

Company No.

738090	M
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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

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HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT

The Directors have pleasure in presenting their Report together with the audited financial statements of the Company for the financial year ended 30 June 2014.

PRINCIPAL ACTIVITIES

The Company is principally engaged in managing Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of this activity during the financial year.

FINANCIAL RESULTS

	RM'000
Net profit for the financial year	2,194

DIVIDENDS

No dividends have been paid or declared by the Company since end of the previous financial year.

The Directors do not recommend any dividend for the financial year ended 30 June 2014.

RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

DIRECTORS

The Directors who have held office during the period since the date of last report are as follows:

YBhg Tan Sri A. Razak bin Ramli	Chairman, Independent Non-Executive Director
Ms Loh Guat Lan	Non-Independent Non-Executive Director
Mr Choong Yee How	Non-Independent Non-Executive Director
Encik Mustapha bin Hamat	Independent Non-Executive Director
Mr Toshiyuki Tsukada (Resigned on 31 March 2014)	Non-Independent Non-Executive Director
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	Independent Non-Executive Director
YM Raja Teh Maimunah Binti Raja Abdul Aziz	Non-Independent Non-Executive Director
Mr Masakatsu Komaita (Appointed on 6 May 2014)	Non-Independent Non-Executive Director

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HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS

None of the Directors holding office at the end of the financial year had any beneficial interest in ordinary shares, options over shares and debentures of the Company and/or its related corporations during the financial year ended 30 June 2014 as recorded in the Register of Directors' Shareholdings kept by the Company under Section 134 of the Companies Act, 1965, except for Mr Choong Yee How and Ms Loh Guat Lan, whose direct interests in the shares and options over shares of related corporations, are as follows:

		Number of ordinary shares / *shares issued or to be issued or acquired arising from the exercise of options			
	Nominal value per share	As at 01.07.2013	Acquired	(Sold)	As at 30.06.2014
Interest of Mr Choong Yee How in:					
Hong Leong Financial Group Berhad	RM1.00	4,784,000	2,646,000 ⁽¹⁾	(4,330,000)	3,100,000
	RM1.00	4,396,000*	-	(2,646,000) ⁽¹⁾	1,750,000*
Interest of Ms Loh Guat Lan in:					
Hong Leong Financial Group Berhad	RM1.00	175,000	175,000 ⁽¹⁾	(107,000)	243,000
		175,000*	-	(175,000) ⁽¹⁾	-

Note:

(1) Exercise of share options.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by certain Directors as shown in note 21 to the financial statements or the fixed salary of a full time employee of the Company or of related corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangement to which the Company was a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Executive Share Option Scheme of Hong Leong Financial Group Berhad and Hong Leong Assurance Berhad, the related corporations of the Company.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

The Company has complied with the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under BNM/RH/GL/004-1 on Guidelines on Directorship for Takaful Operators.

Board of Directors/Chief Executive Officer

The Board of Directors of the Company ("Board") assumes responsibility for effective stewardship and control of the Company and has established terms of reference to assist in the discharge of this responsibility.

The roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's business; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals and major capital expenditure and such other responsibilities that are required of them by Bank Negara Malaysia ("BNM") as specified in guidelines and circulars issued by BNM, from time to time.

The Chief Executive Officer of the Company is responsible for implementing the policies and decisions of the Board, overseeing the day-to-day operations, setting the plan and direction, benchmark and targets for the Company, tracking compliance and business progress, initiating innovative business ideas to create competitive edge and development of business and corporate strategies with the aim of enhancing Shareholders' wealth.

The present Board comprises the Chairman who is an Independent Non-Executive Director, four Non-Independent Non-Executive Directors and two Independent Non-Executive Directors. In accordance with the Guidelines on Directorships for Takaful Operators, all Directors are appointed to the Board after approval had been obtained from BNM.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board of Directors/Chief Executive Officer (continued)

During the financial year ended 30 June 2014, six (6) Board Meetings were held and the attendance of the Directors was as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	6/6
Mr Choong Yee How (Non-Independent Non-Executive Director)	6/6
Encik Mustapha bin Hamat (Independent Non-Executive Director)	6/6
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	6/6
Mr Toshiyuki Tsukada (<i>Resigned on 31 March 2014</i>) (Non-Independent Non-Executive Director)	4/4
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Independent Non-Executive Director)	6/6
YM Raja Teh Maimunah binti Raja Abdul Aziz (Non-Independent Non-Executive Director)	6/6
Mr Masakatsu Komaita (<i>Appointed on 6 May 2014</i>) (Non-Independent Non-Executive Director)	2/2

Supply of Information

Board reports are circulated prior to Board meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, performance of the Company and management's proposal which require the approval of the Board.

All Directors have access to the advice and services of the Company Secretary as well as independent professional advice, including the Internal Auditors.

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HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nominating Committee ("NC")

The members of the NC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)
Ms Loh Guat Lan	(Non-Independent Non-Executive Director)
YM Raja Teh Maimunah binti Raja Abdul Aziz	(Non-Independent Non-Executive Director)

The NC's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the minimum requirements for appointments to the Board, Board committees and for the position of Chief Executive Officer.
- Review and recommend to the Board, all Board, Board committees and Shariah Committee appointments and re-appointments and removals including of the Chief Executive Officer.
- Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required.
- Assess annually the effectiveness of the Board and key senior management officers as a whole and the contribution by each individual Director to the effectiveness of the Board and various Board Committees based on criteria approved by the Board.
- Oversee the appointment, management succession planning and performance evaluation of key senior management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2014, four (4) NC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
YBhg Tan Sri A. Razak bin Ramli (Chairman, Independent Non-Executive Director)	4/4
Mr Choong Yee How (Non-Independent Non-Executive Director)	4/4
Encik Mustapha bin Hamat (Independent Non-Executive Director)	4/4
Ms Loh Guat Lan (Non-Independent Non-Executive Director)	4/4
YM Raja Teh Maimunah binti Raja Abdul Aziz (Non-Independent Non-Executive Director)	4/4

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee ("RC")

The members of the RC are as follows:

YBhg Tan Sri A. Razak bin Ramli	(Chairman, Independent Non-Executive Director)
Mr Choong Yee How	(Non-Independent Non-Executive Director)
Encik Mustapha bin Hamat	(Independent Non-Executive Director)

The RC's functions and responsibilities are set out in the terms of reference as follows:

- Recommend to the Board the framework governing the remuneration of the:
 - ❖ Directors;
 - ❖ Chief Executive Officer; and
 - ❖ Key senior management officers.
- Review and recommend to the Board the specific remuneration packages of executive directors and the Chief Executive Officer.
- Review the remuneration package of key senior management officers.
- Review and recommend to the Board the remuneration of Shariah Committee members.

During the financial year ended 30 June 2014, one (1) RC meeting was held and the meeting was attended by all the members.

The Directors fees are set out in Note 21 to the financial statements.

Board Audit and Risk Management Committee ("BARMC")

Encik Mustapha bin Hamat	(Chairman, Independent Non-Executive Director)
YBhg Tan Sri A. Razak bin Ramli	(Independent Non-Executive Director)
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin	(Independent Non-Executive Director)

During the financial year ended 30 June 2014, six (6) BARMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Encik Mustapha bin Hamat (Chairman, Independent Non-Executive Director)	6/6
YBhg Tan Sri A. Razak bin Ramli (Independent Non-Executive Director)	6/6
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin (Independent Non-Executive Director)	6/6

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC") (continued)

The primary functions and responsibilities of the BARMC are set out in the terms of reference as follows:

Audit

- To nominate and recommend for the approval of the Board of Directors ("Board"), a person or persons as external auditor(s);
- To review the external audit fees;
- To review, with the external auditors, the audit scope and plan;
- To review, with the external auditors, the audit report and audit findings and the management's response thereto;
- To review the assistance given by the officers of the HLMT to the external auditors;
- To review and assess the objectivity, performance and independence of the external auditors and to recommend the appointment or re-appointment of external auditors;
- To ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the external auditors;
- To ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies and bad and doubtful debts;
- To engage on a continuous basis with senior management, such as the chairman, the chief executive officer, the finance director, the head of internal audit and the external auditors in order to be kept informed of matters affecting HLMT;
- To review the quarterly reports and annual financial statements of HLMT prior to the approval by the Board;
- To review the Chairman's statement, corporate governance disclosures in the Directors' Report and all representation letters by management in relation to the financial audit of the Company;
- To review the performance and adequacy of the internal audit scope and plan, functions, competency and resources of the internal audit function as stipulated in the Service Level Agreement;
- To review the report and findings of the internal audit department including any findings of internal investigations and the management's response thereto;
- To consider the provision of non-audit services by the external auditors;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC") (continued)

Audit (continued)

- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Head of Internal Audit;
- To review the audit plan, audit charter and budget of the Internal Audit Department as well as the scope of internal audit procedures and to ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisation structure for the internal auditors to achieve their audit objectives;
- To review related party transactions and conflict of interest situations that may arise within HLMT including any transaction, procedure or conduct that raises questions of management integrity;
- Other audit functions as may be agreed to by the BARMC and the Board.

Risk Management and Compliance

- To oversee senior management's activities in managing credit, market, liquidity, operational, shariah compliance and IT risks and to ensure that the risk management process is in place and functioning;
- To review and report to the Board measures taken to:
 - (a) identify and examine principal risks faced by HLMT;
 - (b) implement appropriate systems and internal controls to manage these risks;
- To review, recommend and/or endorse HLMT's major risk management strategies, policies and risk tolerance for Board's approval;
- To endorse the HLMT's risk appetite, internal capital target and Capital Management framework for Board's approval;
- To provide effective oversight of senior management's actions to ensure consistency with the risk strategy and policies approved by the Board, including the risk appetite framework;
- To oversee and monitor implementation of the Risk and Capital Management Plan and activities adopted by HLMT ;
- To ensure that senior management discharges its responsibilities for the development and effective implementation of the internal capital adequacy assessment process;
- To review the report from senior management on adherence to the HLMT's risk appetite and the implementation of risk management policies, processes and controls within the institution in managing the key risks to the institution as well as emerging risks;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Board Audit and Risk Management Committee ("BARMC") (continued)

Risk Management and Compliance (continued)

- To review periodic reports on risk appetite, risk exposure, risk portfolio composition, stress testing and risk management activities;
- To review the adequacy and effectiveness of internal controls and risk management process;
- To review and assess adequacy of risk management and compliance policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- To ensure infrastructure, resources and systems are in place for risk management i.e ensuring that the staff responsible for implementing risk management systems perform those duties independently of HLMT's risk taking activities;
- To advise on the appointment, remuneration, performance, evaluation, removal and redeployment of the Head of Risk Management & Compliance;
- To conduct performance reviews of staff primarily responsible for control functions;
- To perform diligent oversight over the effective function of Shariah risk and Shariah compliance of HLMT;
- Oversight of the Group's compliance activities and ensuring the Group is in compliance with all established policies, guidelines and external regulations;
- To review all non-compliance incidences and recommend corrective actions where necessary;
- To review and consider the impact of new laws, regulations, guidelines affecting the Bank's operations and ensuring adequate resources are committed and realistic action plans are carried out within the stipulated deadline set;
- Other risk management and compliance functions as may be agreed to by the BARMC and the Board.

Internal Audit

The Chief Internal Auditor reports directly to the BARMC and provides the BARMC and management with an independent assessment of the adequacy of internal controls and risk management practice. Significant breaches and deficiencies identified are discussed with the BARMC and remedial action taken by management are reported to and monitored by the BARMC.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Corporate Independence

The Company has complied with BNM/RH/GL/004-7 on Guidelines On Related Party Transactions For Takaful Operators. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 26 to the financial statements.

Financial Reporting

The Board is responsible for ensuring that the accounting records of the Company are properly maintained. Financial and management reports of the Company are reviewed at Board meetings.

Internal Controls and Operational Risk Management

The Board holds overall responsibility for maintaining a system of internal controls, which provides reasonable assessment of effective and efficient operations, internal financial controls and compliance with laws and regulations.

The Company has established authority limits and internal controls to manage operational and financial risks. The authority limits and system of internal controls are regularly reviewed to ensure continuous improvement in the control environment.

Management Accountability

The Company operates in an organisational structure and control environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment.

