93,533	131,127	224,660
Due from retakaful operators	28,559	7,452	36,011
	<u>122,092</u>	<u>138,579</u>	<u>260,671</u>
Allowance for impairment losses	(21,121)	(41,217)	(62,338)
	<u>100,971</u>	<u>97,362</u>	<u>198,333</u>

8. OTHER RECEIVABLES

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Sundry receivables, deposits and prepayments	14,497	1,195	1,266	16,958
Allowance for impairment losses	(1,350)	-	(539)	(1,889)
	<u>13,147</u>	<u>1,195</u>	<u>727</u>	<u>15,069</u>
Investment profit receivable	12,324	11,123	77,885	101,332
Amounts due from:				
General takaful fund*	106,966	-	-	-
Family takaful fund*	148,411	10	-	-
Amount due from stockbrokers	2,190	6,766	196	9,152
	<u>283,038</u>	<u>19,094</u>	<u>78,808</u>	<u>125,553</u>

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8. OTHER RECEIVABLES (CONT'D)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2012				
Sundry receivables, deposits and prepayments	3,752	1,854	5,145	10,751
Allowance for impairment losses	(1,430)	-	(550)	(1,980)
	2,322	1,854	4,595	8,771
Investment profit receivable	8,132	10,777	69,444	88,353
Amounts due from:				
General takaful fund*	64,012	-	1,340	-
Family takaful fund*	170,309	-	-	-
Amount due from ultimate holding company*	-	-	1,663	1,663
Amount due from related parties*	114	-	-	114
Amount due from stockbrokers	1,202	6,680	35,524	43,406
	<u>246,091</u>	<u>19,311</u>	<u>112,566</u>	<u>142,307</u>

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

- * The amounts due from the ultimate holding company, related companies, and the general takaful and family takaful funds in the respective funds are unsecured, not subject to any profit elements and are repayable upon demand.

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9. SHARE CAPITAL

Shareholder's fund	No. of shares '000	Amount RM'000
31.12.2013		
Authorised:		
<u>Ordinary shares of RM1.00 each</u>		
At beginning and end of year	500,000	500,000
Issued and paid-up:		
<u>Ordinary shares of RM1.00 each</u>		
At beginning of year	100,000	100,000
Issued during the year	300,000	300,000
At end of year	400,000	400,000
31.12.2012		
Authorised:		
<u>Ordinary shares of RM1.00 each</u>		
At beginning and end of year	500,000	500,000
Issued and paid-up:		
<u>Ordinary shares of RM1.00 each</u>		
At beginning and end of year	100,000	100,000

On 30 October 2013, the Company issued 300,000,000 new ordinary shares of RM1.00 each to its holding company, Maybank Ageas Holdings Berhad ("MAHB"), at par for cash as disclosed above. The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary shares of the Company in existence as of the issue date above.

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10. RESERVES

	31.12.2013	31.12.2012
	RM'000	RM'000
Shareholder's fund/Company		
Non-distributable:		
AFS reserves	(19,602)	14,119
Distributable:		
Retained profits	833,701	645,177
	<u>814,099</u>	<u>659,296</u>

The AFS reserve of the Company arose from changes in the fair value of the investments classified as AFS financial assets. The entire retained profits are distributable to the shareholder under the single-tier system.

11. PARTICIPANTS' FUND

	31.12.2013	31.12.2012
	RM'000	RM'000
Takaful funds and Company		
General takaful fund (Note (a))	159,705	123,172
Family takaful fund (Note (b))	2,146,638	1,929,239
	<u>2,306,343</u>	<u>2,052,411</u>
	31.12.2013	31.12.2012
	RM'000	RM'000
(a) General takaful fund		
Accumulated surplus (Note (i))	185,712	90,922
AFS reserves (Note (ii))	(26,007)	32,250
	<u>159,705</u>	<u>123,172</u>

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11. PARTICIPANTS' FUND (CONT'D.)

	31.12.2013	31.12.2012
	RM'000	RM'000
(a) General takaful fund (cont'd)		
(i) Accumulated surplus		
At beginning of year	90,922	58,385
Surplus transferred from general takaful fund during the year	129,149	48,834
Hibah paid to participants during the year	<u>(34,359)</u>	<u>(16,297)</u>
At end of year	<u>185,712</u>	<u>90,922</u>
	31.12.2013	31.12.2012
	RM'000	RM'000
(ii) AFS reserves		
At beginning of year	32,250	29,561
Net gain on fair value changes	(5,508)	26,253
Deferred tax on fair value changes	8,669	-
Realised gain transferred to income statement (Note 21)	<u>(61,418)</u>	<u>(23,564)</u>
At end of year	<u>(26,007)</u>	<u>32,250</u>
	31.12.2013	31.12.2012
	RM'000	RM'000
(b) Family takaful fund		
Accumulated surplus (Note (i))	2,046,700	1,787,174
Surplus attributable to participants (Note (ii))	10,852	-
AFS reserves (Note (iii))	89,086	142,065
	<u>2,146,638</u>	<u>1,929,239</u>

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11. PARTICIPANTS' FUND (CONT'D.)

	31.12.2013	31.12.2012
	RM'000	RM'000
(b) Family takaful fund (cont'd)		
(i) Accumulated surplus		
At beginning of year	1,787,174	1,349,741
Surplus transferred from family takaful fund	301,348	414,914
Surplus attributable to participants during the year	(10,852)	-
Hibah paid to participants during the year	(30,970)	22,519
At end of year	<u>2,046,700</u>	<u>1,787,174</u>
	31.12.2013	31.12.2012
	RM'000	RM'000
(ii) Surplus attributable to participants		
At beginning of year	-	-
Surplus attributable to participants during the year	10,852	-
At end of year	<u>10,852</u>	<u>-</u>
	31.12.2013	31.12.2012
	RM'000	RM'000
(iii) AFS reserves		
At beginning of year	142,065	155,613
Net gain on fair value changes	76,987	92,236
Deferred tax on fair value changes	(7,057)	-
Realised gain transferred to income statement (Note 21)	(122,909)	(105,784)
At end of year	<u>89,086</u>	<u>142,065</u>

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12. TAKAFUL CERTIFICATE LIABILITIES

	Gross RM'000	Retakaful RM'000	Net RM'000
Takaful funds and Company			
31.12.2013			
General takaful fund (Note (a))	1,242,814	(205,298)	1,037,516
Family takaful fund (Note (b))	5,519,963	(15,817)	5,504,146
	<u>6,762,777</u>	<u>(221,115)</u>	<u>6,541,662</u>
31.12.2012			
General takaful fund (Note (a))	1,294,156	(273,365)	1,020,791
Family takaful fund (Note (b))	5,303,482	(18,634)	5,284,848
	<u>6,597,638</u>	<u>(291,999)</u>	<u>6,305,639</u>
(a) General takaful fund			
	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2013			
Claims liabilities (Note (i))	699,800	(173,839)	525,961
Contribution liabilities (Note (ii))	543,014	(31,459)	511,555
	<u>1,242,814</u>	<u>(205,298)</u>	<u>1,037,516</u>
31.12.2012			
Claims liabilities (Note (i))	748,517	(237,507)	511,010
Contribution liabilities (Note (ii))	545,639	(35,858)	509,781
	<u>1,294,156</u>	<u>(273,365)</u>	<u>1,020,791</u>

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12. TAKAFUL CERTIFICATE LIABILITIES (CONT'D.)

(a) General takaful fund (cont'd.)

(i) Claims liabilities

	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2013			
At beginning of year	748,517	(237,507)	511,010
Claims incurred in the current accident year	565,662	(59,005)	506,657
Movement in claims incurred in prior accident years	(45,080)	15,714	(29,366)
Claims paid during the year	(548,792)	84,430	(464,362)
Movements in PRAD	(20,507)	22,529	2,022
At end of the year	<u>699,800</u>	<u>(173,839)</u>	<u>525,961</u>
31.12.2012			
At beginning of year	661,800	(258,229)	403,571
Claims incurred in the current accident year	479,285	(22,820)	456,465
Movement in claims incurred in prior accident years	(47,371)	32,432	(14,939)
Claims paid during the year	(372,058)	6,707	(365,351)
Movements in PRAD	26,861	4,403	31,264
At end of the year	<u>748,517</u>	<u>(237,507)</u>	<u>511,010</u>

(ii) Contribution liabilities

	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2013			
At beginning of the year	545,639	(35,858)	509,781
Contributions written during the year	885,648	(82,806)	802,842
Contributions earned during the year	(888,273)	87,205	(801,068)
At end of the year	<u>543,014</u>	<u>(31,459)</u>	<u>511,555</u>
31.12.2012			
At beginning of the year	476,076	(19,879)	456,197
Contributions written during the year	867,259	(96,399)	770,860
Contributions earned during the year	(797,696)	80,420	(717,276)
At end of the year	<u>545,639</u>	<u>(35,858)</u>	<u>509,781</u>

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12. TAKAFUL CERTIFICATE LIABILITIES (CONT'D.)

(b) Family takaful fund

- (i) The family takaful certificate liabilities and its movements are further analysed as follows:

	Gross RM'000	Retakaful RM'000	Net RM'000
31.12.2013			
Provision for outstanding claims (Note (ii))	67,385	(540)	66,845
Actuarial liabilities (Note (ii))	<u>5,452,578</u>	<u>(15,277)</u>	<u>5,437,301</u>
	<u>5,519,963</u>	<u>(15,817)</u>	<u>5,504,146</u>
31.12.2012			
Provision for outstanding claims (Note (ii))	128,053	(113)	127,940
Actuarial liabilities (Note (ii))	5,118,543	(18,521)	5,100,022
NAV attributable to unitholders (Note (ii))	56,886	-	56,886
	<u>5,303,482</u>	<u>(18,634)</u>	<u>5,284,848</u>

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12. TAKAFUL CERTIFICATE LIABILITIES (CONT'D.)

(b) Family takaful fund (Cont'd.)

(ii) Movements of family takaful certificate liabilities

	Provision for Outstanding Claims RM'000	Actuarial Liabilities RM'000	NAV Attributable to Unitholders RM'000	Gross Liabilities RM'000	Retakaful Assets RM'000	Net Liabilities RM'000
31.12.2013						
As at 1 January 2013	128,053	5,118,543	56,886	5,303,482	(18,634)	5,284,848
Net earned contribution	-	-	-	-	(32,647)	(32,647)
Other revenue	-	-	1,976	1,976	-	1,976
Experience/benefit variation	3,791	-	-	3,791	(9,687)	(5,896)
Claims intimated during the year	603,268	(603,268)	-	-	(427)	(427)
Claims paid during the year	(667,727)	-	(57,709)	(725,436)	42,334	(683,102)
Other expenses	-	-	(1,076)	(1,076)	-	(1,076)
Taxation	-	-	(77)	(77)	-	(77)
Increase in certificate reserves	-	937,303	-	937,303	3,244	940,547
As at 31 December 2013	67,385	5,452,578	-	5,519,963	(15,817)	5,504,146

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12. TAKAFUL CERTIFICATE LIABILITIES (CONT'D.)

(b) Family takaful fund (Cont'd.)

(ii) Movements of family takaful certificate liabilities

	Provision for Outstanding Claims RM'000	Actuarial Liabilities RM'000	NAV Attributable to Unitholders RM'000	Gross Liabilities RM'000	Retakaful Assets RM'000	Net Liabilities RM'000
31.12.2012						
As at 1 January 2012	125,546	4,618,790	67,698	4,812,034	(18,832)	4,793,202
Net earned contribution	-	-	-	-	(12,163)	(12,163)
Other revenue	-	-	2,991	2,991	-	2,991
Experience/benefit variation	(9,676)	-	-	(9,676)	8,598	(1,078)
Claims intimated during the year	639,726	(639,726)	-	-	(113)	(113)
Claims paid during the year	(627,543)	-	(12,650)	(640,193)	3,565	(636,628)
Other expenses	-	-	(937)	(937)	-	(937)
Taxation	-	-	(216)	(216)	-	(216)
Increase in certificate reserves	-	1,139,479	-	1,139,479	311	1,139,790
As at 31 December 2012	128,053	5,118,543	56,886	5,303,482	(18,634)	5,284,848

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13. EXPENSE LIABILITIES

	31.12.2013	31.12.2012	
	RM'000	RM'000	
Shareholder's fund			
Expense liabilities for general takaful fund:			
Provision for unearned wakalah fees	87,547	83,104	
Expense liabilities for family takaful fund:			
Unexpired expense reserve ("UER")	266,195	223,024	
	<u>353,742</u>	<u>306,128</u>	
	General	Family	
	takaful fund	takaful fund	
	RM'000	RM'000	
		Total	
		RM'000	
31.12.2013			
At beginning of the year	83,104	223,024	306,128
Wakalah fee received during the year (Note 19)	221,314	-	221,314
Wakalah fee earned during the year	(216,871)	-	(216,871)
Movement in provision for Unearned Wakalah fees (Note 26)	4,443	-	4,443
Movement in provision for UER (Note 26)	-	43,171	43,171
At end of the year	<u>87,547</u>	<u>266,195</u>	<u>353,742</u>
31.12.2012			
At beginning of the year	72,992	144,981	217,973
Wakalah fee received during the year (Note 19)	217,192	-	217,192
Wakalah fee earned during the year	(207,080)	-	(207,080)
Movement in provision for Unearned Wakalah fees (Note 26)	10,112	-	10,112
Movement in provision for UER (Note 26)	-	78,043	78,043
At end of the year	<u>83,104</u>	<u>223,024</u>	<u>306,128</u>

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14. DEFERRED TAXATION

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
At beginning of year	(5,245)	-	(67)	(5,312)
Recognised in:				
Income statement (Note 28)	(924)	-	-	(924)
Other comprehensive income/ participants' fund	11,240	8,669	(7,057)	12,852
Tax borne by participants	-	(3,736)	6,182	2,446
At end of year	<u>5,071</u>	<u>4,933</u>	<u>(942)</u>	<u>9,062</u>

31.12.2012				
At beginning of year	(6,747)	-	(63)	(6,810)
Recognised in:				
Income statement (Note 28)	2,612	-	-	2,612
Other comprehensive income	(1,110)	-	-	(1,110)
Tax borne by participants	-	-	(4)	(4)
At end of year	<u>(5,245)</u>	<u>-</u>	<u>(67)</u>	<u>(5,312)</u>

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
Presented after appropriate offsetting as follows:				
31.12.2013				
Deferred tax assets	7,906	10,005	6,115	24,026
Deferred tax liabilities	(2,835)	(5,072)	(7,057)	(14,964)
	<u>5,071</u>	<u>4,933</u>	<u>(942)</u>	<u>9,062</u>
31.12.2012				
Deferred tax assets	1,784	-	-	1,784
Deferred tax liabilities	(7,029)	-	(67)	(7,096)
	<u>(5,245)</u>	<u>-</u>	<u>(67)</u>	<u>(5,312)</u>

14. DEFERRED TAXATION (CONT'D.)

Shareholder's fund

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 fiscal authority. The net deferred tax assets/(liabilities) shown in the statement of financial position has been determined after appropriate offsetting as follows:

	31.12.2013	31.12.2012
	RM'000	RM'000
Deferred tax assets	7,906	1,784
Deferred tax liabilities	<u>(2,835)</u>	<u>(7,029)</u>
	<u>5,071</u>	<u>(5,245)</u>

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

(i) Deferred tax assets

	Impairment on AFS financial assets	Net accretion of discounts on investments	AFS reserves	Fair value adjustment	Impairment on financial receivables	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2013	493	1,130	(4,706)	-	161	(2,922)
Recognised in:						
Income statement	(35)	(616)	-	135	104	(412)
Other comprehensive income	-	-	11,240	-	-	11,240
At 31 December 2013	<u>458</u>	<u>514</u>	<u>6,534</u>	<u>135</u>	<u>265</u>	<u>7,906</u>
At 1 January 2012	133	(3)	-	-	145	275
Recognised in:						
Income statement	360	1,133	-	-	16	1,509
At 31 December 2012	<u>493</u>	<u>1,130</u>	<u>-</u>	<u>-</u>	<u>161</u>	<u>1,784</u>

14. DEFERRED TAXATION (CONT'D.)

Shareholder's fund (cont'd.)