Relationship with Auditors

External auditors are appointed based on the recommendation by the BARMC. The BARMC also determines the remuneration of external auditors. The external auditors meet with the BARMC to:

- (a) present the scope of audit before the commencement of audit; and
- (b) review the results of the financial year as well as the Internal Control letter after the conclusion of the audit.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Shariah Committee ("SC")

The members of the SC are as follows:

Assoc. Prof. Dr. Ab. Mumin Ab. Ghani	(Chairman)
Asst. Prof. Dr. Uzaimah Ibrahim	(Member)
Assoc. Prof. Dr. Asmadi bin Mohamed Naim (<i>Resigned on 1 November 2013</i>)	(Member)
Dr Muhammad Aunurrochim Mas'ad Salleh	(Member)
Dr Nurul Aini binti Muhamed	(Member)
Dr Asmak Binti Ab Rahman	(Member)
	(Appointed on 1 March 2014)

During the financial year ended 30 June 2014, nine (9) SC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Assoc. Prof. Dr. Ab. Mumin Ab. Ghani (Chairman)	9/9
Assoc. Prof. Dr. Asmadi bin Mohamed Naim	2/2
Asst. Prof. Dr. Uzaimah Ibrahim	9/9
Dr Muhammad Aunurrochim Mas'ad Salleh	8/9
Dr Nurul Aini binti Muhamed	8/9
Dr Asmak Binti Ab Rahman	3/4

HOLDING COMPANIES

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

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HONG LEONG MSIG TAKAFUL BERHAD
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DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY

- (I) As at the end of the financial year
- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that there was adequate provision for incurred claims, including incurred but not reported claims ("IBNR");
- (ii) to ascertain proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and have satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (iii) to ensure that any current assets which were unlikely to realise their book values in the ordinary course of business had been written down to their estimated realisable values.
- (b) In the opinion of the Directors, the results of the operations of the Company during the financial year have not been substantially affected by any item, transaction or event of a material and unusual nature, other than those disclosed in the financial statements.
- (II) As at the end of the financial year to the date of this report
- (a) The Directors are not aware of any circumstances:
- (i) which would render the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any material extent;
- (ii) which would render the values attributed to current assets in the financial statements misleading; and
- (iii) which had arisen which would render adherence to the existing method of valuation of assets and liabilities of the Company misleading or inappropriate.
- (b) In the opinion of the Directors:
- (i) the results of the operations of the Company for the financial year ended 30 June 2014 are not likely to be substantially affected by any item, transaction or event of a material and unusual nature which had arisen in the interval between the end of the financial year and the date of this report; and
- (ii) no 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 their obligations as and when they fall due (for the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contract of takaful underwritten in the ordinary course of business of the Company).

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DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION REGARDING THE COMPANY (CONTINUED)

(III) As at the date of this report

- (a) There are no charges on the assets of the Company which had arisen since the end of the financial year to secure the liabilities of any other person;
- (b) There are no contingent liabilities which had arisen since the end of the financial year; and
- (c) The Directors are not aware of any circumstances not otherwise dealt with in the report or financial statements which would render any amount stated in the financial statements misleading.

AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office.

Signed on behalf of the Board, in accordance with, a resolution of the Directors dated 29 August 2014.



MUSTAPHA BIN HAMAT
DIRECTOR



CHOONG YEE HOW
DIRECTOR

Kuala Lumpur

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HONG LEONG MSIG TAKAFUL BERHAD
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STATEMENT BY DIRECTORS PURSUANT TO
SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Mustapha bin Hamat and Choong Yee How, being two of the Directors of Hong Leong MSIG Takaful Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 18 to 117 are drawn up in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and comply with the provisions of the Companies Act, 1965 so as to give a true and fair view of the state of affair of the Company as at 30 June 2014 and of the results and cash flows of the Company for the financial year then ended.

On behalf of the Board,



MUSTAPHA BIN HAMAT
DIRECTOR



CHOONG YEE HOW
DIRECTOR

Kuala Lumpur
29 August 2014

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

I, Wan Mohd Fadzlullah bin Wan Abdullah, the Officer primarily responsible for the financial management of Hong Leong MSIG Takaful Berhad, do solemnly and sincerely declare that the financial statements set out on pages 18 to 117 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 Wan Mohd Fadzlullah
bin Wan Abdullah at Kuala Lumpur in
Wilayah Persekutuan on 29 August 2014

)
)
)
)
)
)

Wan Mohd Fadzlullah bin Wan Abdullah

Before me



Lot 112, Tingkat Satu,
Wisma MPL, Jalan Raja Chulan
50200 Kuala Lumpur.

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HONG LEONG MSIG TAKAFUL BERHAD
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REPORT OF THE SHARIAH ADVISORY COMMITTEE

In the name of Allah, The Beneficent, The Merciful.

To the Shareholders of Hong Leong MSIG Takaful Berhad,

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Company during the financial year ended 30 June 2014. We have also conducted our review to form an opinion as to whether the Company has complied with Shariah rules and principles and with the specific fatwas, rulings and guidelines issued by us.

The Company's management is responsible for ensuring that the Company conducts its business in accordance with Shariah rules and principles. It is our responsibility to form an independent opinion and report, based on our review of the principles and contracts in relation to transactions and applications of the Company.

We performed our review on the basis of information and explanations provided to us which are deemed essential together with sufficient evidence to give reasonable assurance that the Company has not violated Shariah rules and principles.

In our opinion:


- a) the contracts, transactions and dealings entered into by the Company during the financial year ended 30 June 2014 as presented and deliberated to us are in compliance with the Shariah rules and principles;
- b) the main sources and investments of the Company disclosed to us conform to the basis that had been approved by us in accordance with Shariah rules and principles;

We beg Allah the Almighty to grant us all the success and straight-forwardness.

On behalf of the Shariah Committee:



ASSOC. PROF. DR. AB. MUMIN AB. GHANI
Chairman
Shariah Committee



ASST. PROF. DR. UZAIMAH IBRAHIM
Member
Shariah Committee

Kuala Lumpur
29 August 2014



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Hong Leong MSIG Takaful Berhad, which comprise the statement of financial position as at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 117.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965, and 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 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 judgment, 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF HONG LEONG MSIG TAKAFUL BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 738090 M)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 so as to give a true and fair value of the financial position of the Company as of 30 June 2014 and of its financial performance and cash flows for the financial year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF:1146)
Chartered Accountants

DATO' MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/16 (J))
Chartered Accountant

Kuala Lumpur
29 August 2014

Company No.

738090 M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2014

Note	30.06.2014				30.06.2013			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
ASSETS								
3	2,017	-	-	2,017	1,080	-	-	1,080
4	4,439	-	-	4,439	1,316	-	-	1,316
5	80,886	37,236	103,694	216,906	72,990	24,193	52,520	144,950
5	-	-	16,232	16,232	-	-	35,003	35,003
6	-	683	6,720	7,403	-	671	18,570	19,241
7	-	72,340	30,511	102,851	5,460	69,242	15,526	84,768
15	851	-	-	360	1,204	-	-	977
8	1,895	-	-	1,895	-	443	-	443
9	2,802	8,567	21,166	29,733	-	4,215	5,257	9,472
10	9,847	1,476	1,317	4,022	9,093	1,013	767	2,077
	102,737	10,692	13,766	34,305	15,601	25,238	34,948	75,787
	102,737	130,994	193,406	420,163	106,744	125,015	162,591	375,114
LIABILITIES								
11	-	120,317	173,758	289,165	-	113,278	153,534	262,059
12	-	5,224	14,640	19,864	-	5,769	2,366	8,135
13	7,988	-	-	7,988	7,784	-	-	7,784
14	7,379	2,226	3,214	11,246	-	5,460	-	-
15	362	329	162	362	6,970	5,934	5,526	9,634
	-	2,898	1,632	4,530	212	-	193	212
	15,729	130,994	193,406	333,155	508	34	972	1,480
	15,729	130,994	193,406	333,155	15,474	130,475	162,591	289,304
SHAREHOLDERS' EQUITY								
16	100,000	-	-	100,000	100,000	-	-	100,000
	(14,742)	-	-	(14,742)	(11,476)	(5,460)	-	(16,936)
	1,750	-	-	1,750	2,746	-	-	2,746
	87,008	-	-	87,008	91,270	(5,460)	-	85,810
	102,737	130,994	193,406	420,163	106,744	125,015	162,591	375,114

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

Company No.

738090 M

HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

Note	2014				2013			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
	-	45,122	68,261	113,383	-	53,095	55,226	107,321
Gross contributions	-	(18,391)	(25,479)	(43,870)	-	(26,403)	(9,051)	(35,454)
Contributions ceded to retakaful	-	26,731	42,782	69,513	-	26,692	46,175	71,867
Net contributions	-	2,482	-	2,482	-	2,268	-	2,268
Change in unearned contribution reserve	-	29,213	42,782	71,995	-	28,960	46,175	74,135
Net earned contributions	-	-	-	-	-	-	-	-
Share of investment profit from:								
Family takaful	472	-	-	-	325	-	-	-
General takaful	-	-	-	-	107	-	-	-
Wakalah fee income	27,504	-	-	-	29,047	-	-	-
Commission income	-	3,891	-	3,891	-	6,773	-	6,773
Investment income	3,527	1,577	4,046	9,622	3,703	1,175	4,759	10,069
Realised gains	717	397	1,903	3,017	251	55	193	399
Fair value (losses)/gains	-	(37)	186	149	(90)	-	692	602
Other operating income	1,760	2,235	1,849	5,035	781	2,627	-	2,666
Other income	33,980	8,063	7,984	21,714	34,124	10,630	5,644	20,509
Gross benefits and claims paid	-	(19,089)	(40,516)	(59,605)	-	(12,162)	(38,906)	(50,068)
Claims ceded to retakaful	-	11,792	12,926	24,718	-	6,639	11,498	18,137
Gross change to certificate liabilities	-	(20,580)	(20,279)	(40,859)	-	(31,807)	(3,203)	(34,910)
Change to certificate liabilities ceded to retakaful	-	14,671	14,985	29,656	-	20,567	(3,731)	16,836
Net benefits and claims	-	(13,206)	(32,884)	(46,090)	-	(16,763)	(34,342)	(50,005)
Wakalah fee expenses	-	(13,773)	(13,731)	-	-	(15,803)	(13,244)	-
Commission expenses	(13,547)	-	-	(13,547)	(15,596)	-	-	(15,596)
Management expenses	(22,068)	-	-	(22,068)	(21,371)	-	-	(21,371)
Other operating expenses	(1,114)	(1,370)	(3,509)	(5,184)	(2,392)	(120)	(3,177)	(4,947)
Other expenses	(36,729)	(15,143)	(17,240)	(40,799)	(39,359)	(15,923)	(16,421)	(41,914)

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

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

Note	2014			2013			
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
	(2,749)	8,927	642	(5,235)	6,904	1,056	2,725
(Loss)/profit before zakat and taxation	-	(3,467)	(642)	-	(1,760)	(66)	(1,826)
Tax expense attributable to participants	(2,749)	5,460	-	(5,235)	5,144	990	899
Profit before taxation attributable to Takaful Operator	(813)	(3,467)	(642)	2,351	(1,760)	(66)	525
Taxation	-	3,467	642	-	1,760	66	1,826
Tax expense attributable to participants	(813)	-	-	2,351	-	-	2,351
Tax expense attributable to Takaful Operator	296	-	-	(51)	-	-	(51)
Zakat	(3,266)	5,460	-	(2,935)	5,144	990	3,199
(Loss)/profit after zakat and taxation							
Other comprehensive (loss)/income:							
Items that may be subsequently reclassified to profit or loss:							
Fair value changes on available-for-sale financial assets, net of deferred tax:							
- Gross fair value gains arising during the financial year	(610)	1,082	673	1,219	663	854	2,550
- Gross fair value gains transferred to income statement	(717)	(397)	(733)	(251)	(55)	(86)	(292)
- Deferred taxation	331	(171)	5	(242)	(152)	(61)	(455)
- Net fair value changes	(996)	514	(55)	726	456	707	1,803
Change in Takaful contract liabilities arising from unrealised net fair value changes	-	(514)	55	-	(456)	(707)	(1,077)
Other comprehensive (loss)/income for the financial year, net of tax	(996)	-	-	726	-	-	726
Total comprehensive (loss)/income for the financial year	(4,262)	5,460	-	(2,209)	5,144	990	3,925

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

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Issued and fully paid ordinary shares of RM 1 each		Non- distributable AFS Reserve RM'000	Accumulated Losses RM'000	Total RM'000
	Number of Shares	Nominal Value RM'000			
At 1 July 2013	100,000	100,000	2,746	(16,936)	85,810
Total comprehensive (loss)/income for the financial year	-	-	(996)	2,194	1,198
At 30 June 2014	100,000	100,000	1,750	(14,742)	87,008
At 1 July 2012	100,000	100,000	2,020	(20,135)	81,885
Total comprehensive income for the financial year	-	-	726	3,199	3,925
At 30 June 2013	100,000	100,000	2,746	(16,936)	85,810

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

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	2014 RM'000	2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	2,194	3,199
Adjustments for:		
Write back of takaful receivables	(558)	(913)
Write off of retakaful receivables	2,205	-
Write off of retakaful payable	-	(1,390)
Depreciation of property and equipment	410	247
Amortisation of intangible assets	327	211
Adjustment of property and equipment	-	49
Adjustment of intangible assets	-	6
Loss on disposal of property and equipment	-	9
Gain on disposal of investments	(3,017)	(399)
Unrealised fair value gain on financial assets	(223)	(692)
Foreign exchange	210	1,424
Amortisation of discounts – net	69	21
Profits and dividend income	(9,691)	(10,090)
Allowance for diminution in value of investment	74	90
Taxation	4,922	(525)
Loss from operations before changes in operating assets and liabilities	(3,078)	(8,753)
Proceeds from disposal of investments	103,550	23,435
Maturity of investments	28,777	28,753
Purchase of investments	(183,022)	(69,371)
Increase in expenses liabilities	204	2,170
Increase in Family Takaful certificate liabilities	20,279	3,103
Increase in General Takaful certificate liabilities	6,525	26,404
Decrease/(increase) in loan and receivables	11,679	(8,165)
Increase in retakaful assets	(18,083)	(13,702)
(Increase)/decrease in takaful receivables	(21,908)	12,125
Increase in other receivables	(1,978)	(1,285)
Increase/(decrease) in takaful payables	11,729	(11,621)
Increase/(decrease) in other payables	1,612	(1,043)
Increase/(decrease) in amount due to related companies	150	(1,285)
	(43,564)	(19,235)
Tax paid	(2,526)	-
Profit received	8,619	8,869
Dividends received	786	547
Net cash used in operating activities	(36,685)	(9,819)

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

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

	2014 RM'000	2013 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property and equipment	-	133
Purchase of intangible assets	(3,450)	(1,316)
Purchase of property and equipment	(1,347)	(96)
Net cash used in investing activities	<u>(4,797)</u>	<u>(1,279)</u>
Net decrease in cash and cash equivalents	(41,482)	(11,098)
Cash and cash equivalents at beginning of the financial year	<u>75,787</u>	<u>86,885</u>
Cash and cash equivalents at the end of the financial year	<u>34,305</u>	<u>75,787</u>
Cash and cash equivalents comprise:		
Takaful Operator	9,847	15,601
General Takaful fund	10,692	25,238
Family Takaful fund	13,766	34,948
	<u>34,305</u>	<u>75,787</u>

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

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

1 CORPORATE INFORMATION

The Company is engaged principally in the managing of Family Takaful including investment-linked business and all classes of General Takaful business. There has been no significant change in the nature of these activities 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 8, Wisma Hong Leong, 18, Jalan Perak, 50450 Kuala Lumpur. The principal place of business of the Company is located at Level 5, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya, Selangor.

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 29 August 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements and to all the financial years presented.

Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this significant accounting policies and comply with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS"), and the requirements of the Companies Act, 1965.

The financial statements of the Company reflects the financial statement and results of Takaful Operator and Takaful Funds presented as a single economic entity for the respective financial years disclosed. Interfund balances and transactions are eliminated in arriving at the Company's financial statements.

The inclusion of separate financial statements of the Takaful Funds and the Takaful Operator together with the financial statements of the Company in the statement of financial position, the statement of comprehensive income as well as certain relevant notes to the financial statements represents additional supplementary information presented in accordance with the requirements of BNM pursuant to the Islamic Financial Services Act 2013 ("IFSA") in Malaysia to separate assets, liabilities, income and expenses of the Takaful funds from its own. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for like transactions and events in similar circumstances.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.3.

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company's financial year on or after 1 July 2013
- Amendment to MFRS 7, 'Financial Instruments: Disclosures' requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.
 - MFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7, 'Financial Instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.

There were no material changes to the Company's accounting policies other than enhanced disclosures to the financial statements.

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HONG LEONG MSIG TAKAFUL BERHAD

(Incorporated in Malaysia)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

The Company will apply the new standards, amendments to standards and interpretations in the following period:

Financial year beginning on/after 1 July 2014

- Amendment to MFRS 132 'Financial Instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of "currently has a legally enforceable right of set-off" that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.
- The Amendment to MFRS 136 'Recoverable Amount Disclosures for Non-Financial Assets' (effective from 1 January 2014) introduces new disclosure requirements when impairment losses are recognised, or reversed, in relation to an asset or a group of assets. The adoption of this Amendment will require more extensive disclosures on recoverable amounts including the basis by which recoverable amounts have been determined.
- Amendments to MFRS 139 'Financial Instruments: Recognition and Measurement' – Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014) provide relief from discontinuing hedge accounting in a situation where a derivative (which has been designated as a hedging instrument) is novated to effect clearing with a central counterparty as a result of laws or regulation, subject to meeting the following criteria - the parties to the hedging instrument agree that the central counterparty replaces the original counterparty, other changes to the hedging instrument are limited to those that are necessary to effect replacement of the counterparty.
- IC Interpretation 21, 'Levies' (effective from 1 January 2014) sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation clarifies that a liability to pay a levy is recognised when the obligating event occurs. Obligating event is the event identified by the legislation that triggers the payment of the levy.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

Effective date yet to be determined by MASB

- MFRS 9 Financial Instruments "Classification and Measurement of Financial Assets and Financial Liabilities" will replace MFRS 139 "Financial Instruments: Recognition and Measurement". MFRS 9 has two measurement categories - amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 Financial Instruments "Hedge Accounting" brings into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. The revised standard establishes a more principle-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in MFRS 139.

The Company is reviewing the adoption of the above accounting standards, amendments to published standards and interpretation to existing standards and the potential impact to the prevailing accounting policies, and will complete the process prior to the reporting requirement deadline.

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HONG LEONG MSIG TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies

(a) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property and equipment includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised.

Repairs and maintenance costs are charged to profit or loss during the financial year in which they are incurred.

Property and equipment are depreciated on the straight line basis to write off the cost of the assets, to their residual values over their estimated useful lives, summarised as follows:

Computer equipment	5 years
Furniture & fittings, office equipment and renovation	5 years
Motor vehicles	4 years

Work-in-progress is carried at cost and is depreciated when the asset is available for use.

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each date of statement of financial position.

At each date of statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2 (f) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in profit or loss.

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HONG LEONG MSIG TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Intangible assets - computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of 5 years.

(c) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(i) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

(ii) Financial instrument categories and subsequent measurement

Financial assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), financial assets available-for-sale ("AFS"), financial assets held-to-maturity ("HTM") and loans and receivables ("LAR"). Classification of the financial assets is determined at initial recognition and relates to the purpose for which the investments were acquired.

(1) Financial assets at FVTPL

Financial assets at FVTPL comprise held-for-trading financial assets and financial assets other than held-for-trading that are designated at fair value through profit or loss.

- a) Held-for-trading financial assets are financial assets that are acquired and held principally for the purpose of selling in the short term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. This includes derivatives that are not designated for hedges.

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

- b) Financial assets other than held-for-trading that are designated at fair value are classified as such if this eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. All financial assets held in the investment-linked funds are designated at fair value through profit or loss at inception

Financial assets classified as FVTPL are subsequently measured at their fair values with fair value adjustments and realized gains or losses recognised in profit or loss of the respective funds. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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HONG LEONG MSIG TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

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

(2) AFS financial assets

AFS financial assets are non-derivative financial assets that are not classified in any of the other categories and are measured at fair value.

AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Fair value gains or losses of those financial assets are recognised directly in other comprehensive income, except for impairment losses. When these assets are derecognised, the accumulated fair value adjustments previously recognised in equity are included in profit or loss as net realised gains or losses of the respective funds.

(3) HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention or the ability to hold to maturity.

Financial assets categorised as HTM are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Gains and losses are recognised in profit or loss of respective funds when HTM financial assets are derecognised or impaired.

(4) LAR financial assets

LAR financial assets are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss of respective funds when the financial assets are derecognised or impaired, as well as through the amortisation process.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(c) Financial Instruments (continued)

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

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, or financial liabilities that are specifically designated into this category upon initial recognition.

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at fair values with the gain or loss recognised in profit or loss of respective funds.

(iii) Derecognition

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

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

(iv) Offering financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is legally enforceable rights. To offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(d) Fair value of financial instruments

The fair values of Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit or placement and accrued profit. The fair value of fixed profit or yield-bearing deposits is measured at the face value or market value, whichever is lower.

(e) Qardh

Qardh represents benevolent loan from Takaful Operator to meet deficits in participants' special accounts and shall be repaid from future surpluses from the participants' special accounts in Takaful funds.

In preparing the separate financial statements of the Takaful Operator, qardh receivable is stated at cost and at each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2.2(f) on impairment of assets.

In preparing the separate financial statements of the respective Takaful funds, qardh payable is stated at cost.

Qardh balances are eliminated in preparing the Company's statement of financial position.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment

(i) Financial assets, excluding takaful receivables

The Company assesses at each date of the statement of financial position whether a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the asset that can be reliably estimated.

(1) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss in respect of loans and other receivables and HTM financial assets carried at amortised cost has been incurred, the amount of the 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 yield. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss of the respective funds.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss of the respective funds.

(2) Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instrument of which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses are recognised in profit or loss of the respective funds and shall not be reversed.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Impairment (continued)

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

(3) Financial assets carried at fair value

In the case of investments classified as AFS, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in equity is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Impairment losses previously recognised in profit or loss for equity instruments are not reversed through the profit or loss.

(ii) Non-financial assets

At each date of statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. Impairment is measured by comparing carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows.

An impairment loss is charged to profit or loss of the respective funds immediately. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased. A reversal of such impairment loss is recognised in profit or loss of respective funds immediately.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(g) Takaful receivables

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

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in profit or loss of respective takaful funds. The Company gathers the objective evidence that a takaful receivables is impaired using the same process adopted for financial assets at amortised costs. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.2 (f).

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

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposits held at call with Islamic financial institutions with original maturities of three month or less. It excludes deposits which are held for investment purpose. The company classifies the the cash flow for the purchase and disposal of investment in financial asset in its operating cash flows as the purchases are funded from the cash flow associated with the origination of Takaful contracts, net of the cash flow for payment of Takaful benefits and claims benefits.

(i) Taxation

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is recognised in full, using the statement of financial position method, providing for temporary differences arising between the carrying amounts of assets and liabilities for tax purpose. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantively enacted by the statement of financial position date are used to determine deferred tax.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(j) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Advisory Committee. Zakat provision is calculated based on 2.5% of net asset method, calculated on the percentage of the muslim equity of the ultimate holding company. Zakat is only provided when there is a commitment or an obligation exists as at financial year end.

(k) Management expenses, commission expenses and wakalah fee

Acquisition costs, commissions and management expenses are borne by the Family Takaful and General Takaful funds respectively in profit or loss at an agreed percentage of the gross contribution, in accordance with the principles of "Wakalah" as approved by the Company's Shariah Advisory Committee and agreed between the participants and the Company. These expenses are allocated to the Takaful Operator via upfront wakalah fee and special wakalah fee.

Upfront wakalah fee is allocated to the Takaful Operator and recognised as income upon issuance of certificates.

Special wakalah fee is the monthly tabarru' from the participants' account to the participants' special account and is deferred as a liability under "special fund reserve" in participants' special account. Special wakalah fee may be distributed to the Takaful Operator and participants in the ratio of 50:50 based on the recommendation by the Appointed Actuary when the participants' special account is in a surplus position after an annual actuarial valuation of the participants' special account at the end of the financial year.

In the event that the participants' special account is in a deficit position, the deficit in the participants' special account will be made good by the "special fund reserve" arising from monthly allocation of tabarru'/donation before the Takaful Operator via a benevolent loan or Qardh.

As at 30 June 2014, part of the "special fund reserve" was used to make good the deficit in the risk fund. There was no recommendation made by the Appointed Actuary to distribute the remaining special wakalah fee to the Takaful Operator and participants. Undistributed special wakalah fee for a particular year cannot be carried forward for distribution in a future financial year, and hence, will form part of Takaful contract liabilities in participants' special account.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(l) Expense liabilities

At each reporting date, the Company estimates its net future expenses cashflow required on the maintenance of the takaful funds in accordance with the Guidelines on Valuation Basis for Liabilities of Family and General Takaful Business issued by BNM. If the estimate shows that there is a deficiency in the net future expense cashflow, the deficiency is recognised as expense liabilities.

(m) Employee benefits

Short-term employee benefits

Wages, salaries, paid annual leave, bonuses and non-monetary benefits, which are short-term employee benefits, are accrued in the financial year in which the associated services are rendered by employees of the Company.

Post employment benefits

The Company's contributions to the national defined contribution plan, the Employees' Provident Fund, are charged to profit or loss of the respective funds in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

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

(n) Product classification

The Company on behalf of takaful funds, issues contracts that transfer takaful risk and financial risk.

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

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

Takaful contracts are those contracts that transfer significant takaful risk. A takaful contract is a contract under which the takaful operator on behalf of takaful funds has accepted significant takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the takaful event) adversely affects the participants. As a general guideline, the Company defines significant takaful risk to be the possibility of having to pay benefits on the occurrence of a takaful event that are at least 5% more than the benefits payable if the takaful event did not occur.

Investment contracts are those contracts that do not transfer significant takaful risk.

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

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

Takaful 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:

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

Surpluses in the DPF fund are distributable to participants and the Company in accordance with the relevant terms under the takaful contracts. The Company however has the discretion over the amount and timing of the distribution of these surpluses to participants, subject to the advice of the Company's Appointed Actuary. The Company does not recognise the guaranteed component separately from the DPF and the whole contract liabilities, including both guaranteed and discretionary and unallocated surplus at the end of the reporting period are held within the takaful contract liabilities.

For financial options and guarantees which are not closely related to the host takaful contract, 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, or embedded options to surrender takaful contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(n) Product classification (continued)

Takaful contracts that contain both a financial risk component and a significant takaful risk component are not unbundled and classified as takaful contracts as the current accounting policy recognises all takaful contributions, claims and benefit payments, expenses and valuation of future benefit payments, inclusive of the investment component, through the profit or loss.