(ii) Deferred tax liabilities

	AFS reserves RM'000	Fair value adjustment RM'000	Accelerated capital allowances RM'000	Total RM'000
At 1 January 2013	-	-	(2,323)	(2,323)
Recognised in income statement At 31 December 2013	-	-	(512)	(512)
	-	-	(2,835)	(2,835)
At 1 January 2012	(3,596)	(627)	(2,799)	(7,022)
Recognised in:				
Income statement	-	627	476	1,103
Other comprehensive income	(1,110)	-	-	(1,110)
At 31 December 2012	(4,706)	-	(2,323)	(7,029)

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14. DEFERRED TAXATION (CONT'D.)

General takaful fund

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax assets shown in the statement of financial position has been determined after appropriate offsetting as follows:

	31.12.2013	31.12.2012
	RM'000	RM'000
Deferred tax assets	10,005	-
Deferred tax liabilities	(5,072)	-
	<u>4,933</u>	<u>-</u>

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

(i) Deferred tax assets

	AFS reserves RM'000	Impairment on AFS financial assets RM'000	Fair value adjustment RM'000	Total RM'000
At 1 January 2013	-	-	-	-
Recognised in:				
Income statement	-	1,123	213	1,336
Participants' fund	8,669	-	-	8,669
At 31 December 2013	<u>8,669</u>	<u>1,123</u>	<u>213</u>	<u>10,005</u>

(ii) Deferred tax liabilities

	Net accretion of discounts on investments RM'000	Impairment on takaful receivables RM'000	Takaful contract liabilities RM'000	Total RM'000
At 1 January 2013	-	-	-	-
Recognised in income statement	(388)	(4,642)	(42)	(5,072)
At 31 December 2013	<u>(388)</u>	<u>(4,642)</u>	<u>(42)</u>	<u>(5,072)</u>

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14. DEFERRED TAXATION (CONT'D.)

Family takaful fund

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax liabilities shown in the statement of financial position has been determined after appropriate offsetting as follows:

	31.12.2013	31.12.2012
	RM'000	RM'000
Deferred tax assets	6,115	-
Deferred tax liabilities	(7,057)	(67)
	<u>(942)</u>	<u>(67)</u>

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

(i) Deferred tax assets

	Impairment on AFS financial assets RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	Total RM'000
At 1 January 2013	-	-	(67)	(67)
Recognised in income statement	2,134	159	3,889	6,182
At 31 December 2013	<u>2,134</u>	<u>159</u>	<u>3,822</u>	<u>6,115</u>

(ii) Deferred tax liabilities

	AFS reserves RM'000	Fair value adjustment RM'000	Total RM'000
At 1 January 2013	-	-	-
Recognised in participants' fund	(7,057)	-	(7,057)
At 31 December 2013	<u>(7,057)</u>	<u>-</u>	<u>(7,057)</u>
At 1 January 2012	-	(63)	(63)
Recognised in income statement	-	(4)	(4)
At 31 December 2012	<u>-</u>	<u>(67)</u>	<u>(67)</u>

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15. TAKAFUL PAYABLES

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Due to agents and brokers	9,360	38,493	49,076	96,929
Due to retakaful operators	-	30,135	18,710	48,845
	<u>9,360</u>	<u>68,628</u>	<u>67,786</u>	<u>145,774</u>
31.12.2012				
Due to agents and brokers	3,008	44,405	51,972	99,385
Due to retakaful operators	-	46,089	9,275	55,364
	<u>3,008</u>	<u>90,494</u>	<u>61,247</u>	<u>154,749</u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

16. OTHER PAYABLES

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
Contribution deposits	754	3,293	118,014	122,061
Amounts due to:				
Shareholder's fund*	-	106,966	148,411	-
General takaful fund*	-	-	10	-
Amount due to stockbrokers	5,528	10,153	40,121	55,802
Unclaimed monies	1,430	20,737	16,143	38,310
Service tax payable	-	1,071	73	1,144
Mudharabah payable	-	56,610	10	56,620
Withholding tax payable	-	7,842	4,227	12,069
Amount due to ultimate holding company*	12,306	69	411	12,786
Amount due to holding company*	1,087	-	-	1,087
Amount due to related parties*	14,828	-	-	14,828
Sundry payables and accrued liabilities	67,960	18,996	6,648	93,604
	<u>103,893</u>	<u>225,737</u>	<u>334,068</u>	<u>408,311</u>

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16. OTHER PAYABLES (CONT'D)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2012				
Contribution deposits	109	6	68,547	68,662
Amounts due to:				
Shareholder's fund*	-	64,012	170,309	-
Family takaful fund*	-	1,340	-	-
Amount due to stockbrokers	-	-	18	18
Unclaimed monies	539	5,651	14,476	20,666
Service tax payable	(9)	2,832	239	3,062
Mudharabah payable	-	62,185	4	62,189
Withholding tax payable	-	2,985	7,743	10,728
Amount due to ultimate holding company*	34,114	-	-	34,114
Amount due to holding company*	2,774	-	-	2,774
Amount due to related parties*	5,590	-	6	5,596
Sundry payables and accrued liabilities	79,869	18,935	12,296	111,101
	<u>122,986</u>	<u>157,946</u>	<u>273,638</u>	<u>318,910</u>

* The amounts due to the ultimate holding company, the holding company and related companies, the shareholder's, general takaful and family takaful funds in the respective funds are unsecured, not subject to any profit elements and are repayable upon demand.

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

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17. OPERATING REVENUE

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Wakalah fees (Note 19)	533,130	-	-	-
Investment income (Note 20)	43,842	49,227	335,808	428,877
Gross contributions (Note 18)	-	885,648	1,453,476	2,338,966
	<u>576,972</u>	<u>934,875</u>	<u>1,789,284</u>	<u>2,767,843</u>
2012				
Wakalah fees (Note 19)	520,354	-	-	-
Investment income (Note 20)	24,877	43,487	303,813	372,177
Gross contributions (Note 18)	-	867,259	1,744,795	2,611,904
	<u>545,231</u>	<u>910,746</u>	<u>2,048,608</u>	<u>2,984,081</u>

18. NET EARNED CONTRIBUTION

	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013			
(a) Gross contribution	885,648	1,453,476	2,338,966
Change in unearned contribution reserves	2,625	-	2,625
	<u>888,273</u>	<u>1,453,476</u>	<u>2,341,591</u>
(b) Contributions ceded to retakaful operators	(82,806)	(32,647)	(115,453)
Change in unearned contribution reserves	(4,399)	-	(4,399)
	<u>(87,205)</u>	<u>(32,647)</u>	<u>(119,852)</u>
	<u>801,068</u>	<u>1,420,829</u>	<u>2,221,739</u>
2012			
(a) Gross contribution	867,259	1,744,795	2,611,904
Change in unearned contribution reserves	(69,563)	-	(69,563)
	<u>797,696</u>	<u>1,744,795</u>	<u>2,542,341</u>
(b) Contributions ceded to retakaful operators	(96,399)	(12,163)	(108,562)
Change in unearned contribution reserves	15,979	-	15,979
	<u>(80,420)</u>	<u>(12,163)</u>	<u>(92,583)</u>
	<u>717,276</u>	<u>1,732,632</u>	<u>2,449,758</u>

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19. FEE AND COMMISSION INCOME

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Wakalah fee income:				
General takaful fund	221,314	-	-	-
Family takaful fund	311,816	-	-	-
Profit commission	-	-	-	-
Retakaful commission income	-	10,803	34	10,837
Others	-	421	-	421
	<u>533,130</u>	<u>11,224</u>	<u>34</u>	<u>11,258</u>
2012				
Wakalah fee income:				
General takaful fund	217,192	-	-	-
Family takaful fund	303,162	-	-	-
Profit commission	-	-	1,869	1,869
Retakaful commission income	-	15,367	19	15,386
Others	-	380	-	380
	<u>520,354</u>	<u>15,747</u>	<u>1,888</u>	<u>17,635</u>

20. INVESTMENT INCOME

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Financial assets at FVTPL:				
Profit income	-	-	217,775	217,775
HFT financial assets:				
Profit income	-	-	27	27
AFS financial assets:				
Profit income	37,771	39,251	78,195	155,217
Dividend income:				
Quoted equity securities in Malaysia	3,219	4,611	21,491	29,321
Unit and property trusts	135	285	1,478	1,898

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20. INVESTMENT INCOME (CONT'D)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
LAR:				
Profit income	4,082	7,353	19,153	30,588
Profit income from financing receivables	817	-	2,587	3,404
Net amortisation of premium	(1,913)	(1,982)	(3,279)	(7,174)
Other investment income	-	-	-	-
Investment related expenses	(269)	(291)	(1,619)	(2,179)
	<u>43,842</u>	<u>49,227</u>	<u>335,808</u>	<u>428,877</u>
2012				
Financial assets at FVTPL:				
Profit income	-	-	191,190	191,190
HFT financial assets:				
Profit income	-	-	2,238	2,238
AFS financial assets:				
Profit income	20,362	35,489	70,353	126,204
Dividend income:				
Quoted equity securities in Malaysia	1,963	5,253	18,426	25,642
Unit and property trusts	8	98	1,016	1,122
LAR:				
Profit income	3,883	5,578	19,769	29,230
Profit income from financing receivables	653	-	202	855
Net (amortisation of premium)/ accretion of discount	(1,722)	(2,689)	1,959	(2,452)
Other investment income	-	-	-	-
Investment related expenses	(270)	(242)	(1,340)	(1,852)
	<u>24,877</u>	<u>43,487</u>	<u>303,813</u>	<u>372,177</u>

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21. REALISED GAINS

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Realised gains/(losses) on disposal of:				
AFS financial assets				
Malaysian government papers	56	2,524	285	2,865
Equity securities	19,146	54,450	108,866	182,462
Debt securities	3,528	3,887	11,456	18,871
Other investments	6	557	2,302	2,865
	<u>22,736</u>	<u>61,418</u>	<u>122,909</u>	<u>207,063</u>
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Malaysian government papers	-	-	856	856
Debt securities	-	-	27,633	27,633
	<u>-</u>	<u>-</u>	<u>28,489</u>	<u>28,489</u>
(ii) Held for trading purposes				
Debt securities	-	-	(34)	(34)
Foreign Notes	-	-	1,663	1,663
	<u>-</u>	<u>-</u>	<u>1,629</u>	<u>1,629</u>
Total realised gains	<u>22,736</u>	<u>61,418</u>	<u>153,027</u>	<u>237,181</u>

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21. REALISED GAINS (CONT'D.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2012				
Realised gain on disposal of:				
Property, plant and equipment	5	-	-	5
Realised gains/(losses) on disposal of:				
AFS financial assets				
Malaysian government papers	-	242	-	242
Equity securities	4,690	19,591	90,743	115,024
Debts securities	5,667	3,731	15,041	24,439
	<u>10,357</u>	<u>23,564</u>	<u>105,784</u>	<u>139,705</u>
Financial assets at FVTPL				
(i) Designated upon initial recognition				
Malaysian government papers	-	-	515	515
Debt securities	-	-	42,681	42,681
	-	-	<u>43,196</u>	<u>43,196</u>
(ii) Held for trading purposes				
Debt securities	-	-	(1,757)	(1,757)
Negotiable Islamic certificate of deposits	-	-	1,873	1,873
Foreign Notes	-	-	99	99
	-	-	<u>215</u>	<u>215</u>
Total realised gains	<u>10,362</u>	<u>23,564</u>	<u>149,195</u>	<u>183,121</u>

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22. FAIR VALUE (LOSSES)/GAINS

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Financial assets at FVTPL:				
- designated upon initial recognition	(540)	(854)	(215,284)	(216,678)
- held for trading purposes	-	-	(996)	(996)
	<u>(540)</u>	<u>(854)</u>	<u>(216,280)</u>	<u>(217,674)</u>

2012

Financial assets at FVTPL:

- designated upon initial recognition	-	-	9,933	9,933
- held for trading purposes	-	-	208	208
	<u>-</u>	<u>-</u>	<u>10,141</u>	<u>10,141</u>

23. OTHER OPERATING (EXPENSES)/INCOME, NET

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Other income				
Surrender charges	232	-	-	232
Unrealised gain on foreign exchange	-	-	153	153
Reversal of impairment losses on:				
Financing receivables	-	50	8,031	8,081
Takaful receivables	-	414	-	414
Other receivables	80	-	11	91
Sundry income	9	-	2	11
	<u>321</u>	<u>464</u>	<u>8,197</u>	<u>8,982</u>

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23. OTHER OPERATING (EXPENSES)/INCOME, NET(CONT'D)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Other expenses				
Realised loss on				
foreign exchange	(1)	(5)	(24)	(30)
Bad debts written off	-	(376)	-	(376)
Impairment losses on:				
Investments	(765)	(607)	(7,526)	(8,898)
Financing receivables	(441)	-	-	(441)
Takaful receivables	-	-	(10,119)	(10,119)
Intangible assets	(6,324)	-	-	(6,324)
Processing fee expenses	(53)	-	(44)	(97)
Sundry expenditure	-	(521)	-	(521)
	<u>(7,584)</u>	<u>(1,509)</u>	<u>(17,713)</u>	<u>(26,806)</u>
	<u>(7,263)</u>	<u>(1,045)</u>	<u>(9,516)</u>	<u>(17,824)</u>
2012				
Other income				
Surrender charges	202	-	-	202
Processing fee income	3,724	-	-	3,724
Realised gain on				
foreign exchange	-	7	-	7
Reversal of impairment losses on:				
Financing receivables	-	15	-	15
Takaful receivables	-	116	-	116
Sundry income	308	-	1	309
	<u>4,234</u>	<u>138</u>	<u>1</u>	<u>4,373</u>
Other expenses				
Loss on foreign exchange:				
Realised	(4)	-	(140)	(144)
Unrealised	-	-	(154)	(154)
Bad debts written off	(24)	-	(1,228)	(1,252)
Impairment losses on:				
Investments	(2,196)	(7,275)	(31,753)	(41,224)
Financing receivables	(42)	-	(199)	(241)
Takaful receivables	-	-	(24,575)	(24,575)
Other receivables	(1,029)	-	(550)	(1,579)
Processing fee expenses	-	-	(3,791)	(3,791)
Sundry expenditure	-	(4,433)	-	(4,433)
	<u>(3,295)</u>	<u>(11,708)</u>	<u>(62,390)</u>	<u>(77,393)</u>
	<u>939</u>	<u>(11,570)</u>	<u>(62,389)</u>	<u>(73,020)</u>

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24. NET BENEFITS AND CLAIMS

	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013			
Gross benefits and claims paid	(548,792)	(725,436)	(1,274,228)
Claims ceded to retakaful	84,430	42,334	126,764
Gross change to certificate liabilities	48,717	(212,690)	(594,470)
Change in certificate liabilities ceded to retakaful	(63,668)	(2,817)	(66,485)
	<u>(479,313)</u>	<u>(898,609)</u>	<u>(1,808,419)</u>
2012			
Gross benefits and claims paid	(372,058)	(640,193)	(1,012,251)
Claims ceded to retakaful	6,707	3,565	10,272
Gross change to certificate liabilities	(86,717)	(501,124)	(1,051,589)
Change in certificate liabilities ceded to retakaful	(20,722)	(198)	(20,920)
	<u>(472,790)</u>	<u>(1,137,950)</u>	<u>(2,074,488)</u>

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25. MANAGEMENT EXPENSES

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Employee benefits expenses (Note (a))	122,885	667	26,102	149,654
Directors' remuneration (Note (b))	774	4	208	986
Auditors' remuneration:				
Statutory audits	360	4	120	484
Regulatory related services	13	-	3	16
Other services	17	1	7	25
Depreciation of property, plant and equipment (Note 3)	808	1	-	809
Amortisation of intangible assets (Note 4)	7,049	15	406	7,470
Agency related expenses	6,732	-	-	6,732
Bank and financing charges	7,460	-	4,250	11,710
Electronic data processing expenses	14,082	109	2,113	16,304
Entertainment	686	5	72	763
Fund management fees	10	-	(10)	-
Legal fees	900	5	392	1,297
Office facilities expenses	798	12	113	765
Other management fees	690	4	142	836
Outsourcing services	1	-	-	1
Postage & stamp duties	3,912	3	478	4,393
Printing & stationery	3,180	6	297	3,483
Professional fees	780	7	630	1,417
Promotional and marketing cost	29,991	41	1	30,033
Rental of offices/premises	8,223	50	1,423	9,696
Training expenses	2,685	18	238	2,941
Travelling expenses	2,316	12	261	2,589
Utilities, assessment and maintenance	2,598	26	449	3,073
Other expenses	10,494	74	(5,403)	5,165
	<u>227,444</u>	<u>1,064</u>	<u>32,292</u>	<u>260,642</u>

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25. MANAGEMENT EXPENSES (CONT'D.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2012				
Employee benefits expenses (Note (a))	104,107	461	32,337	136,905
Directors' remuneration (Note (b))	1,207	-	226	1,433
Auditors' remuneration:				
Statutory audits	294	2	87	383
Regulatory related services	(1)	1	10	10
Other services	18	-	7	25
Depreciation of property, plant and equipment (Note 3)	643	5	5	653
Amortisation of intangible assets (Note 4)	5,908	15	438	6,361
Agency related expenses	5,402	-	-	5,402
Bank and financing charges	6,407	-	4,438	10,845
Electronic data processing expenses	21,177	163	3,738	25,078
Entertainment	777	4	337	1,118
Fund management fees	410	-	693	1,103
Interest expenses	5,223	15	-	5,238
Legal fees	1,035	2	86	1,123
Office facilities expenses	494	3	176	523
Other management fees	584	3	81	668
Postage & stamp duties	2,433	11	520	2,964
Printing & stationery	3,282	3	615	3,900
Professional fees	593	4	765	1,362
Promotional and marketing cost	35,571	30	3,988	39,589
Rental of offices/premises	6,233	31	1,958	8,222
Training expenses	2,832	17	381	3,230
Travelling expenses	2,723	15	835	3,573
Utilities, assessment and maintenance	1,976	13	620	2,609
Penalty charges	2,349	-	9,566	11,915
Other expenses	12,457	56	2,885	15,398
	<u>224,134</u>	<u>854</u>	<u>64,792</u>	<u>289,630</u>

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25. MANAGEMENT EXPENSES (CONT'D.)

(a) Employee benefits expenses

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Wages, salaries and bonus	93,293	492	19,568	113,353
EPF	13,182	53	2,639	15,874
SOCSSO	585	3	109	697
Share based compensation	2,925	28	548	3,501
Other benefits expenses	12,900	91	3,238	16,229
	<u>122,885</u>	<u>667</u>	<u>26,102</u>	<u>149,654</u>
2012				
Wages, salaries and bonus	76,116	321	21,698	98,135
EPF	11,101	47	3,354	14,502
SOCSSO	422	2	148	572
Share based compensation	3,058	28	779	3,865
Other benefits expenses	13,410	63	6,358	19,831
	<u>104,107</u>	<u>461</u>	<u>32,337</u>	<u>136,905</u>

Included in employee benefits expenses are remuneration paid to the Chief Executive Office of the Company amounting to RM855,000 (2012: RM93,000) as detailed in Note 25(c).

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25. MANAGEMENT EXPENSES (CONT'D.)

(b) Directors' remuneration

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Executive:				
Salary	41	-	11	52
Other remuneration	214	1	58	273
	<u>255</u>	<u>1</u>	<u>69</u>	<u>325</u>
Non executive:				
Fees	457	3	123	583
Other emoluments	62	-	16	78
	<u>519</u>	<u>3</u>	<u>139</u>	<u>661</u>
	<u>774</u>	<u>4</u>	<u>208</u>	<u>986</u>
2012				
Executive:				
Salary	263	-	49	312
Bonus	96	-	18	114
EPF and pension scheme	8	-	2	10
Other remuneration	380	-	71	451
	<u>747</u>	<u>-</u>	<u>140</u>	<u>887</u>
Non executive:				
Fees	418	-	78	496
Other emoluments	42	-	8	50
	<u>460</u>	<u>-</u>	<u>86</u>	<u>546</u>
	<u>1,207</u>	<u>-</u>	<u>226</u>	<u>1,433</u>

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25. MANAGEMENT EXPENSES (CONT'D.)

(b) Directors' remuneration (cont'd.)

The number of directors whose total remuneration received from the Company during the year falls within the following bands is analysed below:

	Number of Directors	
	2013 RM'000	2012 RM'000
Executive director:		
RM500,001 to RM900,000	-	1
Below RM500,000	1	-
	<hr/>	<hr/>
Non-executive directors:		
RM100,001 to RM200,000	1	-
RM50,001 to RM100,000	7	7
Below RM50,000	2	2
	<hr/>	<hr/>

(c) The details of remuneration receivable by the Chief Executive Officer included in employee benefits expenses during the year are as follows:

	2013 RM'000	2012 RM'000
Salaries	436	70
Bonus	45	-
EPF	113	13
Other emoluments	261	10
	<hr/>	<hr/>
	855	93

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26. CHANGE IN EXPENSE LIABILITIES

	2013	2012
	RM'000	RM'000
Shareholder's fund/Company		
Expense liabilities for general takaful fund:		
Increase in provision for unearned wakalah fees (Note 13)	4,443	10,112
Expense liabilities for family takaful fund:		
Increase/(decrease) in UER (Note 13)	43,171	78,043
	<u>47,614</u>	<u>88,155</u>

27. FEE AND COMMISSION EXPENSES

	Shareholder's fund	General takaful fund	Family takaful fund	Company
	RM'000	RM'000	RM'000	RM'000
2013				
Commission expenses	232,460	-	36,685	269,145
Wakalah fee expense	-	221,314	311,816	-
Processing fee expenses	-	-	2,654	2,654
Others	-	-	927	927
	<u>232,460</u>	<u>221,314</u>	<u>352,082</u>	<u>272,726</u>
2012				
Commission expenses	214,999	-	85,077	300,076
Wakalah fee expense	-	217,192	303,162	-
Processing fee expenses	-	-	-	-
Others	-	-	1,988	1,988
	<u>214,999</u>	<u>217,192</u>	<u>390,227</u>	<u>302,064</u>

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28. TAXATION

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Malaysian income tax:				
Tax expense for the year	77,316	-	24,617	77,316
Overprovision of tax in prior years	(8,535)	(7,520)	(7,213)	(8,535)
Deferred taxation:				
Relating to origination and reversal of temporary differences (Note 14)	924	3,736	(6,182)	924
	<u>69,705</u>	<u>(3,784)</u>	<u>11,222</u>	<u>69,705</u>
2012				
Malaysian income tax:				
Tax expense for the year	80,069	-	212	80,069
Overprovision of tax in prior years	(6,038)	-	-	(6,038)
Deferred taxation:				
Relating to origination and reversal of temporary differences (Note 14)	(2,612)	-	4	(2,612)
	<u>71,419</u>	<u>-</u>	<u>216</u>	<u>71,419</u>

Domestic income tax for the shareholder's and general takaful funds is calculated at the Malaysian statutory tax rate of 25% (2012: 25%) of the estimated assessable profit for the financial year.

Domestic income tax of the family takaful fund is calculated at the preferential tax rate of 8% (2012: 8%) of taxable investment income for the financial year.

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28. TAXATION (CONT'D.)

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

	2013	2012
	RM'000	RM'000
Company		
Profit before taxation	266,718	205,259
Taxation at Malaysian statutory tax rate of 25%	66,680	51,315
Income not subject to tax	(11,094)	(4,303)
Expenses not deductible for tax purposes	23,856	31,027
Effect on zakat deduction	(1,202)	(582)
Overprovision of tax in prior years	(8,535)	(6,038)
Tax expense for the year	<u>69,705</u>	<u>71,419</u>

29. EARNINGS PER SHARE

The basic earnings per share ("EPS") is calculated by dividing the net profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares (2012: number of ordinary shares) in issue during the financial year.

	31.12.2013	31.12.2012
Profit attributable to ordinary shareholder (RM'000)	188,524	125,723
Weighted average number/number of ordinary shares in issue ('000)	151,781	100,000
Basic earnings per share (sen)	<u>124.21</u>	<u>125.72</u>

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares

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

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30. OPERATING LEASE COMMITMENTS

As at the reporting date, the Company and takaful funds lease office premises under lease agreements that are not cancellable within a year. The leases contain renewable options.

Future minimum lease payments for leases with initial or remaining terms of one year or more are as follows:

	31.12.2013	31.12.2012
	RM'000	RM'000
Within 1 year	9,540	8,030
After 1 year but not more than 5 years	35,928	29,886
	<u>45,468</u>	<u>37,916</u>

Rental expenses recognised in income statements during the financial year is disclosed in Note 25.

31. CAPITAL COMMITMENTS

	31.12.2013	31.12.2012
	RM'000	RM'000
Shareholder's fund		
Approved and contracted for:		
Intangible assets	3,384	14,259
Approved and not contracted for:		
Intangible assets	-	6,734

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32. SEGMENT INFORMATION ON CASH FLOW

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
2013				
Net cash flow (used in)/ generated from:				
Operating activities	(261,344)	32,433	49,781	(179,130)
Financing activities	300,000	-	-	300,000
Investing activities	(9,976)	-	-	(9,976)
	<u>28,680</u>	<u>32,433</u>	<u>49,781</u>	<u>110,894</u>
Net increase/(decrease) in cash and cash equivalents:				
At 1 January	16,486	20,240	40,041	76,767
At 31 December	<u>45,166</u>	<u>52,673</u>	<u>89,822</u>	<u>187,661</u>
	<u>28,680</u>	<u>32,433</u>	<u>49,781</u>	<u>110,894</u>
2012				
Net cash flow generated from/ (used in):				
Operating activities	1,508	(5,890)	8,503	4,121
Financing activities	-	-	(12,650)	(12,650)
Investing activities	(3,532)	-	-	(3,532)
	<u>(2,024)</u>	<u>(5,890)</u>	<u>(4,147)</u>	<u>(12,061)</u>
Net (decrease)/increase in cash and cash equivalents:				
At 1 January	18,510	26,130	44,188	88,828
At 31 December	<u>16,486</u>	<u>20,240</u>	<u>40,041</u>	<u>76,767</u>
	<u>(2,024)</u>	<u>(5,890)</u>	<u>(4,147)</u>	<u>(12,061)</u>

33. SHARE BASED COMPENSATION

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the shareholders of MBB at an Extraordinary General Meeting held on 13 June 2011. The ESS was implemented on 23 June 2011. It is in force for a maximum period of seven (7) years from the effective date and it is administered by the ESS Committee. The ESS consists of two (2) types of performance-based awards in the form of Employee Share Option Scheme ("ESOS") and Restricted Share Unit ("RSU").

The Maybank Group Cash-settled Performance-based Employees' Share Scheme ("CESS") is governed by the guidelines approved by the members of the ESS Committee on 15 June 2011.

The maximum number of ordinary shares of RM1.00 each in MBB available under the ESS should not exceed 10% of the total number of issued and paid-up capital of MBB at any point of time during the duration of the scheme. Other principal features of the ESS are as follows:

- (i) The employees eligible to participate in the ESS must be employed on a full time basis and on the payroll of the Participating Maybank Group and is confirmed in service.

Participating Maybank Group includes MBB and its overseas branches and subsidiaries of which the Group and the Company are included, but excluding listed subsidiaries, overseas subsidiaries and dormant subsidiaries.

- (ii) The entitlement under the ESS for the Executive Directors, including any persons connected to the directors, is subject to the approval of the shareholders of MBB in a general meeting.
- (iii) The ESS shall be valid for a period of seven (7) years from the effective date.