(o) Retakaful contracts

Takaful funds cede takaful risk in the normal course of business for its businesses. Retakaful assets represent balances due from retakaful operators. Amounts recoverable from retakaful operators are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the retakaful's policies and are in accordance with the related retakaful contracts.

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

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

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

Contributions and claims on assumed facultative retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the ceded retakaful business. Contributions, claims and other transactions costs on assumed treaty retakaful are accounted for upon notification by the ceding companies or upon receipts of statements of accounts.

Retakaful liabilities represent balances due to retakaful operators. Amounts payable are estimated in a manner consistent with the related retakaful contract.

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

Retakaful contracts that do not transfer significant takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less an explicit identified contributions or fees to be retained by the retakaful operator.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts

Family Takaful fund

The Family Takaful fund is maintained in accordance with the requirements of the IFSA and includes the amount attributable to participants, if any. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund, and is distributed in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. Based on the terms of takaful contracts issued by the Company, no underwriting surplus is attributable to participants.

Any actuarial deficit in the Family Takaful fund will be made good by the Takaful Operator via a benevolent loan or Qardh and are being reflected as Qardh receivable in the separate financial statement of Takaful Operator and Qardh payable in the separate financial statement of Family Takaful fund.

Contribution income

Contributions include contributions recognised in the Family Takaful fund and investment linked funds.

Contributions are recognised as soon as the amount of contributions can be reliably measured. Initial contribution is recognised from inception date and subsequent contributions are recognised on due dates.

Contributions of investment-linked funds are in respect of the net creation of units which represent contributions paid by participants as payment for new certificates or subsequent payments to increase the amount of their certificate. Net creation of units is recognised on a receipt basis.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

Benefits, claims and expense

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

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

Benefits and claims arising on Family Takaful certificates, including settlement costs, are accounted for using the case basis method and for this purpose the benefits payable under a Family Takaful certificate are recognised as follows:

- (i) Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;
- (ii) Death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the participant or occurrence of contingency covered.

The benefits payable under investment-linked business are in respect of net creation of units and are recognised as surrenders.

Family Takaful contract liabilities

These liabilities comprise (i) claims liabilities, (ii) actuarial liabilities, (iii) unallocated surplus/deficit and (iv) AFS fair value adjustment.

(i) Claims liabilities

The amounts payable under a Family Takaful certificate in respect of benefits and claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(p) Family Takaful contracts (continued)

(ii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and contributions are charged.

These liabilities are measured by a prospective actuarial valuation method. The liability is determined as the sum of present value of future benefits and any expected future expenses payable from the takaful funds, less the present value of future gross tabarru arising from the certificate, discounted at the appropriate risk discount rate. The liabilities are based on best estimate assumptions and with due regard to significant recent experience. Provision of risk margin for adverse deviation ("PRAD") at 75% confidence level was made in the valuation of these liabilities.

In the case of a 1-year family takaful certificate or 1-year extension to a family takaful certificate shall be valued according to the following:

- a) For a certificate covering death or survival, the liabilities shall be valued on an unexpired risk basis using a prospective estimate of expected future payments arising from future events covered as at the valuation date.
- b) For a certificate covering contingencies other than death or survival, the liability for such family takaful certificate comprises the provision for unearned contribution and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported.

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

The liability adequacy test has been built in the estimation of actuarial liabilities and hence no separate assessment is to be carried out.

(iii) Unallocated surplus/deficits

Unallocated surplus represents the remaining underwriting surplus in the participants' special account that may be distributed to the Takaful Operator and participants upon recommendation by the Appointed Actuary, plus the remaining balance of special fund reserves as set out in note 2.2(k). Unallocated surplus is reported as a separate component of the takaful contract liabilities in Family Takaful fund.

Unallocated deficits represents accumulated deficit in the Family Takaful fund. This is reported as accumulated losses in Family Takaful fund and the Company's equity in the statements of financial position.

(iv) AFS fair value adjustment

Where unrealised gain or losses arise on AFS financial assets of the Family Takaful fund, the adjustment to the takaful contract liabilities equal to the effect that the realisation of those gain or losses at the end of the reporting period would have had on those liabilities is recognised directly in other comprehensive income.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts

General Takaful fund

The General Takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 which is subsequently replaced by IFSA and consists of participants' account and participants' special account.

Any deficit in the participants' special account will be made good by the Takaful Operator via a benevolent loan or Qardh and are being reflected as Qardh receivable in the Shareholders' fund and Qardh payable in the General Takaful fund.

Contribution income

Contributions are recognised in a financial year in respect of risks assumed during that particular financial year. Contributions 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 raised as of the balance sheet date are accrued at that date.

Claims and expenses

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liabilities for compensation owed to certificate holders or third parties damaged by the certificated holders. They include direct and indirect claims settlements 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.

General Takaful contracts liabilities

General Takaful contracts liabilities are recognised when contracts are entered into and contributions are charged. These liabilities comprise of (i) contribution liabilities, (ii) claims liabilities, (iii) participants' account, (iv) AFS fair value adjustment and (v) unallocated surplus/deficits. Provision of risk margin for adverse deviation ("PRAD") at 75% confidence level was made in the valuation of these liabilities.

(i) Contribution liabilities

The contribution liabilities refer to the higher of:

- a) the aggregate of the provision for unearned contribution reserves ("UCR") or
- b) the best estimate value of the provision for unexpired risk ("URR") at the valuation date and the PRAD calculated at the total fund level. The URR for each class of business is estimated as the adjusted net UCR multiplied by a selected Ultimate Loss Ratio ("ULR"). In general, the ULR is the average of the three most recent loss years' ULR, with the exception of the Motor Non-Act and Fire classes of business. For Motor Non Act, the ULR for the loss year 2012 was excluded given the high loss ratio, whilst for Fire a ULR of 30% was adopted to reflect the expected higher mix of commercial risks in the future Fire portfolio.

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2 **SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

(i) Contribution liabilities (continued)

UCR represent the portion of net contributions of takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year. In determining the UCR at date of statement of financial position, the method that most accurately reflects the actual unearned contributions is used as follows:

- (1) 25% method for Malaysian cargo certificates.
- (2) 1/365th method for all other classes of General Takaful business within Malaysia, reduced by the corresponding percentage of accounted wakalah fee not exceeding the limits specified by BNM.
- (3) Time apportionment method for non-annual certificates with certificate cover period of more than one year, reduced by the corresponding percentage of accounted wakalah fee to the corresponding contribution, not exceeding the limits specified by BNM.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned contribution. If these estimates show that the carrying amount of the unearned contribution less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

The liability adequacy test has been built in the estimation of contribution liabilities and hence no separate assessment is to be carried out.

(ii) Claims liabilities

Claims liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of the statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The liability adequacy test has been built in the estimation of claims liabilities and hence no separate assessment is to be carried out.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(q) General Takaful contracts (continued)

(iii) Participants' account

Participants' account comprise of participants' investment account and participants' special account.

Participants' investment account represents the proportion of contributions set aside for the purpose of investment. Participants' special account represents the accumulated participants' share in the net surplus of the General Takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. In the event of actuarial deficit, participants' special account represents accumulated actuarial deficits in the participants' special account and will be made good by the Takaful Operator via a benevolent loan or Qardh payable.

(iv) AFS fair value adjustment

Where unrealised gain or losses arise on AFS financial assets of the Family Takaful fund, the adjustment to the takaful contract liabilities equal to the effect that the realisation of those gain or losses at the end of the reporting period would have had on those liabilities is recognised directly in other comprehensive income.

(v) Unallocated surplus/deficits

Unallocated surplus represents remaining underwriting surplus after repayment of Qardh, where a certain percentage of it may be set aside as contingency reserves and the remaining may be donated to the charitable organizations subject to the approval of Shariah Advisory Committee. Unallocated surplus is reported as a separate component of the takaful contract liabilities in General Takaful fund.

Unallocated deficits represents accumulated deficit in the General Takaful fund. This is reported as accumulated losses in General Takaful fund's and the Company's equity in the statements of financial position.

(r) Other revenue recognition

Investment income is recognised on a time proportion basis taking into account the effective yield of the asset.

Investment profit of Family Takaful and General Takaful funds is shared by the participants and the Takaful Operator at an agreed percentage, in accordance with the principles of Mudharabah basis as approved by the Company's Shariah Committee and agreed between the participants and the Company.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(s) Foreign currencies

(i) Functional and presentation currencies

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency translations are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting in the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of respective funds.

(t) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(u) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the current best estimate.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions

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

(a) Critical judgements made in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

(b) Key sources of estimation uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

(i) Claims liabilities of General Takaful business

For the financial year ended 30 June 2014, the claims estimates have been computed by an independent actuarial firm, Actuarial Partners Consulting Sdn Bhd ("Actuarial Partners"). Actuarial Partners had considered the Bornhuetter-Ferguson method on a paid claims basis for the claims estimates for all classes of business. The paid claims basis is chosen given the relative stability in the paid claims pattern as compared to the incurred claims pattern.

Bornhuetter-Ferguson method is an extension of the Link Ratio method, where claims patterns experienced in the past is used to project the patterns for future years. As the projected ultimate claims estimated by the Link Ratio method for the more recent development years can be unreliable, Ultimate Loss Ratio ("ULR") is selected where appropriate and incorporated into the projection under Bornhuetter-Ferguson method. The selection is based on the resultant loss ratios from the Link Ratio method, taking into consideration of historical experience, industry loss ratios as well as the claims incurred to-date ratios.

For prudence, any negative IBNR arising from all classes are not recognized.

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2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Significant accounting judgements, estimates and assumptions (continued)

(b) Key sources of estimation uncertainty and assumptions (continued)

(ii) Actuarial liabilities for Family Takaful fund

Actuarial liabilities as determined by the annual actuarial valuation are based on the Takaful Act, 1984 which is subsequently replaced by IFSA.

For Family Takaful plans, the actuarial liabilities are determined by the Company's Appointed Actuary and were set up based on the unearned contribution reserve basis in which the proportion is equivalent to the ratio of the period from the valuation date to the period of next Tabarru' dripping period and the period of cover provided by risk charges recognised.

The following methodology is used in determining the unearned contribution reserve:

For long term liabilities, the cash flow reserves are set up for mortality benefits on a best estimate basis, which results in reserves being equal to a proportion of the risk charges, for unexpired risk or unearned contribution. Cash flow reserves for future expenses are not set up as management expenses and commissions are paid from the Takaful Operator.

Details of key assumptions used and the sensitivity analysis are shown in Note 29(a).

(iii) Retakaful Contract with a foreign retakaful operator ("RTO")

As at 30 June 2014, the Company is still undergoing a dispute with the RTO on the termination of the treaty arrangement for certain family takaful products. The total amount receivable from the RTO as at 30 June 2014 was RM2,680,000, which has been provided for in the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

3 PROPERTY AND EQUIPMENT

Takaful Operator/Company

	Computer equipment RM'000	Furniture & fittings, office equipment and renovation RM'000	Motor vehicles RM'000	Work-in- progress RM'000	Company RM'000
<u>Cost</u>					
At 1 July 2012	672	579	782	143	2,176
Additions	51	45	-	-	96
Reclasss to/(from)	-	105	-	(105)	-
Disposal	-	-	(274)	-	(274)
Adjustment	(11)	-	-	(38)	(49)
At 30 June 2013/1 July 2013	712	729	508	-	1,949
Additions	1,166	181	-	-	1,347
Written off	(72)	-	-	-	(72)
At 30 June 2014	<u>1,806</u>	<u>910</u>	<u>508</u>	<u>-</u>	<u>3,224</u>
<u>Accumulated depreciation</u>					
At 1 July 2012	494	97	163	-	754
Charge for the financial year	59	135	53	-	247
Disposal	-	-	(132)	-	(132)
At 30 June 2013/1 July 2013	553	232	84	-	869
Charge for the financial year	187	165	58	-	410
Written off	(72)	-	-	-	(72)
At 30 June 2014	<u>668</u>	<u>397</u>	<u>142</u>	<u>-</u>	<u>1,207</u>
<u>Net book value</u>					
At 30 June 2013	<u>159</u>	<u>497</u>	<u>424</u>	<u>-</u>	<u>1,080</u>
At 30 June 2014	<u>1,138</u>	<u>513</u>	<u>366</u>	<u>-</u>	<u>2,017</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

4 INTANGIBLE ASSETS

Takaful Operator/Company

	Computer software RM'000	Work-in- progress RM'000	Company RM'000
<u>Cost</u>			
At 1 July 2012	2,622	-	2,622
Additions	1,316	-	1,316
Adjustment	(6)	-	(6)
At 30 June 2013/ 1 July 2013	3,932	-	3,932
Additions	169	3,281	3,450
At 30 June 2014	4,101	3,281	7,382
<u>Accumulated amortisation</u>			
At 1 July 2012	2,405	-	2,405
Amortisation charge for the financial year	211	-	211
Adjustment	-	-	-
At 30 June 2013/ 1 July 2013	2,616	-	2,616
Amortisation charge for the financial year	327	-	327
At 30 June 2014	2,943	-	2,943
<u>Net book value</u>			
At 30 June 2013	1,316	-	1,316
At 30 June 2014	1,158	3,281	4,439