Notwithstanding the above, MBB may terminate the ESS at any time during the duration of the scheme subject to:

- consent of MBB's shareholders at a general meeting, wherein at least a majority of the shareholders, present and voting, vote in favour of termination; and
- written consent of all participants of ESS who have yet to exercise their ESS option, either in part or in whole, and all participants whose Restricted Shares Unit ("RSU") Agreement are still subsisting.

Upon the termination of the ESS, all unexercised ESS and/or unvested RSU shall be deemed to have been cancelled and would be null and void.

33. SHARE BASED COMPENSATION (CONTD.)

- (iv) The ESS consists of the Employee Share Option Scheme ("ESOS"), the Restricted Shares Unit ("RSU") and the Cash-settled Performance-based Scheme ("CESS"). Personnel of the Group and the Company are eligible only for the ESOS and RSU and are not eligible for the CESS.

(1) ESOS

Under the ESOS award, MBB may from time to time within the offer period, offer to eligible employees a certain number of options at the Offer Date. Subject to acceptance, the participants will be granted the ESOS options which can then be exercised within a period of five (5) years to subscribe for fully paid-up ordinary shares of RM1.00 each in MBB, provided all the conditions including performance-related conditions are duly and fully satisfied.

(2) RSU

Under the RSU award, MBB may from time to time within the offer period, invite selected participants to enter into an agreement with MBB, where upon MBB shall agree to award the scheme shares to the participants, subject to fulfilling the relevant service and performance objectives and provided all performance-related conditions are duly and fully satisfied. The scheme's shares as specified under the RSU award will only vest based on a three (3) year cliff vesting schedule or a two (2) year cliff vesting schedule in the case of supplemental RSU award, provided all the RSU vesting conditions are fully and duly satisfied.

- (v) Key features of the ESOS award are as follows:

- On 23 June 2011, MBB granted five (5) tranches of ESOS amounting to 405,308,500 options based on the assumption that the eligible employees met average performance targets ("ESOS First Grant"). The first tranche of ESOS under ESOS First Grant amounting to 80,871,000 options had vested and were exercisable as at 30 June 2011. The second tranche of ESOS under ESOS First Grant amounting to 42,136,100 options had vested and were exercisable as at 30 April 2012. The third tranche of ESOS under ESOS First Grant amounting to 78,885,100 options have been vested and exercisable as at 30 April 2013, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfilment of predetermined vesting conditions including service period, performance targets and performance period.
- On 30 April 2012, MBB granted five (5) tranches of ESOS amounting to 62,339,000 options to confirmed new recruits in the Group ("ESOS Second Grant"). The first tranche of ESOS under ESOS Second Grant amounting to 6,185,800 options had vested and were exercisable as at 7 May 2012.

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33. SHARE BASED COMPENSATION (CONTD.)

(v) Key features of the ESOS award are as follows (cont'd.):

- The second tranche of ESOS under ESOS Second Grant amounting to 12,870,600 options have been vested and exercisable as at 30 April 2013, while the remaining tranches of ESOS and the corresponding number of ESOS will be vested and exercisable upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.
- The new ordinary shares in MBB allotted upon any exercise of options under the scheme will, upon allotment, rank pari passu in all aspects with the then existing ordinary shares in MBB, except that the new ordinary shares so issued will not rank for any dividends or other distribution declared, made or paid to shareholders prior to the date of allotment of such new ordinary shares and will be subject to all the provisions of the Article of Association of MBB relating to transfer, transmission and otherwise.
- The subscription price of the ESOS shall be at the Volume Weighted Average Market Price ("VWAMP") of MBB Shares for the five (5) market days immediately preceding the offer date with no entitlement to any discount.

(vi) Key features of the RSU award are as follows:

- The RSU granted will be vested and awarded upon fulfillment of predetermined vesting conditions including service period, performance targets and performance period.
- The scheme shares on RSU may be settled by way of issuance and transfer of new MBB Shares or by cash at the absolute discretion of the ESS Committee. The new MBB Shares to be issued and transferred to eligible employees pursuant to physical settlement will not require any payment to MBB by the RSU participants.
- In the case of settlement by way of cash, the RSU vesting price will be based on the value of the scheme shares with no entitlement to any discount, taking into account the VWAMP of MBB Shares for the five (5) market days immediately preceding the RSU vesting date.
- The ESS Committee may, from time to time during the ESS period, make further RSU grant designated as Supplemental RSU Grant ("SRSU grant") to a selected group of eligible employees to participate in the RSU award. This selected group may consist of senior management, selected key retentions and selected senior external recruits and such SRSU grant may contain terms and conditions which may vary from earlier RSU grant made to selected senior management. The SRSU will be vested on a 2-year cliff vesting schedule.

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34. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Significant transactions of the Company with related parties during the financial year were as follows:

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000
Income/(expenses):			
2013			
Ultimate holding company:			
Profit income	924	211	3,563
Gross takaful contribution income	-	121	6,370
Commission and fee expenses	<u>(59,864)</u>	<u>(291)</u>	<u>(1,882)</u>
Holding company:			
Gross takaful contribution income	<u>-</u>	<u>244</u>	<u>146</u>
Fellow subsidiaries within the MAHB Group:			
Gross takaful contribution income	-	643	719
Rental expense	(7,216)	(43)	(1,271)
Processing fee	<u>24</u>	<u>-</u>	<u>-</u>
Other related companies within the MBB Group:			
Profit income	-	661	1,636
Gross takaful contribution income	<u>-</u>	<u>1,511</u>	<u>184</u>
Companies with significant influence over the MBB Group:			
Gross takaful contribution income	<u>-</u>	<u>3,821</u>	<u>1,681</u>

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34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(a) Significant transactions of the Company with related parties during the financial year were as follows (cont'd):

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000
Income/(expenses):			
2012			
Ultimate holding company:			
Profit income	515	718	7,616
Gross takaful contribution income	-	6,504	3,959
Commission and fee expenses	<u>(42,008)</u>	<u>(242)</u>	<u>(1,340)</u>
Holding company:			
Gross takaful contribution income	<u>-</u>	<u>114</u>	<u>453</u>
Fellow subsidiaries within the MAHB Group:			
Gross takaful contribution income	-	1,206	5,031
Rental expense	(7,252)	-	(245)
Processing fee	<u>56</u>	<u>-</u>	<u>-</u>
Other related companies within the MBB Group:			
Profit income	-	295	465
Gross takaful contribution income	<u>(413)</u>	<u>-</u>	<u>(690)</u>
Companies with significant influence over the MBB Group:			
Gross takaful contribution income	<u>-</u>	<u>3,090</u>	<u>1,072</u>

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34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

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

2013	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000
Ultimate holding company:			
Bank balances	40,545	52,297	79,266
Income and profit due and accrued	134	25	555
Islamic investment accounts	33,056	29,287	95,790
Outstanding contribution	-	3,288	-
Other payables	<u>(12,306)</u>	<u>(69)</u>	<u>(411)</u>
Holding company:			
Other payable	<u>(1,087)</u>	<u>-</u>	<u>-</u>
Fellow subsidiaries within the MAHB Group:			
Other receivables	8	-	-
Other payables	<u>(9,322)</u>	<u>-</u>	<u>-</u>
Other related companies within the MBB Group:			
Income and profit due and accrued	-	53	876
Structure products	-	18,342	46,477
Other receivables	114	-	-
Other payables	<u>(5,628)</u>	<u>-</u>	<u>-</u>
Companies with significant influence over the MBB Group:			
Takaful receivables	<u>-</u>	<u>1,081</u>	<u>102</u>

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34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(b) Included in the statement of financial position of the Company are amounts due from/(to) related companies represented by the following (Cont'd):

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000
2012			
Ultimate holding company:			
Bank balances	12,338	18,607	29,499
Income and profit due and accrued	97	32	746
Islamic investment accounts	26,000	9,909	121,023
Other receivables	-	-	1,663
Other payables	(34,114)	-	-
	<hr/>	<hr/>	<hr/>
Holding company:			
Other payable	(2,774)	-	-
	<hr/>	<hr/>	<hr/>
Fellow subsidiaries within the MAHB Group:			
Other receivables	12	-	-
Other payables	(4,754)	-	(6)
	<hr/>	<hr/>	<hr/>
Other related companies within the MBB Group:			
Other receivables	102	-	-
Other payable	(836)	-	-
	<hr/>	<hr/>	<hr/>
Companies with significant influence over the MBB Group:			
Takaful receivables	-	221	138
Takaful payables	-	(7)	-
	<hr/>	<hr/>	<hr/>

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34. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. The key management personnel of the Company comprise the Executive Director, Non Executive Directors and Chief Executive Officer.

- (i) The remuneration of key management personnel compensation during the year was as follows:

	2013	2012
	RM'000	RM'000
Short-term employee benefits		
Fees	583	496
Salaries, allowances and bonuses	533	496
EPF and pension scheme	113	23
Other remuneration and emoluments	612	511
	<u>1,841</u>	<u>1,526</u>

- (ii) The movement in share options of key management personnel is as follows:

	2013	2012
	RM'000	RM'000
At beginning of year	94	219
Granted	84	-
Resignation of key management personnel	(94)	(125)
At end of year	<u>84</u>	<u>94</u>

The remuneration of other key management personnel, that is the non-executive directors of the Company, are as disclosed in Note 25(b).

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35. RISK MANAGEMENT FRAMEWORK

The Risk Management Framework defines the governance structure to support the Risk Management process and to ensure strong risk management. It defines the risk related roles and responsibilities of the different Boards, Committees and Departments for the legal entities within the MAHB Group, collectively known as the Maybank Ageas Group ("the Group"). A strong risk governance structure enhances the capabilities to align risk appetite and strategy, link risk with growth and return, make timely risk response decisions, minimise operational surprises and losses, seize opportunities and rationalise capital.

The Framework also ensures that risks are properly and adequately identified, evaluated, monitored and reported, so as to safeguard and protect the assets of the Group and enable the Group to fulfill its obligations to its customers, shareholder, stakeholders and meeting the expectations of regulators.

The Risk Management function was strengthened with the appointment of the Chief Risk Officer ("CRO") in the board or the board-risk committee. The CRO will ensure that the Risk Management Department is functionally and organisationally independent of business divisions.

The Group's Risk Appetite principles are subject to policy documents issued by BNM. In addition, the Company's Risk Governance principles are subject to Shariah compliance where relevant. Shariah non-compliance risk refers to possible failure to meet the obligation of Shariah principles as defined in BNM's Shariah Governance Framework, the main principles of which have been adopted by the Company as its internal Shariah Compliance Framework.

The Risk Management Framework is set up to ensure that all significant risks are identified, assessed, monitored and managed in accordance with the interests of the shareholders and is intended to guide all business conduct within the Group. It identifies three levels in the Group's approach to risk management:

- (a) Clear risk objectives and business strategy;
- (b) Comprehensive risk management cycle; and
- (c) Strong risk culture.

Clear risk objectives and business strategy

The Company transacts takaful business, the nature of which involves risk taking and is intrinsic to how it creates value for its customers and shareholders. At all times, the execution of business strategy is kept within the Group's risk tolerance levels to ensure that the Group delivers sustainable growth in shareholder value and the risk of insolvency is controlled. A clear business strategy is required together with explicit statements of which risks or events are tolerable or to be avoided at all times. The Group's risk appetite is controlled by having consistent limits and policies in place for all relevant risks. If risks are taken, they need to stay within the risk appetite limit as has been set by the Board. If risks and the potential losses associated with the risk are not tolerable, corrective action must be taken by the management and/or risk taking units.

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35. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Comprehensive risk management cycle

All key risks are identified and appropriately managed. An overview of major risk categories, including Financial, Insurance, Operational, Enterprise and Shariah risks describes the entire set of potential risks. Key risks are identified and key risk indicators are used to track the most important developments against benchmarked limits including risk appetite/limit or other relevant elements.

Any breaches of the limits would trigger actions by management to ensure that the Group and the Company remain within risk appetite limits and that business objectives continue to be achieved in a responsible manner.

Strong risk culture

The Policy Framework describes the risk management process and the control procedures necessary to ensure risk management is effectively carried out. Monitoring is accomplished through ongoing management activities, separate evaluations, or both. The internal environment and business conduct targets high ethical values to ensure that all employees are risk aware, actively identify risk and control/mitigate risks and are transparent in respect of risk taking. Clear responsibilities and accountabilities are the cornerstone for good risk management and good governance in general.

Capital Management Objectives, Policies and Approach

The Capital Management Policy sets a standard policy regarding the levels of capital to be maintained within the Group. The Capital Management Policy adopts the capital requirements prescribed by the regulators (BNM). The Capital Management Policy of the Company is aligned with the Capital Adequacy Ratio ("CAR") defined in the Risk Based Capital Framework for Takaful Operators (BNM/RH/GL/004-23) which is applicable for financial years beginning on or after 1 January 2014. Currently, the minimum CAR as set by BNM under the RBC Framework for both insurers and takaful operators is 130%.

The Capital Management Policy defines the level of internal capital target which is reviewed on an annual basis. This is to ensure that the target capital level adequately reflects the risk profile as well as risk tolerance limits. The policy is supported by stress testing exercises conducted at least twice a year. The stress testing exercise is governed by the requirements established in the Guidelines on stress testing (BNM/RH/GL/004-16) issued by BNM.

During the financial year, the Company had sought approval from Bank Negara Malaysia ("BNM") on the proposed issuance of RM300.0 million of Subordinated Sukuk. The Subordinated Sukuk will be qualify as Tier 2 Capital subject to compliance with the requirements as specified in the Risk Based Capital Framework for Takaful Operator. The issuance of Subordinated Sukuk is currently pending approval from BNM.

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35. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Capital Management Objectives, Policies and Approach (Cont'd.)

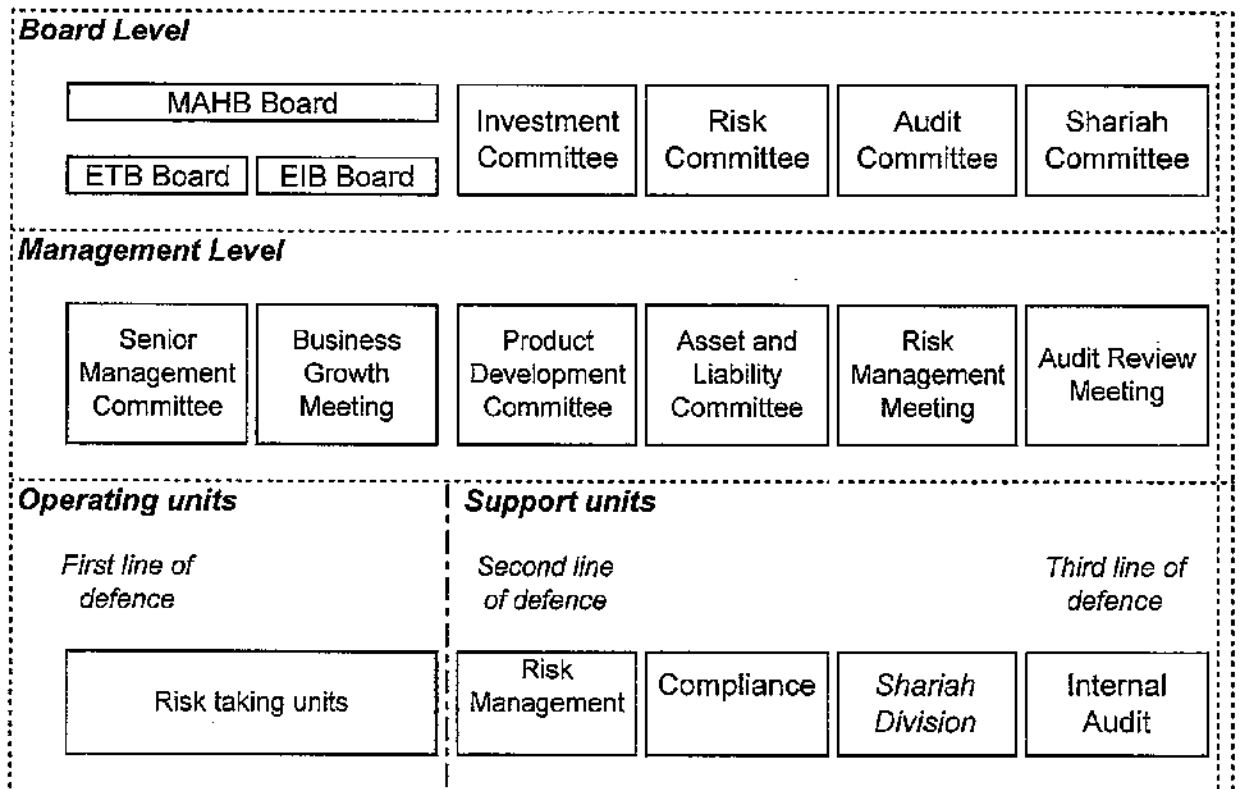
At the reporting date, the Company has complied with capital requirements for takaful operators, stipulated by the regulators.

Risk Governance Structure and Risk Organisation

The governance structure outlines the organisational structure, the hierarchy and the scope of responsibilities of all the governance bodies involved in the risk management function.

The Risk Management function is built around a number of Boards and Committees that have been set-up, including the Board of Directors ("Board"), the Risk Management Committee ("RMC") and the Risk Management Meeting ("RMM").

Governance is emphasised via various level of committees (Board, Management and Working levels). Each of the Committees have its own terms of reference, roles and responsibilities, specific duties and levels of authority.



Board

The Board of Directors of the Company have the final responsibility for all business activities, including risk management. The Board is the ultimate decision-making body of the Company. The Boards have delegated specific matters to Board Committees, such as risk matters to the Risk Management Committee, audit matters to the Audit Committee and investment matters to the Investment Committee.

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35. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Risk Governance Structure and Risk Organisation (Cont'd)

Shariah Committee ("SC")

The role of the Shariah Committee is to oversee Shariah compliance for the Company. The Shariah Committee assists the Board in fulfilling its supervision and monitoring responsibilities in respect of Shariah principles.

Risk Management Committee ("RMC")

The role of the RMC is to assist the Board in fulfilling its supervision and monitoring responsibilities in respect of internal control, including monitoring the risk profile of the legal entities and compared to the targeted level of risk appetite as set by the Board.

Investment Committee ("IC")

The role of the IC is to assist the Board in fulfilling its supervision and monitoring responsibilities in respect of investment related activities.

Audit Committee ("AC")

The role of the AC is to assist the Board in fulfilling its supervision and monitoring responsibilities in respect of internal audit and external audit.

Senior Management Committee ("SMC")

The responsibility of the SMC is to assure the Board that the Company makes appropriate decisions regarding risks and return and to ensure that adequate controls exist and are fully operational.

Risk Management Meeting ("RMM")

The RMM is the advisor to the RMC concerning all risk related topics, including limits, exposures and methodologies.

Asset and Liability Committee ("ALCO")

The ALCO is responsible for investment strategy and operations. It will carry out its responsibilities within the limits set by the Risk Management Meeting ("RMM").

The ALCO is authorised to propose the implementation strategies in respect of investment activities. The ALCO is also responsible for carrying out Asset Liability Management ("ALM") studies, amongst other things.

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35. RISK MANAGEMENT FRAMEWORK (CONT'D.)

Risk Governance Structure and Risk Organisation (Cont'd)

Audit Review Meeting ("ARM")

The ARM is responsible for the monitoring and follow-up of audit findings.

Business Growth Meeting (BGM)

BGM is a platform for business leaders to discuss business growth development issues.

Product Development Committee ("PDC")

The prime objective of the PDC is to coordinate and manage the process of product development and product management for each specific product line.

Risk management at the Company is organised centrally and is embedded in the business units. The Company risk management approach is premised on three lines of defence – Risk Taking Units, Risk Control Units and Internal Audit.

(i) Risk Taking Units (First Line of Defence)

Risk Taking Units are responsible for the day-to-day management of risks inherent in their business activities. They are the first line of defence and operationally responsible to ensure that the Group does not suffer from undesirable circumstances.

Risk Taking Units are responsible for managing the risk that relates to execution of business strategy and ranges from the CEO, Line Management and Business Managers to employees in the business lines.

(ii) Risk Control Unit (Second Line of Defence)

Risk Control Units, through the Risk Management, the Compliance Department and the Shariah Division are responsible for setting the risk management framework, adherence to it and developing tools and methodologies for the identification, measurement, monitoring and control of risk.

In addition, the Risk Management Department has the responsibility to communicate and embed risk strategy, risk awareness and risk management within the entire organisation. The Compliance function has an overall assurance role in which it ensure that policies abide to any relevant external guidelines and requirements.

(iii) Internal Audit (Third Line of Defence)

Internal Audit checks and provides independent assurance of the effectiveness of the risk management approach, proper design and implementation of the risk management framework and observance of guidelines, policies and processes.

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36. UNDERWRITING RISK

Underwriting risk relates to the inherent risk associated in the underwriting activities of the Family and General Takaful businesses. Such risk includes pricing, reserving, underwriting and retakaful. Actuarial analyses are performed to manage pricing, underwriting and reserving risks by evaluating trends before benefits and claims become due for payment.

Retakaful is placed to minimise certain takaful risks within the established risk parameters. Risks associated with retakaful risk include counterparty risk, which is the risk of retakaful operators failing to honour their obligations. Claims processes are defined by approval authority as part of the controls in place on financial exposure.

The Company has established appropriate guidelines and framework combined with authority limits as part of risk mitigation activities embedded in the business operations. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

(a) Family takaful fund

The table below shows the concentration of actuarial liabilities by type of contract:

	31.12.2013		31.12.2012	
	Gross RM'000	Retakaful RM'000	Gross RM'000	Retakaful RM'000
Endowment	1,365,667	-	1,118,993	-
Mortgage	3,004,950	(15,277)	2,893,345	(18,521)
Term assurance	10,139	-	30,253	-
Annuity	781,644	-	787,078	-
Others	290,178	-	288,874	-
	<u>5,452,578</u>	<u>(15,277)</u>	<u>5,118,543</u>	<u>(18,521)</u>
				<u>5,100,022</u>

All of the Company's family takaful business is derived from Malaysia and, accordingly, a geographical analysis by country has not been provided.

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36. UNDERWRITING RISK (CONT'D.)

(a) Family takaful fund (cont'd.)

(i) Key assumptions and methodology

Material judgement is required in determining the Takaful's Participants Risk Fund ("PRF") liabilities. PRF refers to the fund in which the portion of contributions paid by the participants is allocated and pooled for the purpose of meeting claims. Assumptions are set based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. 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:

Discount rate

Discount rates used in the determination of PRF cashflows are based on long-term Government Investment Issue ("GII") rates.

Mortality and morbidity rates

Mortality and morbidity rates represents the expected claims experience of the Company. The Company determines mortality and morbidity rates using local established industry tables which reflect historical experiences, adjusted where appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that are exposed to longevity risk, prudent allowance is made for expected future mortality

Lapse and surrender rates

Lapse and surrender rates are used to determine the expected persistency of the business. These rates are based on the Company's historical experience of lapses and surrenders.

Expenses

Expense assumptions represent the expected amount that will be spent on the business. Assumptions on future expenses are at best estimate after taking into consideration current expense levels and the expected expense inflation.

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36. UNDERWRITING RISK (CONT'D.)

(a) Family takaful fund (cont'd.)

(ii) Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions affecting the determination of takaful liabilities with all other assumptions held constant, showing the impact on net liabilities, surplus arising, profit before tax and equity.

The correlation of assumptions will have a significant effect in determining the ultimate claim liabilities, but to demonstrate the impact, changes in assumptions are analysed 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.

31.12.2013

	% change in assumptions	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Surplus Arising RM'000	Impact on Profit before Tax RM'000	Impact on equity RM'000
		<-----Increase----->	<-----Increase----->	<-----Increase----->	Decrease----->	<-----Decrease----->
Discount rate*	-100 bps	235,285	234,625	(234,625)	(62,444)	(62,444)
Mortality and morbidity rates	+10%	239,143	237,640	(237,640)	(64,083)	(64,083)
Lapse and surrender rates	-10%	14,521	14,805	(14,805)	(3,995)	(3,995)
Expenses	+10%	14,151	13,651	(13,651)	(3,895)	(3,895)

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36. UNDERWRITING RISK (CONT'D.)

(a) Family takaful fund (cont'd.)

(ii) Sensitivities (cont'd)

	% change in assumptions	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Surplus Arising RM'000	Impact on Profit before Tax RM'000	Impact on equity RM'000
		<-----Increase----->				-----Decrease----->
31.12.2012						
Discount rate*	-100 bps	279,667	278,738	(278,738)	(61,061)	(61,061)
Mortality and morbidity rates	+ 10%	221,750	219,712	(219,712)	(56,780)	(56,780)
Lapse and surrender rates	-10%	3,177	2,770	(2,770)	(53)	(53)
Expenses	+10%	13,191	12,657	(12,657)	(2,950)	(2,950)

* Excludes impact on profit bearing assets

Changes in morbidity, mortality and lapse rates shown above include both upwards and downwards experience, depending on the specific key assumption being analysed. For the purposes of the sensitivity analysis, management has only examined the impact arising from adverse changes to these key assumptions as the impact of such adverse changes would be more significant to management in their decision-making process and strategic positioning.

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund

The table below discloses contribution written by type of contract:

	31.12.2013		31.12.2012	
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000
Motor	692,669	(13,384)	679,285	653,031
Fire	83,039	(29,548)	53,491	84,629
Marine, Aviation, Cargo and Transit	19,336	(16,970)	2,366	52,124
Miscellaneous	90,604	(22,904)	67,700	77,475
	885,648	(82,806)	802,842	867,259
			Retakaful RM'000	Net RM'000
			(5,719)	647,312
			(27,051)	57,578
			(50,492)	1,632
			(13,137)	64,338
			(96,399)	770,860

(i) Key assumptions and methods

The claim liabilities of the general takaful fund are estimated by using a range of standard actuarial claims projection methodologies, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and, hence, the ultimate cost of claims. Accordingly, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by type of coverage. The changes in key variables also do not have an impact on the change in contribution liabilities. This is due to the unearned contribution reserves ("UCR") held by Company being higher than the estimated unexpired risk reserves ("URR") even after the application of the key variables.

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (cont'd.)

(i) Key assumptions and methods (cont'd.)

The assumptions used in the projection methodologies, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, legislative changes, judicial decisions and economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking into account, all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a liability range. In addition, the liabilities are estimated on an undiscounted basis and no curve-fitting methods have been applied in the estimation process. The inherent uncertainties in estimating liabilities can arise from a variety of factors such as the range and quality of data available, underlying assumptions made and random volatility in future experience.

There has been no change in the estimation methods used since the previous financial year nor have there been any significant changes in key assumptions.

(ii) Sensitivities

Using the methods described above, the claims development is extrapolated for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historical claims.

Illustrative results of sensitivity testing for the general takaful fund's claims liabilities are set out below. The cumulative effect of all possible factors that affect the assumptions in the projection would ultimately impact the claims liabilities and, consequently, the observed net claims ratio for the financial year. Therefore, the sensitivity analysis has been performed based on reasonably possible movements in the net claims ratio with all other assumptions or key factors held constant, showing the impact on gross and net claim liabilities, profit before tax and the participants' fund.

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

(ii) Sensitivities (cont'd.)

	% change in key assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on surplus/profit before tax RM'000	*Impact on participants' fund/equity RM'000
31.12.2013					
Incurring Claims Ratio	+ 5%	44,414	40,053	(40,053)	(30,040)
	- 5%	(44,414)	(40,053)	40,053	30,040
31.12.2012					
Incurring Claims Ratio	+ 5%	39,885	35,864	(35,864)	(26,898)
	- 5%	(39,885)	(35,864)	35,864	26,898

* Impact on participants' fund/equity is after considering tax effects.

The method used and significant assumptions made for deriving sensitivity information did not change from the previous year.

(iii) Claims development table

The following tables show the estimated incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date. The management of the Company believes the estimate of total claims liabilities as at the financial year end are adequate. The Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty.

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

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

Gross analysis of claims development for 2013:

Accident year	As at 31 December											Total RM'000
	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000				
At the end of accident year		121,433	166,000	237,471	394,600	437,396	479,285	565,662				
1 year later		108,984	175,889	196,615	258,963	436,220	466,666					
2 years later		103,481	123,154	239,280	260,490	422,091						
3 years later		112,376	163,998	232,675	259,613							
4 years later		92,602	162,720	227,305								
5 years later		88,665	159,255									
6 years later		86,723										
Estimate of gross cumulative claims to date (A)		86,723	159,255	227,305	259,613	422,091	466,666	565,662				

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

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

Gross analysis of claims development for 2013: (cont'd.)