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NOTES TO THE FINANCIAL STATEMENTS
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5 FINANCIAL ASSETS

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
Government Investment Issues	2,609	-	7,826	10,435
Islamic bonds	66,534	30,093	94,210	190,837
Equity securities	6,200	6,866	12,893	25,959
Investments in investment-linked funds	4,910	-	-	-
Structured investments	-	-	4,024	4,024
Accrued profit	633	277	973	1,883
Total	80,886	37,236	119,926	233,138
<u>30 June 2013</u>				
Government Investment Issues	-	1,513	13,619	15,132
Islamic bonds	61,755	17,869	38,540	118,164
Equity securities	5,690	4,663	6,457	16,810
Unit Trusts	211	-	-	211
Investments in investment-linked funds	4,753	-	-	-
Structured investments	-	-	28,215	28,215
Accrued profit	581	148	692	1,421
Total	72,990	24,193	87,523	179,953

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

(a) The Company's financial assets are summarised as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
AFS	80,886	37,236	103,694	216,906
FVTPL	-	-	16,232	16,232
Total	80,886	37,236	119,926	233,138
Current	3,642	277	2,980	6,899
Non-current	77,244	36,959	116,946	226,239
	80,886	37,236	119,926	233,138
i) AFS				
Government Investment Issues	2,609	-	6,783	9,392
Islamic bonds	66,534	30,093	85,460	182,087
Equity securities quoted in Malaysia	6,200	6,866	10,541	23,607
Investments in investment-linked funds	4,910	-	-	-
Accrued profit	633	277	910	1,820
Total	80,886	37,236	103,694	216,906
ii) FVTPL				
Government Investment Issues	-	-	1,043	1,043
Islamic bonds	-	-	8,750	8,750
Equity securities quoted in Malaysia	-	-	2,352	2,352
Structured investments	-	-	4,024	4,024
Accrued profit	-	-	63	63
Total	-	-	16,232	16,232

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

5 **FINANCIAL ASSETS (CONTINUED)**

(a) The Company's financial assets are summarised as follows: (continued)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2013</u>				
AFS	72,990	24,193	52,520	144,950
FVTPL	-	-	35,003	35,003
Total	<u>72,990</u>	<u>24,193</u>	<u>87,523</u>	<u>179,953</u>
Current	12,199	664	26,465	39,328
Non-current	<u>60,791</u>	<u>23,529</u>	<u>61,058</u>	<u>140,625</u>
	<u>72,990</u>	<u>24,193</u>	<u>87,523</u>	<u>179,953</u>
i) AFS				
Government Investment Issues	-	1,513	13,115	14,628
Islamic bonds	61,755	17,869	33,327	112,951
Equity securities quoted in Malaysia	5,690	4,663	5,429	15,782
Unit Trusts	211	-	-	211
Investments in investment-linked funds	4,753	-	-	-
Accrued profit	581	148	649	1,378
Total	<u>72,990</u>	<u>24,193</u>	<u>52,520</u>	<u>144,950</u>
ii) FVTPL				
Government Investment Issues	-	-	504	504
Islamic bonds	-	-	5,213	5,213
Equity securities quoted in Malaysia	-	-	1,028	1,028
Structured investments	-	-	28,215	28,215
Accrued profit	-	-	43	43
Total	<u>-</u>	<u>-</u>	<u>35,003</u>	<u>35,003</u>

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

(b) Carrying values of financial investments

				AFS	FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
At 1 July 2012	67,146	8,530	32,054	103,163	57,248
Purchases	19,457	19,574	27,119	65,150	4,221
Maturities	(3,000)	(600)	(1,000)	(4,600)	(24,046)
Disposals	(11,687)	(3,999)	(6,649)	(21,435)	(1,708)
Fair value (losses)/gains recorded in:					
Profit or loss					
- Unrealised gains	-	-	-	-	692
- Movement in impairment allowance	(90)	-	-	(90)	-
Other comprehensive income	1,219	663	854	2,550	-
Realised gains	(251)	(55)	(86)	(292)	-
Accretion/(amortisation) – net	(11)	(10)	-	(21)	-
Movement in accrued profit	207	90	228	525	20
Foreign exchange	-	-	-	-	(1,424)
At 30 June 2013/1 July 2013	72,990	24,193	52,520	144,950	35,003
Purchases	43,208	25,048	106,640	174,896	8,126
Maturities	(2,536)	(412)	-	(2,948)	(24,659)
Disposals	(31,461)	(12,359)	(55,612)	(99,432)	(2,271)
Fair value (losses)/gains recorded in:					
Profit or loss					
- Unrealised gains	-	-	-	-	223
- Movement in impairment allowance	-	(37)	(37)	(74)	-
Other comprehensive income	(610)	1,082	673	988	-
Realised gains	(717)	(397)	(733)	(1,847)	-
Accretion/(amortisation) – net	(40)	(11)	(18)	(69)	-
Movement in accrued profit	52	129	261	442	20
Foreign exchange	-	-	-	-	(210)
At 30 June 2014	80,886	37,236	103,694	216,906	16,232

As at 30 June 2014, impairment losses of impaired available-for-sale financial assets for the financial year is nil (2013: impairment provision of impaired available-for-sale financial assets of RM324,900 is RM89,700). A reconciliation of the allowance for impairment losses for available-for-sale financial assets is as follows:

	Takaful Operator/Company	
	2014	2013
	RM'000	RM'000
At 1 July	573	483
Charge for the financial year	-	90
At 30 June	573	573

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

5 **FINANCIAL ASSETS (CONTINUED)**

(c) Fair value hierarchy

The table below shows the financial assets recorded at fair value by their valuation method.

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				AFS	FVTPL
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Family Takaful Fund/ Company RM'000
<u>30 June 2014</u>					
Level 1	11,110	6,866	10,541	23,607	2,352
Level 2	69,776	30,370	93,153	193,299	13,880
Level 3	-	-	-	-	-
	<u>80,886</u>	<u>37,236</u>	<u>103,694</u>	<u>216,906</u>	<u>16,232</u>
<u>30 June 2013</u>					
Level 1	10,654	4,663	5,429	15,993	1,028
Level 2	62,336	19,530	47,091	128,957	33,975
Level 3	-	-	-	-	-
	<u>72,990</u>	<u>24,193</u>	<u>52,520</u>	<u>144,950</u>	<u>35,003</u>

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NOTES TO THE FINANCIAL STATEMENTS
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6 LOANS AND RECEIVABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
Fixed and cash deposits with licensed financial institutions	-	676	6,672	7,348
Accrued profit	-	7	48	55
	<u>-</u>	<u>683</u>	<u>6,720</u>	<u>7,403</u>
<u>30 June 2013</u>				
Fixed and cash deposits with licensed financial institutions	-	664	18,363	19,027
Accrued profit	-	7	207	214
	<u>-</u>	<u>671</u>	<u>18,570</u>	<u>19,241</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

7 RETAKAFUL ASSETS

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>			
Retakaful of Takaful contracts	<u>72,340</u>	<u>30,511</u>	<u>102,851</u>
<u>30 June 2013</u>			
Retakaful of Takaful contracts	<u>69,242</u>	<u>15,526</u>	<u>84,768</u>

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NOTES TO THE FINANCIAL STATEMENTS
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8 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>			
Outstanding contributions including agents, brokers and co-takaful balances	6,798	18,067	24,865
Less: Allowance for impairment	(27)	-	(27)
	<u>6,769</u>	<u>18,067</u>	<u>24,836</u>
Amount due from retakaful operators	1,798	5,779	7,577
Less: Allowance for impairment	-	(2,680)	(2,680)
	<u>1,798</u>	<u>3,099</u>	<u>4,897</u>
	<u>8,567</u>	<u>21,166</u>	<u>29,733</u>
Gross amounts of recognised financial assets	9,498	31,871	41,369
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(931)	(10,705)	(11,636)
Net amounts of financial assets presented in the statement of financial position	<u>8,567</u>	<u>21,166</u>	<u>29,733</u>
<u>30 June 2013</u>			
Outstanding contributions including agents, brokers and co-takaful balances	6,751	2,357	9,108
Less: Allowance for impairment	(2,816)	(89)	(2,905)
	<u>3,935</u>	<u>2,268</u>	<u>6,203</u>
Amount due from retakaful operators	640	2,989	3,629
Less: Allowance for impairment	(360)	-	(360)
	<u>280</u>	<u>2,989</u>	<u>3,269</u>
	<u>4,215</u>	<u>5,257</u>	<u>9,472</u>
Gross amounts of recognised financial assets	8,129	10,462	18,591
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(3,914)	(5,205)	(9,119)
Net amounts of financial assets presented in the statement of financial position	<u>4,215</u>	<u>5,257</u>	<u>9,472</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

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NOTES TO THE FINANCIAL STATEMENTS
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9 OTHER RECEIVABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
Dividend receivables	15	6	16	37
Due from General Takaful Fund	1,106	-	42	-
Due from Family Takaful Fund	425	-	-	-
Other receivables	1,256	1,470	1,259	3,985
	<u>2,802</u>	<u>1,476</u>	<u>1,317</u>	<u>4,022</u>
<u>30 June 2013</u>				
Dividend receivables	22	11	21	54
Due from General Takaful Fund	5,177	-	505	-
Due from Family Takaful Fund	3,114	-	-	-
Other receivables	780	1,002	241	2,023
	<u>9,093</u>	<u>1,013</u>	<u>767</u>	<u>2,077</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
Cash and bank balances	1,705	6,358	5,076	13,139
Short term deposits	8,141	4,334	8,689	21,164
Accrued profit	1	-	1	2
	<u>9,847</u>	<u>10,692</u>	<u>13,766</u>	<u>34,305</u>
<u>30 June 2013</u>				
Cash and bank balances	1,580	2,815	7,065	11,460
Short term deposits	14,016	22,410	27,872	64,298
Accrued profit	5	13	11	29
	<u>15,601</u>	<u>25,238</u>	<u>34,948</u>	<u>75,787</u>

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NOTES TO THE FINANCIAL STATEMENTS
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11 TAKAFUL CONTRACT LIABILITIES

Note	30.06.2014			30.06.2013		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
Family Takaful	173,758	(30,511)	143,247	153,534	(15,526)	138,008
General Takaful	120,317	(72,340)	47,977	113,278	(69,242)	44,036
	294,075	(102,851)	191,224	266,812	(84,768)	182,044
Elimination of investment in investment-linked funds	(4,910)	-	(4,910)	(4,753)	-	(4,753)
Total Company	289,165	(102,851)	191,224	262,059	(84,768)	177,291

(a) Family Takaful contract liabilities

The Family Takaful contract liabilities and its movements are further analysed as follows:

	30.06.2014			30.06.2013		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
Certificateholders' liabilities	151,603	(25,364)	126,239	112,544	(12,766)	99,778
Net asset value attributable to certificateholders	14,313	-	14,313	33,567	-	33,567
Actuarial liabilities (i)	165,916	(25,364)	140,552	146,111	(12,766)	133,345
Claims liabilities	5,844	(5,147)	697	3,098	(2,760)	338
Unallocated surplus (ii)	740	-	740	3,012	-	3,012
AFS fair value adjustment (iii)	1,258	-	1,258	1,313	-	1,313
	173,758	(30,511)	143,247	153,534	(15,526)	138,008

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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful contract liabilities (continued)

(i) Actuarial liabilities

	Gross RM'000	Re-takaful RM'000	Net RM'000
At 1 July 2012	143,313	(14,231)	129,082
Change in certificate liabilities	26,233	1,465	27,698
Movement in net asset value attributable to certificateholders	<u>(23,435)</u>	<u>-</u>	<u>(23,435)</u>
At 30 June 2013/1 July 2013	146,111	(12,766)	133,345
Change in certificate liabilities	39,059	(12,598)	26,461
Movement in net asset value attributable to certificateholders	<u>(19,254)</u>	<u>-</u>	<u>(19,254)</u>
At 30 June 2014	<u>165,916</u>	<u>(25,364)</u>	<u>140,552</u>

	Gross/Net	
	2014 RM'000	2013 RM'000
(ii) Unallocated surplus		
At 1 July	3,012	-
(Deficits)/surplus during the financial year	<u>(2,272)</u>	<u>3,012</u>
At 30 June	<u>740</u>	<u>3,012</u>
(iii) AFS fair value adjustment		
At 1 July	1,313	606
Net fair value change during the financial year	<u>(55)</u>	<u>707</u>
At 30 June	<u>1,258</u>	<u>1,313</u>

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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities

The General Takaful contract liabilities and its movements are further analysed as follows:

	30.06.2014			30.06.2013		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
Provision for claims reported by certificateholders	49,845	(38,703)	11,142	40,716	(28,106)	12,610
Provision for IBNR	39,972	(23,865)	16,107	35,262	(19,791)	15,471
Provision for outstanding claims (i)	89,817	(62,568)	27,249	75,978	(47,897)	28,081
Unearned contribution reserve (ii)	20,743	(9,772)	10,971	34,798	(21,345)	13,453
AFS fair value adjustment (iii)	1,041	-	1,041	527	-	527
Participants' account (iv)	1,711	-	1,711	1,975	-	1,975
Unallocated surplus (v)	7,005	-	7,005	-	-	-
	120,317	(72,340)	47,977	113,278	(69,242)	44,036

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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities (continued)

The General Takaful contract liabilities and its movements are further analysed as follows:

	2014			2013		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
(i) Provision for outstanding claims						
At 1 July	75,978	(47,897)	28,081	45,059	(27,330)	17,729
Claims incurred in the current accident year	51,089	(37,809)	13,280	46,842	(28,040)	18,802
Other movements in claims incurred in prior accident year	(18,161)	11,346	(6,815)	(3,761)	834	(2,927)
Claims paid during the financial year	(19,089)	11,792	(7,297)	(12,162)	6,639	(5,523)
At 30 June	89,817	(62,568)	27,249	75,978	(47,897)	28,081

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11 **TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

(b) General Takaful contract liabilities (continued)

The General Takaful contract liabilities and its movements are further analysed as follows:

	2014			2013		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
(ii) Unearned contribution reserve						
At 1 July	34,798	(21,345)	13,453	40,201	(24,479)	15,722
Contribution written in the financial year	45,122	(18,391)	26,731	53,095	(26,403)	26,692
Contribution earned during the financial year	(59,177)	29,964	(29,213)	(58,498)	29,537	(28,961)
At 30 June	<u>20,743</u>	<u>(9,772)</u>	<u>10,971</u>	<u>34,798</u>	<u>(21,345)</u>	<u>13,453</u>

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11 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful contract liabilities (continued)

	Gross/Net	
	2014	2013
	RM'000	RM'000
(iii) AFS fair value adjustment		
At 1 July	527	71
Net fair value change during the financial year	514	456
At 30 June	<u>1,041</u>	<u>527</u>
(iv) Participants' account	1,975	1,087
(Deficits)/surplus arising during the financial year	(264)	888
At 30 June	<u>1,711</u>	<u>1,975</u>
(v) Unallocated surplus	-	-
Surplus arising during the financial year	7,005	-
	<u>7,005</u>	<u>-</u>

12 TAKAFUL PAYABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>			
Due to agents and intermediaries	2,112	65	2,177
Due to retakaful operators and cedants	3,112	14,575	17,687
	<u>5,224</u>	<u>14,640</u>	<u>19,864</u>
Gross amounts of recognised financial liabilities	6,155	25,345	31,500
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(931)	(10,705)	(11,636)
Net amounts of financial assets presented in the statement of financial position	<u>5,224</u>	<u>14,640</u>	<u>19,864</u>

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12 TAKAFUL PAYABLES (CONTINUED)

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2013</u>			
Due to agents and intermediaries	3,502	-	3,502
Due to retakaful operators and cedants	2,267	2,366	4,633
	<u>5,769</u>	<u>2,366</u>	<u>8,135</u>
<u>30 June 2013</u>			
Gross amounts of recognised financial liabilities	9,683	7,571	17,254
Less: Gross amounts of recognised financial assets set off in the statement of financial position	(3,914)	(5,205)	(9,119)
Net amounts of financial assets presented in the statement of financial position	<u>5,769</u>	<u>2,366</u>	<u>8,135</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

13 EXPENSE LIABILITIES

Takaful Operator/Company

	2014 RM'000	2013 RM'000
At the beginning of the financial year	7,784	5,614
Increase during the financial year	204	2,170
At end of the financial year	<u>7,988</u>	<u>7,784</u>

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14 OTHER PAYABLES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>30 June 2014</u>				
Contribution deposits	-	29	1,248	1,277
Amount due to Takaful Operator	-	1,106	425	-
Amount due to Family Takaful Fund	-	42	-	-
Sundry payables and accruals	7,379	1,049	1,541	9,969
	<u>7,379</u>	<u>2,226</u>	<u>3,214</u>	<u>11,246</u>
<u>30 June 2013</u>				
Contribution deposits	-	107	1,139	1,246
Amount due to General Takaful Fund	-	5,177	3,114	-
Amount due to Family Takaful Fund	-	505	-	-
Sundry payables and accruals	6,970	145	1,273	8,388
	<u>6,970</u>	<u>5,934</u>	<u>5,526</u>	<u>9,634</u>

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15 DEFERRED TAX ASSETS/(LIABILITIES)

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

The following amounts, determined after appropriate offsets, are shown in the statements of financial position.

The movements in deferred tax balances are as follows:

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 July 2012	274	522	(392)	404
Recognised in:				
Profit or loss	1,172	(404)	260	1,028
Other comprehensive income	(242)	(152)	(61)	(455)
At 30 June 2013/1 July 2013	1,204	(34)	(193)	977
Recognised in:				
Profit or loss	(684)	(124)	26	(782)
Other comprehensive income	331	(171)	5	165
At 30 June 2014	851	(329)	(162)	360

Presented after appropriate offsetting as follows:

30 June 2014

Deferred tax liabilities	(1,305)	(347)	(169)	(1,821)
Deferred tax assets	2,156	18	7	2,181
	851	(329)	(162)	360

30 June 2013

Deferred tax liabilities	(1,285)	(176)	(193)	(1,654)
Deferred tax assets	2,489	142	-	2,631
	1,204	(34)	(193)	977

30 June 2014

Current	139	7	(1)	(1,821)
Non-current	712	(336)	(161)	2,181
	851	(329)	(162)	360

30 June 2013

Current	400	3	-	(1,654)
Non-current	804	(37)	(193)	2,631
	1,204	(34)	(193)	977

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15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

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

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Unutilised tax loss and capital allowance RM'000	Payables RM'000	Total RM'000
<u>Takaful Operator</u>						
At 1 July 2012	(133)	(673)	-	-	1,080	274
Recognised in:						
Profit or loss	(236)	119	-	-	1,289	1,172
Other comprehensive income	-	(242)	-	-	-	(242)
At 30 June 2013/1 July 2013	(369)	(796)	-	-	2,369	1,204
Recognised in:						
Profit or loss	(354)	(100)	-	-	(230)	(684)
Other comprehensive income	-	331	-	-	-	331
At 30 June 2014	(723)	(565)	-	-	2,139	851
<u>General Takaful Fund</u>						
At 1 July 2012	-	(24)	546	-	-	522
Recognised in:						
Profit or loss	-	-	(404)	-	-	(404)
Other comprehensive income	-	(152)	-	-	-	(152)
At 30 June 2013/1 July 2013	-	(176)	142	-	-	(34)
Recognised in:						
Profit or loss	-	11	(135)	-	-	(124)
Other comprehensive income	-	(171)	-	-	-	(171)
At 30 June 2014	-	(336)	7	-	-	(329)

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15 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property and equipment RM'000	Financial assets RM'000	Takaful receivables RM'000	Unutilised tax loss and capital allowance RM'000	Payables RM'000	Total RM'000
<u>Family Takaful Fund</u>						
At 1 July 2012	-	(392)	-	-	-	(392)
Recognised in:						
Profit or loss	-	260	-	-	-	260
Other comprehensive income	-	(61)	-	-	-	(61)
At 30 June 2013/1 July 2013	-	(193)	-	-	-	(193)
Recognised in:						
Profit or loss	-	26	-	-	-	26
Other comprehensive income	-	5	-	-	-	5
At 30 June 2014	-	(162)	-	-	-	(162)
<u>Company</u>						
At 1 July 2012	(133)	(1,089)	546	-	1,080	404
Recognised in:						
Profit or loss	(236)	379	(404)	-	1,289	1,028
Other comprehensive income	-	(455)	-	-	-	(455)
At 30 June 2013/1 July 2013	(369)	(1,165)	142	-	2,369	977
Recognised in:						
Profit or loss	(354)	(63)	(135)	-	(230)	(782)
Other comprehensive income	-	165	-	-	-	165
At 30 June 2014	(723)	(1,063)	7	-	2,139	360

As at 30 June 2014, there was no unutilised tax losses for which no deferred tax asset is recognised in the statement of financial position (2013: Nil) due to the unavailability of future taxable profits in the Takaful Operator.

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16 SHARE CAPITAL

Takaful Operator/Company

	30.06.2014		30.06.2013	
	No. of shares '000	RM'000	No. of shares '000	RM'000
Ordinary shares of RM 1.00 each				
Authorised:				
At beginning/end of financial year	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid				
At beginning/end of financial year	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

17 INVESTMENT INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
<u>AFS financial assets</u>				
Profit income	2,952	966	2,844	6,762
Accretion of discounts/(amortisation of premiums) - net	(40)	(11)	(18)	(69)
Dividend income	202	224	302	728
<u>FVTPL</u>				
Profit income	-	-	289	289
Dividend income	-	-	41	41
<u>Loans and receivables</u>				
Profit income	27	37	412	476
<u>Cash and cash equivalents</u>				
Profit income	<u>386</u>	<u>361</u>	<u>648</u>	<u>1,395</u>
	3,527	1,577	4,518	9,622
Less: Share of investment profit of takaful funds with Takaful Operator	<u>-</u>	<u>-</u>	<u>(472)</u>	<u>-</u>
	<u>3,527</u>	<u>1,577</u>	<u>4,046</u>	<u>9,622</u>

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17 INVESTMENT INCOME (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2013</u>				
<u>AFS financial assets</u>				
Profit income	2,769	569	1,822	5,160
Accretion of discounts/(amortisation of premiums) - net	(11)	(10)	-	(21)
Dividend income	271	75	182	528
<u>FVTPL</u>				
Profit income	-	-	2,075	2,075
Dividend income	-	-	16	16
<u>Loans and receivables</u>				
Profit income	152	178	555	885
<u>Cash and cash equivalents</u>				
Profit income	522	470	434	1,426
	3,703	1,282	5,084	10,069
Less: Share of investment profit of takaful funds with Takaful Operator	-	(107)	(325)	-
	<u>3,703</u>	<u>1,175</u>	<u>4,759</u>	<u>10,069</u>

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18 REALISED GAINS/(LOSSES)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
<u>AFS financial assets</u>				
Quoted equity	389	350	625	1,364
Government Investment Issues	-	36	123	159
Islamic bond	217	11	(15)	213
Unit Trusts	111	-	-	111
<u>FVTPL</u>				
Government Investment Issues	-	-	3	3
Islamic bond	-	-	(10)	(10)
Structured investments	-	-	1,177	1,177
	<u>717</u>	<u>397</u>	<u>1,903</u>	<u>3,017</u>
<u>2013</u>				
<u>AFS financial assets</u>				
Quoted equity	63	44	37	144
Government Investment Issues	(7)	-	-	(7)
Islamic bond	95	11	49	155
Investment Linked Fund	100	-	-	-
<u>FVTPL</u>				
Quoted equity	-	-	12	12
Government Investment Issues	-	-	(28)	(28)
Islamic bond	-	-	(3)	(3)
Structured investments	-	-	126	126
	<u>251</u>	<u>55</u>	<u>193</u>	<u>399</u>

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19 FAIR VALUE (LOSSES)/GAINS

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
Impairment of AFS financial assets	-	(37)	(37)	(74)
Fair value gains on financial assets at fair value through profit or loss	-	-	223	223
	<u>-</u>	<u>(37)</u>	<u>186</u>	<u>149</u>
<u>2013</u>				
Impairment of AFS financial assets	(90)	-	-	(90)
Fair value gains on financial assets at fair value through profit or loss	-	-	692	692
	<u>(90)</u>	<u>-</u>	<u>692</u>	<u>602</u>

20 OTHER OPERATING INCOME

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
Write back of impairment loss on takaful receivables	914	2,235	-	3,149
Other income	846	-	1,849	1,886
	<u>1,760</u>	<u>2,235</u>	<u>1,849</u>	<u>5,035</u>
<u>2013</u>				
Write off of retakaful payable	-	1,390	-	1,390
Write back of impairment loss on takaful receivables	-	1,207	-	1,207
Other income	781	30	-	69
	<u>781</u>	<u>2,627</u>	<u>-</u>	<u>2,666</u>

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21 **MANAGEMENT EXPENSES**

	2014 RM'000	2013 RM'000
<u>Takaful Operator /Company</u>		
Staff costs:		
Salary and bonus	8,963	9,656
Social security costs	64	67
Employees' provident fund	1,395	1,452
Other staff related expenses	472	348
Directors' fees	272	340
Shariah committee remuneration and other expenses	178	180
Depreciation of property and equipment (Note 3)	410	247
Amortisation of intangible assets (Note 4)	327	211
Auditors' remuneration:		
Audit related services		
- current financial year	282	230
- under provision in prior financial year	29	21
Non-audit related services	36	36
Other professional fee	1,314	716
Rental of properties	957	1,013
Shared services fee	1,330	(88)
Loss on disposal of property and equipment	-	9
Other expenses	6,039	6,933
Total	22,068	21,371

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM 1,061,596 (2013: RM 451,905).

Included in the staff costs are the remuneration for key management personnel, which is disclosed in Note 27.