Accident year	As at 31 December											Total RM'000
	Before 2007 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000				
At the end of accident year		29,999	67,164	74,439	94,507	131,482	187,973	238,771				
1 year later		59,428	113,408	146,844	191,698	269,769	366,008					
2 years later		69,548	130,773	173,478	226,315	376,785						
3 years later		77,943	142,458	183,492	242,215							
4 years later		80,888	145,212	186,640								
5 years later		82,636	149,910									
6 years later		83,174										
Gross cumulative claims paid to date (B)		83,174	149,910	186,640	242,215	376,785	366,008	238,771				
Best Estimate Gross Claim Liabilities (A) - (B)	6,129	3,549	9,345	40,665	17,398	45,306	100,658	326,891			549,941	
Provision of Risk Margin for Adverse Deviation (C)												149,859
Gross Claim liabilities (A) - (B) + (C)												<u>699,800</u>

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

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

Net analysis of claims development for 2013:

Accident year	Before 2007 RM'000	As at 31 December						Total RM'000
		2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	
At the end of accident year		105,625	152,245	182,266	342,237	325,123	456,465	506,657
1 year later		92,318	158,169	157,960	227,980	336,639	447,504	
2 years later		89,532	108,833	192,838	227,866	332,456		
3 years later		98,911	145,198	188,992	225,160			
4 years later		81,269	141,239	182,915				
5 years later		77,902	139,932					
6 years later		76,397						
Estimate of net cumulative claims to date		76,397	139,932	182,915	225,160	332,456	447,504	506,657

(A)

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

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

Net analysis of claims development for 2013: (cont'd.)

Accident year	As at 31 December										Total
	Before 2007	2007	2008	2009	2010	2011	2012	2013	RM'000		
At the end of accident year		26,626	64,563	72,745	91,793	130,642	186,608	235,297			
1 year later		51,812	106,228	135,607	171,337	266,182	356,576				
2 years later		60,824	119,667	161,900	204,893	307,058					
3 years later		68,873	129,419	171,527	216,241						
4 years later		71,676	131,894	174,547							
5 years later		73,246	134,548								
6 years later		73,767									
Net cumulative claims paid to date (B)		73,767	134,548	174,547	216,241	307,058	356,576	235,297			
Best Estimate net Claim Liabilities (A) - (B)	3,696	2,630	5,384	8,368	8,919	25,398	90,928	271,360			416,683
Provision of Risk Margin for Adverse Deviation (C)											109,278
Net Claim liabilities (A) - (B) + (C)											<u>525,961</u>

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (Cont'd.)

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

Gross analysis of claims development for 2012:

Accident year	As at 31 December											Total RM'000
	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000				
At the end of accident year		118,774	121,433	166,000	237,471	394,600	437,396	479,285				
1 year later		136,027	108,984	175,889	196,615	258,963	436,220					
2 years later		137,431	103,481	123,154	239,280	260,490						
3 years later		137,159	112,376	163,998	232,675							
4 years later		128,702	92,602	162,720								
5 years later		130,104	88,665									
6 years later		122,877										
Estimate of cumulative claims to date (A)		122,877	88,665	162,720	232,675	260,490	436,220	479,285				

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (cont'd.)

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

Gross analysis of claims development for 2012: (cont'd.)

Accident year	As at 31 December										Total RM'000
	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000			
At the end of accident year		54,850	29,999	67,164	74,439	94,507	131,482	187,973			
1 year later		91,182	59,428	113,408	146,844	191,698	269,769				
2 years later		103,757	69,548	130,773	173,478	226,315					
3 years later		109,731	77,943	142,458	183,492						
4 years later		114,065	80,888	145,212							
5 years later		116,466	82,636								
6 years later		116,178									
Cumulative claims paid to date (B)		116,178	82,636	145,212	183,492	226,315	269,769	187,973			
Gross Best Estimate Claim Liabilities (A) - (B)	6,795	6,699	6,029	17,508	49,183	34,175	166,451	291,312			578,152
Provision of Risk Margin for Adverse Deviation (C)											170,365
Gross Claim liabilities (A) - (B) + (C)											<u>748,517</u>

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (cont'd.)

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

Net analysis of claims development for 2012:

Accident year	Before		As at 31 December						Total RM'000
	2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	
At the end of accident year									
1 year later		95,376	105,625	152,245	182,266	342,237	325,123	456,465	
2 years later		102,469	92,318	156,169	157,960	227,980	336,639		
3 years later		103,864	89,532	108,833	192,838	227,866			
4 years later		103,884	98,911	145,198	188,992				
5 years later		98,603	81,269	141,239					
6 years later		99,133	77,902						
		94,271	77,902	141,239	188,992	227,866	336,639	456,465	
Estimate of cumulative claims to date (A)		94,271	77,902	141,239	188,992	227,866	336,639	456,465	

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36. UNDERWRITING RISK (CONT'D.)

(b) General takaful fund (cont'd.)

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

Net analysis of claims development for 2012: (cont'd.)

Accident year	As at 31 December											Total
	Before 2006 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	RM'000		RM'000	
At the end of accident year		42,176	26,626	64,563	72,745	91,793	130,642	186,608				
1 year later		71,163	51,812	106,228	135,607	171,337	266,182					
2 years later		78,740	60,824	119,667	161,900	204,893						
3 years later		83,369	68,873	129,419	171,527							
4 years later		87,568	71,676	131,894								
5 years later		89,035	73,246									
6 years later		89,291										
Cumulative claims paid to date (B)		89,291	73,246	131,894	171,527	204,893	266,182	186,608				

Gross Best Estimate Claim

Liabilities (A) - (B)

4,022 4,980 4,656 9,345 17,465 22,973 70,457 269,857 403,755

Provision of Risk Margin for Adverse Deviation (C)

Net Claim liabilities (A) - (B) + (C)

107,255
511,010

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37. FINANCIAL RISKS

(i) Credit Risk

The Company's credit risk arises through investments in fixed income instruments, fixed and call deposits, corporate loans and contracts with retakaful counterparties.

However, the main contributor to credit risk arises from transactions related to the Company's position in debt securities (mainly corporate bonds). The Company faces default risk when counterparties fail to meet contractual payment obligations.

Financial loss may materialise as a result of the widening credit spread or downgrade of credit rating.

The Company measures and manages its credit risk following the philosophy and principles below:

- (a) The Risk Management department together with the Investment Department, actively aims to prevent undue concentration by ensuring it holds a diversified and marketable credit portfolio;
- (b) The asset management research team adopts a prudent position in the selection of fixed income investments;
- (c) The Risk Management Department establishes limits on maximum credit exposures. The credit limit for a counterparty is based on the counterparty credit quality and is aligned to risk appetite; and
- (d) The Risk Management Department uses Key Risk Indicators ("KRI") to alert the management to impending problems in a timely manner.

Credit exposure

The table below shows the maximum exposure to credit risk for the components of the Statement of Financial Position as at 31 December 2013. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure (cont'd.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2013				
AFS financial investments:				
Malaysian government papers	2,003	321,910	245,021	568,934
Unquoted debt securities in Malaysia	985,257	655,980	1,339,095	2,980,332
Structured products	25,883	22,063	-	47,946
Negotiable Islamic certificates of deposit	-	9,176	16,913	26,089
LAR:				
Deposits and placements with financial institutions	114,868	318,653	491,482	925,003
Financial investments at FVTPL:				
Malaysian government papers	-	-	956,067	956,067
Unquoted debt securities in Malaysia	-	-	3,447,729	3,447,729
Structured products	(2,108)	(3,721)	118,887	113,058
Negotiable Islamic certificates of deposit	-	-	102,183	102,183
Financing receivables	20,970	-	7,309	28,279
Takaful receivables	-	66,097	140,019	206,116
Other receivables	283,038	19,094	78,808	125,553
Retakaful assets	-	205,298	15,817	221,115
Cash and bank balances	45,166	52,673	89,822	187,661
	<u>1,475,077</u>	<u>1,667,223</u>	<u>7,049,152</u>	<u>9,936,065</u>

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure (cont'd.)

	Shareholder's fund RM'000	General takaful fund RM'000	Family takaful fund RM'000	Company RM'000
31.12.2012				
AFS financial investments:				
Malaysian government papers	12,157	210,218	277,861	500,236
Unquoted debt securities in Malaysia	657,865	616,182	1,306,083	2,580,130
Negotiable Islamic certificates of deposit	-	24,688	16,597	41,285
LAR:				
Deposits and placements with financial institutions	113,960	211,070	639,623	964,653
Financial investments at FVTPL:				
Malaysian government papers	-	-	921,405	921,405
Unquoted debt securities in Malaysia	-	-	3,421,175	3,421,175
Negotiable Islamic certificates of deposit	-	-	100,203	100,203
HFT financial investments:				
Unquoted debt securities in Malaysia	-	-	5,847	5,847
Foreign notes	-	-	7,731	7,731
Financing receivables	20,319	-	16,922	37,241
Takaful receivables	-	100,971	97,362	198,333
Other receivables	246,091	19,311	112,566	142,307
Retakaful assets	-	273,365	18,634	291,999
Cash and bank balances	16,486	20,240	40,041	76,767
	<u>1,066,878</u>	<u>1,476,045</u>	<u>6,982,050</u>	<u>9,289,312</u>

ETIQA TAKAFUL BERHAD
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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties. This analysis excludes assets of the investment-linked funds as credit risk of these funds are borne by the participants.

Shareholder's fund

	----- Neither past-due nor impaired -----				Not subject to credit risk	Total
	Investment grade: A to AAA	Non-investment grade: B to BBB	Not Rated	Past-due		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2013						
AFS financial investments:						
Equity securities	-	-	-	-	150,227	150,227
Malaysian government papers	-	-	2,003	-	-	2,003
Unquoted debt securities in Malaysia	729,149	-	256,108	-	-	985,257
Structured products	23,775	-	-	-	-	23,775
Quoted unit and property trust funds in Malaysia	-	-	-	-	2,352	2,352
LAR:						
Deposits and placements with financial institutions	114,868	-	-	-	-	114,868
Financing receivables	-	-	18,910	2,060	-	20,970
Other receivables	-	-	283,038	-	-	283,038
Cash and bank balances	45,093	-	73	-	-	45,166
	912,885	-	560,132	2,060	152,579	1,627,656

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Shareholder's fund (cont'd.)

	----- Neither past-due nor impaired -----				Not subject to credit risk RM'000	Total RM'000
	Investment grade: A to AAA RM'000	Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000		
31.12.2012						
AFS financial investments:						
Equity securities	-	-	-	-	91,269	91,269
Malaysian government papers	-	-	12,157	-	-	12,157
Unquoted debt securities in Malaysia	475,447	-	182,418	-	-	657,865
Quoted unit and property trust funds in Malaysia	-	-	-	-	1,843	1,843
LAR:						
Deposits and placements with financial institutions	113,825	-	135	-	-	113,960
Financing receivables	-	-	18,449	1,870	-	20,319
Other receivables	5,794	9	240,029	-	259	246,091
Cash and bank balances	16,398	-	88	-	-	16,486
	611,464	9	453,276	1,870	93,371	1,159,990

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ETIQA TAKAFUL BERHAD
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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

General takaful fund

	----- Neither past-due nor impaired -----				Not subject to credit risk RM'000	Total RM'000
	Investment grade: A to AAA RM'000	Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000		
31.12.2013						
AFS financial investments:						
Equity securities	-	-	-	-	24,725	24,725
Malaysian government papers	-	-	321,910	-	-	321,910
Unquoted debt securities in Malaysia	599,518	-	56,462	-	-	655,980
Structured products	18,342	-	-	-	-	18,342
Negotiable Islamic certificates of deposits	9,176	-	-	-	-	9,176
LAR:						
Deposits and placements with financial institutions	318,653	-	-	-	-	318,653
Takaful receivables	-	-	49,085	17,012	-	66,097
Other receivables	-	-	19,094	-	-	19,094
Retakaful assets	108,951	6,763	58,125	-	31,459	205,298
Cash and bank balances	52,532	-	141	-	-	52,673
	1,107,172	6,763	504,817	17,012	56,184	1,691,948

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

General takaful fund (cont'd.)

	----- Neither past-due nor impaired -----					Total RM'000
	Investment grade: A to AAA RM'000	Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000	Not subject to credit risk RM'000	
31.12.2012						
AFS financial investments:						
Equity securities	-	-	-	-	185,617	185,617
Malaysian government papers	-	-	210,218	-	-	210,218
Unquoted debt securities in Malaysia	527,920	-	88,262	-	-	616,182
Negotiable Islamic certificates of deposits	24,688	-	-	-	-	24,688
Quoted unit and property trust funds in Malaysia	-	-	-	-	4,087	4,087
LAR:						
Deposits and placements with financial institutions	211,070	-	-	-	-	211,070
Takaful receivables	-	-	44,032	56,939	-	100,971
Other receivables	7,365	-	11,514	-	432	19,311
Retakaful assets	179,173	14,407	43,927	-	35,858	273,365
Cash and bank balances	20,236	-	4	-	-	20,240
	970,452	14,407	397,957	56,939	225,994	1,665,749

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Family takaful fund

31.12.2013

AFS financial investments:

	Investment grade: A to AAA RM'000	Neither past-due nor impaired Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000	Not subject to credit risk RM'000	Total RM'000
Equity securities	-	-	-	-	1,025,903	1,025,903
Malaysian government papers	-	-	245,021	-	-	245,021
Unquoted debt securities in Malaysia	900,129	-	438,966	-	-	1,339,095
Structured products	-	-	-	-	-	-
Negotiable islamic certificates of deposits of deposits	16,913	-	-	-	-	16,913
Quoted unit and property trust funds in Malaysia	-	-	-	-	30,156	30,156

LAR:

Deposits and placements with financial institutions	491,264	-	218	-	-	491,482
Financial investments at FVTPL:						
Malaysian government papers	-	-	956,067	-	-	956,067
Unquoted debt securities in Malaysia	2,883,292	-	564,437	-	-	3,447,729
Structured products	70,252	48,635	-	-	-	118,887
Negotiable islamic certificates of deposits	102,183	-	-	-	-	102,183

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Family takaful fund (cont'd.)

	----- Neither past-due nor impaired -----				Not subject to credit risk RM'000	Total RM'000
	Investment grade: A to AAA RM'000	Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000		
31.12.2013 (cont'd.)						
Financing receivables	-	-	-	7,309	-	7,309
Takaful receivables	-	-	31,487	108,531	-	140,019
Other receivables	-	-	78,808	-	-	78,808
Retakaful assets	15,817	-	-	-	-	15,817
Cash and bank balances	89,790	-	32	-	-	89,822
	<u>4,569,640</u>	<u>48,635</u>	<u>2,315,036</u>	<u>115,840</u>	<u>1,056,059</u>	<u>8,105,211</u>

31.12.2012

AFS financial investments:

Equity securities	-	-	-	-	601,145	601,145
Malaysian government papers	-	-	277,861	-	-	277,861
Unquoted debt securities in Malaysia	907,332	-	398,751	-	-	1,306,083
Negotiable Islamic certificates of deposits	16,597	-	-	-	-	16,597
Quoted unit and property trust funds in Malaysia	-	-	-	-	23,686	23,686
LAR:						
Deposits and placements with financial institutions	630,409	-	9,214	-	-	639,623

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Family takaful fund (cont'd.)