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22 OTHER OPERATING EXPENSES

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
Write off of takaful receivables	(910)	(1,295)	-	(2,205)
Impairment of takaful receivables	-	-	(2,591)	(2,591)
Expense liabilities	(204)	-	-	(204)
Others	-	(75)	(918)	(184)
	<u>(1,114)</u>	<u>(1,370)</u>	<u>(3,509)</u>	<u>(5,184)</u>
<u>2013</u>				
Impairment of takaful receivables	(222)	-	(72)	(294)
Expense liabilities	(2,170)	-	-	(2,170)
Others	-	(120)	(3,105)	(2,483)
	<u>(2,392)</u>	<u>(120)</u>	<u>(3,177)</u>	<u>(4,947)</u>

23 TAXATION

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
Current tax :				
- In respect of current financial year	-	3,331	558	3,889
- Under provision in prior financial years	129	12	110	251
Deferred tax	<u>684</u>	<u>124</u>	<u>(26)</u>	<u>782</u>
	<u>813</u>	<u>3,467</u>	<u>642</u>	<u>4,922</u>
<u>2013</u>				
Current tax :				
- In respect of current financial year	-	1,356	399	1,755
- Over provision in prior financial years	(1,179)	-	(73)	(1,252)
Deferred tax	<u>(1,172)</u>	<u>404</u>	<u>(260)</u>	<u>(1,028)</u>
	<u>(2,351)</u>	<u>1,760</u>	<u>66</u>	<u>(525)</u>

The income tax for the Takaful Operator and General Takaful funds are calculated based on the tax rate of 25% (2013: 25%) of the estimated assessable profit for the financial year. The income tax for the Family Takaful fund is calculated based on tax rate of 8% (2013: 8%) of the assessable investment income net of allowable deductions for the financial year.

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23 TAXATION (CONTINUED)

The numerical reconciliation between taxation and the product of accounting profit multiplied by the Malaysian tax rate of the Company is as follows:

	2014 RM'000	2013 RM'000
Profit before taxation attributable to Takaful Operator	<u>2,711</u>	<u>899</u>
Taxation at Malaysian statutory rate of 25% (2013: 25%)	678	225
Income not subject to tax	(1,365)	(1,534)
Expenses not deductible for tax purposes	1,371	137
Tax expense attributable to participants	4,109	1,826
Under/(over) provision in prior financial years	<u>129</u>	<u>(1,179)</u>
Tax expense for the financial year	<u>4,922</u>	<u>(525)</u>

24 INVESTMENT-LINKED BUSINESS

(a) Assets and liabilities as at

	30.06.2014 RM'000	30.06.2013 RM'000
<u>Assets</u>		
Fair value through profit and loss financial assets	13,156	35,003
Other receivables	3	3
Cash and cash equivalents	<u>2,006</u>	<u>3,260</u>
Investment-linked business assets	<u>15,165</u>	<u>38,266</u>
<u>Liabilities</u>		
Deferred tax liabilities	55	79
Current tax liabilities	291	145
Amount due to Takaful Operator*	-	7
Amount due to non-investment linked Family Takaful Fund**	<u>506</u>	<u>4,468</u>
Investment-linked business liabilities	<u>852</u>	<u>4,699</u>
Net asset value of funds	<u>14,313</u>	<u>33,567</u>
Represented by:		
<u>Unitholders' account</u>		
At beginning of the financial year	33,567	57,002
Creation of units	1,556	3,415
Cancellation of units	(23,122)	(24,981)
Distribution to certificateholders	-	(1,537)
Surplus for the financial year	<u>2,312</u>	<u>(332)</u>
	<u>14,313</u>	<u>33,567</u>

* Form part of amount due to Takaful Operator in the separate financial statements of Family Takaful Fund.

** Eliminated in preparing separate financial statement of Family Takaful Fund.

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24 INVESTMENT-LINKED BUSINESS (CONTINUED)

(b) Income and expenses for the financial year ended 30 June

	2014 RM'000	2013 RM'000
Investment income	367	1,959
Realised gain on disposal of investment	1,170	107
Fair value gain on investments	179	692
Other expenses	868	(3,084)
Surplus before taxation	<u>2,584</u>	<u>(326)</u>
Taxation:		
- current tax	(296)	(267)
- deferred tax	24	261
	<u>2,312</u>	<u>(332)</u>

25 SEGMENTAL INFORMATION ON CASH FLOW

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2014</u>				
Cash flows from:				
Operating activities	(957)	(14,546)	(21,182)	(36,688)
Investing activities	(4,797)	-	-	(4,797)
	<u>(5,754)</u>	<u>(14,546)</u>	<u>(21,182)</u>	<u>(41,482)</u>
Net increase in cash and cash equivalent	(5,754)	(14,546)	(21,182)	(41,482)
Cash and cash equivalents:				
At beginning of financial year	15,601	25,238	34,948	75,787
At end of financial year	<u>9,847</u>	<u>10,692</u>	<u>13,766</u>	<u>34,305</u>
<u>2013</u>				
Cash flows from:				
Operating activities	(12,145)	3,701	(1,375)	(9,819)
Investing activities	(1,279)	-	-	(1,279)
	<u>(13,424)</u>	<u>3,701</u>	<u>(1,375)</u>	<u>(11,098)</u>
Net increase in cash and cash equivalent	(13,424)	3,701	(1,375)	(11,098)
Cash and cash equivalents:				
At beginning of financial year	29,025	21,537	36,323	86,885
At end of financial year	<u>15,601</u>	<u>25,238</u>	<u>34,948</u>	<u>75,787</u>

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26 RELATED PARTY TRANSACTIONS

The related parties of, and their relationship with the Company, are as follows:

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Company (Malaysia) Berhad	Ultimate holding company
HLA Holdings Sdn Bhd	Immediate holding company
Mitsui Sumitomo Insurance Corporation, Japan	Substantial Shareholder of the Company
Hong Leong Assurance Berhad	Subsidiary of immediate holding company
Hong Leong Bank Berhad	Subsidiary of ultimate holding company
Hong Leong Islamic Bank Berhad	Subsidiary of ultimate holding company

The Directors are of the opinion that related party transactions were entered at agreed terms and prices during normal course of business.

Significant related party transactions with related parties during the financial year are as follows:

	2014 RM'000	2013 RM'000
Transactions with companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Commission expenses	(6,247)	(5,090)
- Fund management fee	(591)	(108)
- Profit from Islamic deposits and money market placements with licensed banks	1,503	1,757
- Bank charges	(123)	(143)
- Office rental expenses	(957)	(1,013)
- Shared services fee	(1,617)	88

Companies within the Hong Leong Company (Malaysia) Berhad Group include Hong Leong Bank Berhad, Hong Leong Islamic Bank Berhad and Hong Leong Assurance Berhad where there were related party transactions.

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26 RELATED PARTY TRANSACTIONS (CONTINUED)

The related parties of, and their relationship with the Company, are as follows: (continued)

Included in the statement of financial position of the Company are significant related party balances, represented by the following:

	30.06.2014 RM'000	30.06.2013 RM'000
Amount due from/(to) other related companies within the Hong Leong Company (Malaysia) Berhad Group:		
- Bank balances	10,157	7,368
- Islamic deposits and money market placements with licensed banks (Note 6 and 10)	22,272	67,109
- Profit receivables (Note 6)	2	35
- Rental deposit included in other receivables (Note 9)	40	175
- Amount due to related companies	<u>(362)</u>	<u>(77)</u>

Amounts due to related companies are unsecured, interest free and have no fixed term of repayment.

27 KEY MANAGEMENT PERSONNEL REMUNERATION

Key management personnel are defined as those persons having authority and responsibility for the planning, directing and control of the Company's activities, either directly or otherwise. The key management personnel include all the Directors of the Company, and selected senior management members.

Key management personnel's remuneration is as follows:

	2014 RM'000	2013 RM'000
<u>Non-executive directors</u>		
Fees	<u>272</u>	<u>340</u>
<u>Key management personnel</u>		
Short term employee benefits:		
Salary and other remuneration	1,891	1,545
Defined contribution retirement plan	321	270
Benefits-in-kind/perquisite	173	187
	<u>2,385</u>	<u>2,002</u>
Total	<u>2,657</u>	<u>2,342</u>

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28 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The Company has in place a risk management framework and methodology which is adapted from the local regulatory requirements, as well as Hong Leong Bank Risk Management framework, designed to support the identification, assessment, monitoring and control of significant risks covering market risk, credit risk, operational risk and takaful risk.

The day-to-day responsibility for risk management and control is embedded into the respective business lines and the management of each business lines is responsible to ensure that risk management process is functioning effectively. Risk Management functions as an independent party that is responsible for assessing and reporting the potential impact and probability of the significant risks identified across the organisation and the adequacy of related mitigation programs.

The Integrated Risk Management keeps the Senior Management and Board of Audit & Risk Management Committee ("BARMC") abreast of material risks that require attention and action plan on a regular basis.

(b) Capital management objectives, policies and approach

Capital management risk is defined as the risk of having an insufficient capital base, which undermines execution of strategic objectives, reduces the ability of a company to cope with losses not anticipated, and reduces confidence of the market, policyholders and creditors.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital where capital resources must be managed in a way which optimises returns to Shareholders, stakeholders and meets the expectation of the regulator.

The capital management strategy of the Company is to allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of Shareholders and maintain the level of capital as required by BNM.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the pro-active measures in monitoring and managing the capital position. The report will be presented to the BARMC and Board of Directors will be updated on the stress test results.

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28 RISK MANAGEMENT FRAMEWORK

(b) Capital management objectives, policies and approach (continued)

Risk Governance Structure

The Company emphasises good and effective governance structure with three lines of defense and a healthy risk culture to provide reasonable assurance to the BARMC and Board of Directors:

- (a) First line of defense: Under the leadership of the Chief Executive Officer, all operating and business units are responsible and accountable for the effective and timely implementation of action plans. The monthly Executive Committee ("EXCO") meetings build an appropriate risk culture to encourage constant communication.
- (b) Second line of defense: Risk Management and Compliance, a risk oversight department, is tasked to formulate and continuously improve the Risk Management Framework and to promote risk awareness culture with regular meetings with the senior management and/or line managers in the light of risk analyses and risk action plan; and
- (c) Third line of defense: Internal Auditors perform a "check and balance" role by conducting independent and regular reviews on the Company's internal control systems and Risk Management Framework.

Regulatory Capital Requirements

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the RBC Framework is provided below:

	30.06.2014	30.06.2013
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital	100,000	100,000
- Reserves, including retained earnings	(5,287)	(13,924)
Eligible Tier 2 capital		
- Eligible reserves	2,904	10,046
	<u>97,617</u>	<u>96,122</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended.

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29 TAKAFUL RISK

The risk under any one takaful contract is the possibility that the covered event occurs and the uncertainty of the amount of the resulting claim.

For a portfolio of takaful contracts, the principal risk that the fund faces is that the actual claims and benefit payments exceed the assets of the fund. This could occur because the frequency or severity of claims is greater than estimated. Takaful events are random and the actual number and amount of claims can vary from the level established using statistical techniques.

a) Family Takaful/Company

Takaful risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

The Company's Family Takaful businesses are exposed to a range of takaful risks from various products. In providing financial advisory services coupled with takaful protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), persistency, product design and pricing.

The Company's underwriting strategy is designed to ensure risks are well diversified in term of type of risk and the level of covered benefits. This is broadly achieved through the use of medical screening to ensure participants' health condition and family medical history, regular review of actual claims experience as well as detailed claims procedures.

The mortality and morbidity risks are managed through the use of retakaful to transfer excessive risk exposures, appropriate actuarial techniques as well as other mitigation measures.

The table below shows the concentration of Family Takaful actuarial liabilities by type of product.

	Gross RM'000	Retakaful RM'000	Net RM'000
<u>30 June 2014</u>			
Mortgage Reducing Term and Group business	17,249	(11,673)	5,576
i-BR1M	13,244	(11,919)	1,325
Others	2,001	(1,772)	229
	<u>32,494</u>	<u>(25,364)</u>	<u>7,130</u>
<u>30 June 2013</u>			
Mortgage Reducing Term and Group business	15,104	(10,972)	4,132
Others	2,040	(1,794)	246
	<u>17,144</u>	<u>(12,766)</u>	<u>4,378</u>

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29 TAKAFUL RISK (CONTINUED)

a) Family Takaful/Company (continued)

As all of the business is derived from Malaysia, the entire Family Takaful actuarial liabilities are in Malaysia.

Key assumptions

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

The principles on which the valuation was made were determined by the actuary having regard to the Takaful Act 1984 which is subsequently replaced by IFSA as well as relevant statutory requirements of the Insurance Regulations 1996 for conventional insurance.

Mortality and total permanent disability assumption was derived based on the understanding of expected experience and industry experience. Lapse rate assumptions are based on a combination of the Company's experience for early duration as well as the understanding of industry experience.

Management expenses assumptions are developed based on the projection of management expenses and new business sales for the next three years. The development of assumptions based on expected experience in three years rather than current experience is due to the current size of the Company and its relatively new operations.