	----- Neither past-due nor impaired -----					Total RM'000
	Investment grade: A to AAA RM'000	Non-investment grade: B to BBB RM'000	Not Rated RM'000	Past-due RM'000	Not subject to credit risk RM'000	
31.12.2012 (cont'd)						
Financial investments at FVTPL:						
Malaysian government papers	-	-	921,405	-	-	921,405
Unquoted debt securities in Malaysia	2,811,025	-	610,150	-	-	3,421,175
Negotiable islamic certificates of deposits	100,203	-	-	-	-	100,203
HFT financial investments:						
Unquoted debt securities in Malaysia	5,847	-	-	-	-	5,847
Foreign notes	-	-	7,731	-	-	7,731
Financing receivables	-	-	-	16,922	-	16,922
Takaful receivables	-	-	52,740	44,622	-	97,362
Other receivables	46,614	-	64,457	-	1,495	112,566
Retakaful assets	18,634	-	-	-	-	18,634
Cash and bank balances	39,976	-	65	-	-	40,041
	4,576,637	-	2,342,373	61,544	626,326	7,606,881

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Age Analysis of Financial Assets Past-Due/But Not Impaired and Financial Assets Past Due and Impaired

Shareholder's fund

31.12.2013

	Past due but not impaired			Past due and impaired		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	2,060	1,063	(1,063)	-
Other receivables	-	-	-	1,350	(1,350)	-
	-	-	2,060	2,413	(2,413)	-
			2,060			2,060

31.12.2012

	Past due but not impaired			Past due and impaired		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	1,870	622	(622)	-
Other receivables	-	-	-	1,430	(1,430)	-
	-	-	1,870	2,052	(2,052)	-
			1,870			1,870

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Age Analysis of Financial Assets Past-Due/But Not Impaired and Financial Assets Past Due and Impaired

General takaful fund

31.12.2013

	----- Past due but not impaired -----			----- Past due and impaired -----		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	-	3,331	(3,331)	-
Takaful receivables	8,827	3,018	5,167	20,707	(20,707)	-
	8,827	3,018	5,167	24,038	(24,038)	-
						17,012
						17,012

31.12.2012

	----- Past due but not impaired -----			----- Past due and impaired -----		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	-	3,381	(3,381)	-
Takaful receivables	1,259	13,018	31,392	21,121	(21,121)	-
	1,259	13,018	31,392	24,502	(24,502)	-
						56,939
						56,939

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Credit exposure by credit rating (cont'd.)

Age Analysis of Financial Assets Past-Due/But Not Impaired and Financial Assets Past Due and Impaired

Family takaful fund

31.12.2013

	Past due but not impaired			Past due and impaired		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	7,309	17,165	(17,165)	7,309
Takaful receivables	18,619	37,301	52,611	51,336	(51,336)	108,531
Other receivables	18,619	37,301	59,919	539	(539)	-
				69,040	(69,040)	115,840

Financing receivables
Takaful receivables
Other receivables

31.12.2012

	Past due but not impaired			Past due and impaired		Grand total RM'000
	<90 days RM'000	91 to 180 days RM'000	>180 days RM'000	Original carrying amount RM'000	Impairment allowance RM'000	
Financing receivables	-	-	16,922	25,196	(25,196)	16,922
Takaful receivables	23,087	13,685	7,850	41,217	(41,217)	44,622
Other receivables	-	-	-	550	(550)	-
	23,087	13,685	24,772	66,963	(66,963)	61,544

Financing receivables
Takaful receivables
Other receivables

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Reconciliation of allowance account

The movements in allowance for impairment losses for financial assets are as follows:

Shareholder's fund

	Financing receivables RM'000	Other receivables RM'000	Total RM'000
At 1 January 2013	622	1,430	2,052
Impairment/(reversal of impairment) losses during the year	441	(80)	361
Written off during the year	-	-	-
Reversal of impairment losses during the year	-	-	-
At 31 December 2013	<u>1,063</u>	<u>1,350</u>	<u>2,413</u>
At 1 January 2012	580	401	981
Impairment losses during the year	102	-	102
Written off during the year	(24)	-	(24)
Reversal of impairment losses during the year	(36)	1,029	993
At 31 December 2012	<u>622</u>	<u>1,430</u>	<u>2,052</u>

General takaful fund

	Financing receivables RM'000	Takaful receivables RM'000	Total RM'000
At 1 January 2013	3,381	21,121	24,502
Reversal of impairment losses during the year	(50)	(414)	(464)
At 31 December 2013	<u>3,331</u>	<u>20,707</u>	<u>24,038</u>

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37. FINANCIAL RISKS (CONT'D.)

(i) **Credit Risk (Cont'd.)**

Reconciliation of allowance account (cont'd.)

The movements in allowance for impairment losses for financial assets are as follows:
(cont'd.)

General takaful fund (cont'd.)

	Financing receivables RM'000	Takaful receivables RM'000	Total RM'000
At 1 January 2012	3,396	21,237	24,633
Reversal of impairment losses during the year	(15)	(116)	(131)
At 31 December 2012	<u>3,381</u>	<u>21,121</u>	<u>24,502</u>

Family takaful fund

	Financing receivables RM'000	Takaful receivables RM'000	Other receivables RM'000	Total RM'000
At 1 January 2013	25,196	41,217	550	66,963
Reversal of impairment losses during the year	(8,031)	-	(11)	(8,042)
Impairment losses during the year	-	10,119	-	10,119
At 31 December 2013	<u>17,165</u>	<u>51,336</u>	<u>539</u>	<u>69,040</u>
At 1 January 2012	24,997	16,642	-	41,639
Amount written off	-	(1,228)	-	(1,228)
Impairment losses during the year	199	25,803	550	26,552
At 31 December 2012	<u>25,196</u>	<u>41,217</u>	<u>550</u>	<u>66,963</u>

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37. FINANCIAL RISKS (CONT'D.)

(i) Credit Risk (Cont'd.)

Financial effect of collateral held

The main types of collateral held as security by the Company to mitigate credit risk are as follows:

Type of financing receivables	Type of collaterals
Secured staff loans	Charges over residential properties
Corporate loans	Charges over properties, lands being financed and bank guarantees

The funds with financial assets over which collaterals are held as security include the shareholder's and family takaful funds. The quantification of the extent to which collateral and other credit enhancements mitigate credit risk (referred to as "the financial effect of collateral") is described below.

Shareholder's fund

The financial effect of collateral held for financing receivables of the fund is 87% as at 31 December 2013 (2012: 79%). The financing receivables include staff loans and non-staff loans which amounting to RM20.97 million as at 31 December 2013 (2012: RM20.3 million). These loans are collateralised in the form of charges over residential properties which are worth RM23.9 million (2012: RM21.9 million).

Family takaful fund

The financial effect of collateral held for financing receivables of the fund is 100% as at 31 December 2013 (2012: 100%). The financing receivables include corporate loans and staff loans which amounting to RM7.3 million as at 31 December 2013 (2012: RM16.9 million). These loans are collateralised in the form of land guarantees, worth RM26.2 million in aggregate (2012: RM25.5 million).

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk

Liquidity risk is the risk that arises from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss. It is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The objective of liquidity risk management is to safeguard the Company's ability to meet all payments when they come due. Liquidity risk management will ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals, claims and the maturity of liabilities.

The Company measures and manages liquidity risk following the philosophy and principles below:

- (a) Risk Management together with the Investment Department, actively monitors the cashflows associated and derived from assets and liabilities of the Company through the ALCO platform; and
- (b) The Investment Department ensures that the established investment limits set takes care of reasonable liquidity requirements at all times.

Maturity Profiles

The table below summarises the maturity profiles of the financial assets and liabilities of the Company based on remaining undiscounted contractual obligations, including profit payable and receivable. For takaful certificate liabilities and takaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful certificate liabilities.

Contribution liabilities and the retakaful operators' share of contribution liabilities have been excluded from the analysis as there are no contractual obligations to make payments on those liabilities.

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

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)

Maturity Profiles (cont'd.)

Shareholder's fund	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
31.12.2013						
Financial investments:						
LAR	114,868	114,868	-	-	-	114,868
AFS	1,165,722	80,254	231,817	1,203,325	152,579	1,667,975
Financing receivables	20,970	2,155	10,424	8,391	-	20,970
Other receivables	283,038	283,038	-	-	-	283,038
Qard receivable	36,684	36,684	-	-	-	36,684
Cash and bank balances	45,166	45,166	-	-	-	45,166
Total assets	1,666,448	562,165	242,241	1,211,716	152,579	2,168,701
Takaful payables	9,360	9,360	-	-	-	9,360
Other payables	103,893	103,893	-	-	-	103,893
Total liabilities	113,253	113,253	-	-	-	113,253

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)

Maturity Profiles (cont'd.)

Shareholder's fund (cont'd.)

31.12.2012

	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Financial investments:						
LAR	113,960	113,960	-	-	-	113,960
AFS	763,134	-	190,381	703,387	93,112	986,879
Financing receivables	20,319	2,228	8,774	9,317	-	20,319
Other receivables	246,091	246,091	-	-	-	246,091
Quard receivables	36,684	36,684	-	-	-	36,684
Cash and bank balances	16,486	16,486	-	-	-	16,486
Total assets	1,196,674	415,449	199,155	712,704	93,112	1,420,419
Takaful payables	3,008	3,008	-	-	-	3,008
Other payables	122,986	122,986	-	-	-	122,986
Total liabilities	125,994	125,994	-	-	-	125,994

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)

Maturity Profiles (cont'd.)

General takaful fund	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
31.12.2013						
Financial investments:						
LAR	318,653	318,653	-	-	-	318,653
AFS	1,033,854	92,579	420,712	927,814	24,725	1,465,830
Takaful receivables	66,097	66,097	-	-	-	66,097
Other receivables	19,094	19,094	-	-	-	19,094
Retakaful assets	173,839	94,462	71,550	7,827	-	173,839
Cash and bank balances	52,673	52,673	-	-	-	52,673
Total assets	1,664,210	643,558	492,262	935,641	24,725	2,096,186
Participant's fund	159,705	-	-	-	159,705	159,705
Claims liabilities	699,800	380,262	288,029	31,509	-	699,800
Takaful payables	68,628	68,628	-	-	-	68,628
Other payables	225,737	225,737	-	-	-	225,737
Total liabilities	1,153,870	674,627	288,029	31,509	159,705	1,153,870

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)

<i>Maturity Profiles (cont'd.)</i>	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
General takaful fund (cont'd.)						
31.12.2012						
Financial investments:						
LAR	211,070	211,070	-	-	-	211,070
AFS	1,040,792	290,051	509,830	153,307	189,704	1,142,892
Takaful receivables	100,971	100,971	-	-	-	100,971
Other receivables	19,311	19,311	-	-	-	19,311
Retakaful assets	237,507	118,766	94,331	24,410	-	237,507
Cash and bank balances	20,240	20,240	-	-	-	20,240
Total assets	1,629,891	760,409	604,161	177,717	189,704	1,731,991
Participant's fund	123,172	-	-	-	123,172	123,172
Claims liabilities	748,517	374,297	297,288	76,932	-	748,517
Takaful payables	90,494	90,494	-	-	-	90,494
Other payables	157,946	157,946	-	-	-	157,946
Total liabilities	1,120,129	622,737	297,288	76,932	123,172	1,120,129

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Family takaful fund						
31.12.2013						
Financial investments:						
LAR	491,482	491,482	-	-	-	491,482
AFS	2,657,088	85,432	608,997	1,581,023	1,056,059	3,331,511
FVTPL	4,624,866	362,565	1,574,463	4,569,143	-	6,506,171
Financing receivables	7,309	7,309	-	-	-	7,309
Takaful receivables	140,019	140,019	-	-	-	140,019
Other receivables	78,808	78,808	-	-	-	78,808
Retakaful assets	15,817	-	-	-	15,817	15,817
Cash and bank balances	89,822	89,822	-	-	-	89,822
Total assets	8,105,211	1,255,437	2,183,460	6,150,166	1,071,876	10,660,939
Participant's fund						
Takaful certificate liabilities	2,146,638	-	-	-	2,146,638	2,146,638
Qard payable	5,519,963	2,755,622	1,190,641	3,172,917	-	7,119,180
Takaful payables	36,684	-	-	-	36,684	36,684
Other payables	67,786	67,786	-	-	-	67,786
Total liabilities	8,105,139	3,157,476	1,190,641	3,172,917	2,183,322	9,704,356

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37. FINANCIAL RISKS (CONT'D.)

(ii) Liquidity Risk (Cont'd.)	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Family takaful fund						
31.12.2012						
Financial investments:						
LAR	639,623	639,623	-	-	-	639,623
AFS	2,225,372	102,526	408,537	1,563,661	624,831	2,699,555
FVTPL	4,442,783	227,780	735,497	5,012,390	-	5,975,667
HFT	13,578	13,578	-	-	-	13,578
Financing receivables	16,922	-	-	16,922	-	16,922
Takaful receivables	97,362	97,362	-	-	-	97,362
Other receivables	112,566	112,566	-	-	-	112,566
Retakaful assets	18,634	5,153	10,174	3,307	-	18,634
Cash and bank balances	40,041	40,041	-	-	-	40,041
Total assets	7,606,881	1,238,629	1,154,208	6,596,280	624,831	9,613,948
Participant fund						
Takaful certificate liabilities	1,929,239	-	-	-	1,929,239	1,929,239
Qard payable	36,684	-	-	-	36,684	36,684
Takaful payables	61,247	61,247	-	-	-	61,247
Other payables	273,638	273,638	-	-	-	273,638
Total liabilities	7,604,290	2,917,227	1,080,079	2,946,752	1,965,923	8,909,981

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37. FINANCIAL RISKS (CONT'D.)

(iii) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises of three (3) types of risk:

- (a) currency risk;
- (b) profit yield risk; and
- (c) equity price risk.

The Company has three key main features in its market risk management practices and policies.

First, a company-wide market risk policy exists which sets out the evaluation and determination of components of market risk for the Company. Compliance with the policy is monitored and reported monthly to the RMC and exposures and breaches are reported as soon as practicable.

Second, the Company's policies on asset allocation, portfolio limit structure and diversification benchmarks have been set in line with the Company's risk management policy after taking the cognisance of the regulatory requirements in respect of maintenance of assets and solvency.

Third, strict controls exist over derivative transactions; such transactions are only permitted for hedging purposes and not for speculative purposes.

The Company also issues investment-linked investment certificates in a number of its products. In the investment-linked business, the participants bear the investment risk on the assets held in the investment-linked funds as the benefits are directly linked to the value of the assets in the funds.

The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of the assets in the funds. Accordingly, the sensitivity analyses disclosed for each component of market risk in the following pages do not include analyses on the impact such risks on the investment-linked funds.

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37. FINANCIAL RISKS (CONT'D.)

(iii) Market Risk (cont'd.)

(a) Currency Risk

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

The Company's primary transactions are carried out in Ringgit Malaysia ("RM") and its exposure to foreign exchange risk arises principally with respect to US Dollar.

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Islamic Financial Services Act 2013, and hence, primarily denominated in the same currency (the local "RM") as its takaful certificate liabilities.

The Company's main foreign exchange risk from recognised assets and liabilities arises from retakaful transactions for which the balances are expected to be settled and realised in less than a year. Accordingly, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

(b) Profit Yield Risk

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

Profit yield risks arise from exposures to profit yield related assets and liabilities. It is also known as asset-liability mismatch ("ALM") risk. It is mainly driven by the volatility of future cash flows. The quantum is also proxied to the duration mismatch between the assets and the liabilities.

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37. FINANCIAL RISKS (CONT'D.)

(iii) **Market Risk (cont'd.)**

(b) **Profit Yield Risk (cont'd)**

The Company measures and manages profit yield risk based on the following three philosophies and principles:

- (a) Actively aim to match the liability duration with the asset duration, without compromising credit quality;
- (b) Set the benchmark for asset duration in line with risk appetite; and
- (c) Use KRIs to alert the organisation to impending problems in a timely manner.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant.

Funds	Changes in variables	2013				2012			
		Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
Share-holders	+100 basis points	-	-	-	(66,825)	-	-	-	(38,913)
	-100 basis points	-	-	-	66,825	-	-	-	38,913
General Takaful	+100 basis points	(37,680)	(37,680)	-	(23,122)	(11,479)	(11,479)	-	(7,044)
	-100 basis points	37,680	37,680	-	23,122	11,479	11,479	-	7,044
Family Takaful	+100 basis points	(305,978)	(305,978)	(104,568)	(78,426)	(209,342)	(209,342)	(109,904)	(82,428)
	-100 basis points	305,978	305,978	104,568	78,426	209,342	209,342	109,904	82,428

* Impact on equity is after tax of 25%

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37. FINANCIAL RISKS (CONT'D.)

(iii) Market Risk (cont'd.)

(c) Equity Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices which principally comprise all investment securities other than those held in the investment linked funds.

The Company's equity price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM.

The Company complied with BNM stipulated limits during the financial year and had no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant.

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37. FINANCIAL RISKS (CONT'D.)

(iii) Market Risk (cont'd.)

(c) Equity Price Risk (cont'd)

Market Indices - Bursa Malaysia

Changes in variables	2013				2012			
	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
Funds								
Share-holders								
+10%	-	-	-	11,441	-	-	-	6,981
-10%	-	-	-	(11,441)	-	-	-	(6,981)
General Takaful								
+10%	-	-	-	1,854	-	-	-	14,228
-10%	-	-	-	(1,854)	-	-	-	(14,228)
Family Takaful								
+10%	-	-	-	79,214	-	-	-	46,862
-10%	-	-	-	(79,214)	-	-	-	(46,862)

* Impact on equity is after tax of 25%

38. OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Company has put in place controls to mitigate operational risks. If these controls fail to perform, they can cause damage to reputation, have legal or regulatory implications and can lead to financial loss. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

Operational risks includes Shariah non-compliance risk. Shariah non-compliance risk refers to the possible failure in meeting the obligations of Shariah. When controls fail to perform, Shariah non-compliance risk can cause reputational and operational damage, have regulatory implications or can even lead to financial loss and finally, impediment from Allah's barakah or blessing. The Company expects to mitigate such risks by initiating, monitoring and responding to the Shariah control framework. Controls include effective oversight of the Shariah Committee, supported by the internal Shariah Compliance Department in all aspects of the Company's operations. Other relevant controls include staff awareness training and internal operating guidelines, including the use of internal and external Shariah audit.

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(i) Cash and cash equivalents and other receivables/payables

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

(ii) Financing receivables

Financing receivables are granted at interest/profit rates which are comparable with the rates offered on similar instruments in the market and to counter parties with similar credit profiles. Accordingly, the carrying amount of the financing receivables approximate their fair values.

(iii) Takaful receivables and payables

The carrying amounts are measured at amortised cost in accordance with the accounting policies as disclosed in Note 2.2(n) and 2.2(r). The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

(iv) Investments

Investments have been accounted for in accordance with the accounting policies as disclosed in Note 2.2(d) and 2.2(e). The carrying amounts and fair values of investments are disclosed in Note 5 of the financial statements.

Description of Overall Fair Value Framework

The Company has an established framework and policies which provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuations of financial instruments.

The valuations of financial instruments are performed either based on quoted prices in active markets at which an arm's length transaction would be likely to occur or using valuation techniques. Fair values of financial instruments can be assessed using observable inputs or unobservable inputs where one or more significant inputs are unobservable. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modeling techniques where some or all of the parameter inputs are not observable in deriving fair value.

Valuation adjustment is an integral part of the valuation process. Valuation adjustment reflects the uncertainty in valuations for products that are less standardised, less frequently traded and more complex in nature. In making valuation adjustments, the Company follows methodologies that consider factors such as liquidity, bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(iv) Investments (Cont'd.)

Description of Overall Fair Value Framework (cont'd.)

In addition, the Company continuously enhances its design and validation methodologies and processes used to produce valuations and periodic reviews are performed to ensure the model remains suitable for its intended use.

Description of of the Fair Value Hierarchy

The levels of the fair value hierarchy as defined by the accounting standards are an indication of the observability of prices or valuation input. It can be classified into the following hierarchies/levels:

- **Level 1 : Active Market – quoted price**

Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include quoted equity securities and quoted unit and property trust funds.

- **Level 2 : No Active Market – Valuation techniques using observable input**

Refers to inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Examples of level 2 financial instruments include Malaysian government papers, unquoted debt securities and negotiable Islamic certificates of deposits.

- **Level 3 : No Active Market – Valuation techniques using unobservable input**

Refers to financial instruments where fair values are measured using unobservable market inputs. The valuation technique is consistent with level 2. The chosen valuation technique incorporates management's assumptions and data.

Examples of level 3 instruments include unquoted equity securities and foreign notes.

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(v) Fair Value Disclosures Based on 3-Level Hierarchy

Shareholder's Fund

	Valuation techniques using:			Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	Level 3 Significant unobservable inputs RM'000	
31.12.2013				
<u>Assets</u>				
Available-for-sale ("AFS")				
Malaysian government papers	-	2,003	-	2,003
Unquoted debt securities in Malaysia	-	985,257	-	985,257
Equity securities	150,195	-	32	150,227
Quoted unit and property trust funds in Malaysia	2,352	-	-	2,352
Structured products	-	23,775	-	23,775
Total assets	152,547	1,011,035	32	1,163,614
31.12.2012				
<u>Assets</u>				
Available-for-sale ("AFS")				
Malaysian government papers	-	12,157	-	12,157
Unquoted debt securities in Malaysia	-	657,865	-	657,865
Equity securities	91,237	-	32	91,269
Quoted unit and property trust funds in Malaysia	1,843	-	-	1,843
Total assets	93,080	670,022	32	763,134

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(v) Fair Value Disclosures Based on 3-Level Hierarchy (cont'd.)

General takaful fund

	Valuation techniques using:		Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	
31.12.2013			
<u>Assets</u>			
Available-for-sale ("AFS")			
Malaysian government papers	-	321,910	321,910
Unquoted debt securities in Malaysia	-	655,980	655,980
Equity securities	24,725	-	24,725
Structured products	-	18,342	18,342
Negotiable Islamic certificates of deposits	-	9,176	9,176
Total assets	24,725	1,005,408	1,030,133
31.12.2012			
<u>Assets</u>			
Available-for-sale ("AFS")			
Equity securities	185,617	-	185,617
Malaysian government papers	-	210,218	210,218
Unquoted debt securities in Malaysia	-	616,182	616,182
Quoted unit and property trust funds in Malaysia	4,087	-	4,087
Negotiable Islamic certificates of deposits	-	24,688	24,688
Total assets	189,704	851,088	1,040,792

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(v) Fair Value Disclosures Based on 3-Level Hierarchy (cont'd.)

Family takaful fund

	Valuation techniques		Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	
31.12.2013			
<u>Assets</u>			
Available-for-sale ("AFS"):			
Malaysian government papers	-	245,021	245,021
Unquoted debt securities in Malaysia	-	1,339,095	1,339,095
Equity securities	1,025,903	-	1,025,903
Trust funds	30,156	-	30,156
Negotiable Islamic certificates of deposit	-	16,913	16,913
Designated upon initial recognition as Fair Value Through Profit or Loss ("FVTPL"):			
Malaysian government papers	-	956,067	956,067
Unquoted debt securities in Malaysia	-	3,447,729	3,447,729
Structured products	-	118,887	118,887
Negotiable Islamic certificates of deposit	-	102,183	102,183
Total assets	1,056,059	6,225,895	7,281,954

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39. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

(v) Fair Value Disclosures Based on 3-Level Hierarchy (cont'd.)

Family takaful fund (cont'd.)

	Valuation techniques using:			Total RM'000
	Level 1 Quoted market prices RM'000	Level 2 Observable inputs RM'000	Level 3 Significant unobservable inputs RM'000	
31.12.2012				
<u>Assets</u>				
Available-for-sale ("AFS")				
Malaysian				
government papers	-	277,861	-	277,861
Unquoted debt				
securities in				
Malaysia	-	1,306,083	-	1,306,083
Equity securities	601,145	-	-	601,145
Quoted unit and				
property trust				
funds in Malaysia	23,686	-	-	23,686
Negotiable Islamic				
certificates of deposit	-	16,597	-	16,597
Designated upon initial recognition as Fair Value Through Profit or Loss ("FVTPL")				
Malaysian				
government papers	-	921,405	-	921,405
Unquoted debt				
securities in				
Malaysia	-	3,421,175	-	3,421,175
Negotiable Islamic				
certificates of deposit	-	100,203	-	100,203
Held for Trading ("HFT")				
Unquoted debt				
securities in Malaysia	-	5,847	-	5,847
Foreign Notes	-	-	7,731	7,731
Total assets	624,831	6,049,171	7,731	6,681,733

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39. FAIR VALUES HIERARCHY (CONT'D.)

(b) Reconciliation of level 3 fair value hierarchy

	AFS financial assets RM'000
Shareholders fund	
Unquoted Equity Securities	
31.12.2013	
As at 1 January/31 December 2013	<u>32</u>
31.12.2012	
As at 1 January/31 December 2012	<u>32</u>
HFT financial assets RM'000	
Family takaful fund	
Foreign Notes	
31.12.2013	
As at 1 January 2013	7,731
Recognised in income statement:	
Fair value gain/(loss)	773
Disposal	<u>(8,504)</u>
As at 31 December 2013	<u>-</u>
31.12.2012	
As at 1 January 2012	8,506
Recognised in income statement:	
Fair value gain/(loss)	571
Disposal	<u>(1,346)</u>
As at 31 December 2012	<u>7,731</u>

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40. CONTINGENT LIABILITIES

(i) Counter claim on litigated case

In 2004, the Company commenced a civil suit against a third party ("the First Defendant") and all the guarantors for the failure to pay two monthly instalments amounting to RM0.8 million. The First Defendant counter claimed for loss and damage amounting to RM283.6 million as a result of the Company's alleged failure to release the balance of the facility of RM7.5 million. It was alleged that the First Defendant was unable to carry on with its project and therefore had suffered loss and damage.

The Company's application for Summary Judgment was heard on 14 May 2009 and allowed by the Kuala Lumpur High Court ("KLHC"). In addition, the KLHC ordered that the First Defendant's counter claim against the Company be dismissed.

The First Defendant then filed a Notice of Motion to the Court of Appeal for stay of execution and to appeal against the decision of the KLHC dated 14 May 2009. During the hearing of the application for stay of execution on 28 October 2009, the Court of Appeal had dismissed the application with cost.

The First Defendant's appeal against the decision of the KLHC dated 14 May 2009 was heard by the Court of Appeal on 4 March 2010 which had allowed the First Defendant's appeal with cost. Thus, the Summary Judgment granted by the KLHC on 14 May 2009 was set aside and the striking out of the Defendants' counter-claim was now overturned. The Court of Appeal had directed the matter to be set down for full trial.

The full trial concluded on 29 June 2011 and on 21 September 2011 the KLHC had dismissed the Defendants' counter-claim against the Company and allowed judgment to be entered against the Defendants. The First, Second and Fourth Defendants then filed for a stay of execution of the Judgment dated 21 September 2011 and on 8 December 2011, the KLHC dismissed the said application with costs of RM1,000.

The First, Second and Fourth Defendants have filed for appeal against the decision dated 21 September 2011 to the Court of Appeal. The Court of Appeal had on 16 April, 2013 dismissed the appeal with cost of RM10,000 against each Defendant. All Defendants have filed their appeal against the decision of the Court of Appeal dated 16 April 2013 to the Federal Court. The Federal Court had on 17 September, 2013 postponed the hearing of the appeal and fixed a new Mention date on 20 January, 2014 in view of the settlement negotiation between parties. Currently, the First, Second and Fourth Defendants have served the Company a Notice of Discontinuance of the Appeal at the Federal Court.

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40. CONTINGENT LIABILITIES (CONT'D.)

(i) Counter claim on litigated case (cont'd)

The solicitors of the Company are of the view that the Company has a more than even chance of success based on the merits of the case and, accordingly, the Company should be able to maintain the judgment at the disbursed sum less payments received to date.

(ii) Letter of demand from service provider

On 22 October 2012, the Company and its fellow subsidiary had terminated the services of a service provider on the grounds that they had not complied with the services required of them under a service level agreement between the service provider and the Company and its fellow subsidiary. On 28 November 2012, the service provider had, via its solicitors, issued a letter of demand against the Company and its fellow subsidiary for a particular sum, alleged to be amounts owing to the service provider for outstanding claims by Medical providers.

In respect of the amounts claimed by the service provider, management is of the opinion that the claimed amounts were not substantiated and, thus, no payments were made. The Company's and its fellow subsidiary's solicitors had advised management that the Company and its fellow subsidiary had a reasonable defence against the claim until such time as sufficient evidence is given by the service provider to support the claimed amounts. Accordingly, the management of the Company and its fellow subsidiary are of the view that an accrual for the claimed amounts is not necessary as the alleged amounts are not substantiated by documentary evidence.