For the investment linked plans, the Company took cognizance of JPI33 Part vii Section V, valuation of liabilities of Investment Linked business. The cash flow reserves were set up using a discounted cash flow method, to ensure that any future negative cash flow resulting from insufficiency of tabarru charges to meet expected benefit outgo are eliminated. Incurred but not reported reserve (IBNR) was set up as a 1/2 month risk charge.

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29 TAKAFUL RISK (CONTINUED)

(a) Family Takaful/Company (continued)

Sensitivity

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

	Change in assumptions	Impact on gross takaful actuarial liabilities RM'000	Impact on net takaful actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
<u>30 June 2014</u>					
Mortality	+10	12,401	1,737	-	-
Mortality	-10	(6,451)	(849)	-	-
Lapse and surrender rates	+10	(627)	(276)	-	-
Lapse and surrender rates	-10	716	335	-	-
Discount rate	+10	(690)	(176)	-	-
Discount rate	-10	780	199	-	-
Investment return	+10	(563)	(23)	-	-
Investment return	-10	795	23	-	-

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29 TAKAFUL RISK (CONTINUED)

(a) Family Takaful/Company (continued)

Sensitivity (continued)

	Change in assumptions	Impact on gross takaful actuarial liabilities RM'000	Impact on net takaful actuarial liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
	%				
<u>30 June 2013</u>					
Mortality	+10	11,224	2,034	-	-
Mortality	-10	(10,783)	(1,474)	-	-
Lapse and surrender rates	+10	(587)	(209)	-	-
Lapse and surrender rates	-10	641	234	-	-
Discount rate	+10	(605)	(120)	-	-
Discount rate	-10	646	128	-	-
Investment return	+10	(686)	(33)	-	-
Investment return	-10	787	32	-	-

* Impact on equity reflects adjustments for tax, where applicable.

In the sensitivity analysis above, the impact from changes in best estimate assumptions for the Family Takaful fund is retained within the takaful contract liabilities. The methods used and significant assumptions made for deriving sensitivity information did not change from the previous financial year.

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful/Company

The General Takaful fund is exposed to underwriting risk which includes risk of incurring claims costs that are higher than expected due to the random nature of claims, their frequency, severity and risk of exposure to changes in legal and economic condition. This also could arise from the underpricing of the contributions, which results in the Company having to receive too little contributions to cover for the risks that it underwrites.

These risks are managed through various risk mitigation measures such as retakaful arrangement as well as appropriate actuarial techniques such as pricing.

The table below sets out the concentration of General Takaful contract liabilities, excluding AFS fair value adjustment by type of contract.

	30.06.2014			30.06.2013		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Motor	5,273	(2,549)	2,724	3,935	(1,838)	2,097
Fire	23,704	(12,761)	10,943	24,779	(14,592)	10,187
Marine Cargo, Aviation Cargo and Transit	1,716	(874)	842	1,992	(1,240)	752
Miscellaneous	79,867	(56,156)	23,711	80,070	(51,570)	28,500
	<u>110,560</u>	<u>(72,340)</u>	<u>38,220</u>	<u>110,776</u>	<u>(69,240)</u>	<u>41,536</u>

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year. Wherever possible, average link ratio factors over the most recent three years were used for the fire, personal accident and others class of business, with some adjustments in respect of any distortion observed in the claims pattern.

The net contribution liabilities is determined to be the higher of the adjusted net UCR or the net URR including PRAD at the 75% probability of adequacy after allowance for diversification benefit. The risk margin percentages applied to the net URR to derive the PRAD at the 75% probability of adequacy are based on industry experience, allowing for some loadings to take into account of the Company's small size portfolio.

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29 TAKAFUL RISK (CONTINUED)

(b) General Takaful/Company (continued)

Sensitivity

The General Takaful claims liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

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

	Change in assumptions %	Impact on gross takaful claims liabilities RM'000	Impact on net takaful claims liabilities RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
<u>30 June 2014</u>					
ULRs for all business classes for all loss years	+10	12,444	5,008	-	-
ULRs for Personal Accident class for all loss years	+20	5,042	2,299	-	-
ULRs for Fire class for all loss years	+20	7,221	2,596	-	-
PRAD for all business classes for all loss years	+20	1,949	551	-	-
<u>30 June 2013</u>					
ULRs for all business classes for all loss years	+10	11,006	4,285	-	-
ULRs for Personal Accident class for all loss years	+20	1,674	1,296	-	-
ULRs for Fire class for all loss years	+20	6,080	1,981	-	-
PRAD for all business classes for all loss years	+20	1,412	532	-	-

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29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table

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

Gross General Takaful claims liabilities for 30 June 2014

<u>Accident year</u>	2007	2008	2009	2010	2011	2012	2013	2014	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	28	490	3,204	5,956	21,080	35,591	46,842	51,089	
One year later	45	446	1,908	5,249	18,211	33,995	33,607	-	
Two years later	1	126	1,020	4,286	16,814	30,394	-	-	
Three years later	1	78	979	3,525	15,602	-	-	-	
Four years later	1	72	972	3,405	-	-	-	-	
Five years later	1	72	978	-	-	-	-	-	
Six years later	1	74	-	-	-	-	-	-	
Seven years later	1	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1	74	978	3,405	15,602	30,394	33,607	51,089	

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29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2014 (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	1	25	116	357	1,194	2,754	3,316	3,833	
One year later	1	73	408	2,301	7,562	10,018	11,610	-	
Two years later	1	67	966	2,732	9,097	15,254	-	-	
Three years later	1	72	960	2,773	10,860	-	-	-	
Four years later	1	72	967	2,731	-	-	-	-	
Five years later	1	72	970	-	-	-	-	-	
Six years later	1	74	-	-	-	-	-	-	
Seven years later	1	-	-	-	-	-	-	-	
Cumulative payments to-date	1	74	970	2,731	10,860	15,254	11,610	3,833	
Gross General Takaful claims liabilities	-	-	8	674	4,742	15,140	21,997	47,256	89,817

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29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2014

	2007	2008	2009	2010	2011	2012	2013	2014	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	28	241	311	2,508	8,479	13,715	18,802	13,280	
One year later	21	156	260	2,535	9,797	12,590	13,208	-	
Two years later	1	74	119	2,126	8,176	11,673	-	-	
Three years later	1	54	96	1,952	7,882	-	-	-	
Four years later	1	52	90	1,933	-	-	-	-	
Five years later	1	52	98	-	-	-	-	-	
Six years later	1	54	-	-	-	-	-	-	
Seven years later	1	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1	54	98	1,933	7,882	11,673	13,208	13,280	

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HONG LEONG MSIG TAKAFUL BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2014 (continued)

	2007	2008	2009	2010	2011	2012	2013	2014	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	1	25	58	259	1,016	2,119	1,845	1,899	
One years later	1	54	86	1,114	4,295	5,186	4,482	-	
Two years later	1	49	93	1,505	4,936	7,321	-	-	
Three years later	1	52	86	1,471	5,535	-	-	-	
Four years later	1	52	90	1,493	-	-	-	-	
Five years later	1	52	95	-	-	-	-	-	
Six years later	1	54	-	-	-	-	-	-	
Seven years later	1	-	-	-	-	-	-	-	
Cumulative payments to-date	1	54	95	1,493	5,535	7,321	4,482	1,899	
Net General Takaful claims liabilities	-	-	3	440	2,347	4,352	8,726	11,381	27,249

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2013

	2007	2008	2009	2010	2011	2012	2013	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>								
At end of accident year	28	490	3,204	5,956	21,080	35,591	46,842	
One year later	45	446	1,908	5,249	18,211	33,995	-	
Two years later	1	126	1,020	4,286	16,814	-	-	
Three years later	1	78	979	3,525	-	-	-	
Four years later	1	72	972	-	-	-	-	
Five years later	1	72	-	-	-	-	-	
Six years later	1	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	<u>1</u>	<u>72</u>	<u>972</u>	<u>3,525</u>	<u>16,814</u>	<u>33,995</u>	<u>46,842</u>	

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Gross General Takaful claims liabilities for 30 June 2013 (continued)

	2007	2008	2009	2010	2011	2012	2013	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>								
At end of accident year	1	25	116	357	1,194	2,754	3,315	
One year later	1	73	408	2,301	7,562	10,018	-	
Two years later	1	67	966	2,732	9,097	-	-	
Three years later	1	72	960	2,773	-	-	-	
Four years later	1	72	967	-	-	-	-	
Five years later	1	72	-	-	-	-	-	
Six years later	1	-	-	-	-	-	-	
Cumulative payments to-date	1	72	967	2,773	9,097	10,018	3,315	
Gross General Takaful claims liabilities	-	-	5	752	7,717	23,977	43,527	75,978

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2013

	2007	2008	2009	2010	2011	2012	2013	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>								
At end of accident year	28	241	311	2,508	8,479	13,715	18,802	
One year later	21	156	260	2,535	9,797	12,590	-	
Two years later	1	74	119	2,126	8,176	-	-	
Three years later	1	54	96	1,952	-	-	-	
Four years later	1	52	90	-	-	-	-	
Five years later	1	52	-	-	-	-	-	
Six years later	1	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	1	52	90	1,952	8,176	12,590	18,802	

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

29 TAKAFUL RISK (continued)

(b) General Takaful/Company (continued)

Claims development table (continued)

Net General Takaful claims liabilities for 30 June 2013 (continued)

	2007	2008	2009	2010	2011	2012	2013	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>								
At end of accident year	1	25	58	259	1,016	2,119	1,846	
One years later	1	54	86	1,114	4,295	5,186	-	
Two years later	1	49	93	1,505	4,936	-	-	
Three years later	1	52	86	1,471	-	-	-	
Four years later	1	52	90	-	-	-	-	
Five years later	1	52	-	-	-	-	-	
Six years later	1	-	-	-	-	-	-	
Cumulative payments to-date	1	52	90	1,471	4,936	5,186	1,846	
Net General Takaful claims liabilities	-	-	-	481	3,240	7,404	16,956	28,081

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HONG LEONG MSIG TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet the payment obligations. The credit risk and investment activities is monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity in accordance to internal and regulatory investment guidelines and limits.

As date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board and regulators. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

There were no significant changes to the credit risk management of the Company.

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HONG LEONG MSIG TAKAFUL BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below shows the maximum exposure to credit risk for the components on the statement of financial position and provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past due nor impaired						Not subject to credit risk RM'000	Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
AFS financial assets									
Government Investment Issues	-	-	-	-	2,609	-	-	2,609	
Islamic bonds	10,418	27,059	4,513	-	24,544	-	-	66,534	
Equity securities	-	-	-	-	-	6,200	-	6,200	
Investment-linked funds	-	-	-	-	-	4,910	-	4,910	
Accrued profit	144	146	64	-	279	-	-	633	
Loans and receivables	-	-	-	-	-	-	-	-	
Other receivables	-	-	-	-	2,802	-	-	2,802	
Cash and cash equivalents	312	9,533	-	-	2	-	-	9,847	
	<u>10,874</u>	<u>36,738</u>	<u>4,577</u>	<u>-</u>	<u>30,236</u>	<u>11,110</u>	<u>-</u>	<u>93,535</u>	

30 June 2014

Takaful Operator

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired						Not subject to credit risk RM'000	Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
<u>30 June 2013</u>									
<u>Takaful Operator</u>									
AFS financial assets									
Government Investment Issues	-	-	-	-	-	-	-	-	-
Islamic bonds	16,030	27,168	4,540	-	14,017	-	-	-	61,755
Equity securities	-	-	-	-	-	5,690	-	-	5,690
Unit Truists	-	-	-	-	-	211	-	-	211
Investment-linked funds	-	-	-	-	-	4,753	-	-	4,753
Accrued profit	264	164	65	-	88	-	-	-	581
Loans and receivables	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	9,093	-	-	-	9,093
Cash and cash equivalents	715	14,884	-	-	2	-	-	-	15,601
	<u>17,009</u>	<u>42,216</u>	<u>4,605</u>	<u>-</u>	<u>23,200</u>	<u>10,654</u>	<u>-</u>	<u>-</u>	<u>97,684</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired						Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Not subject to credit risk RM'000		
Government Investment Issues	-	-	-	-	1,513	-	1,513	
Islamic bonds	-	16,254	1,514	-	101	-	17,869	
Equity securities	-	-	-	-	-	4,663	4,663	
Accrued profit	-	101	21	-	26	-	148	
Loans and receivables	-	664	-	-	-	-	664	
Fixed and call deposits	-	7	-	-	-	-	7	
Accrued profit	-	-	-	-	2,478	-	2,478	
Takaful receivables	-	-	-	-	1,013	-	1,013	
Other receivables	-	-	-	-	26,693	-	26,693	
Retakaful assets	1,455	23,734	35,678	6,283	5	-	69,242	
Cash and cash equivalents	1,455	41,348	37,257	6,283	31,829	4,663	124,572	
						1,737		

30 June 2013

General Takaful Fund

AFS financial assets

Government Investment Issues

Islamic bonds

Equity securities

Accrued profit

Loans and receivables

Fixed and call deposits

Accrued profit

Takaful receivables

Other receivables

Retakaful assets

Cash and cash equivalents

Company No.

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HONG LEONG MSIG TAKAFUL BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating (continued)

	Neither past due nor impaired						Not subject to credit risk RM'000	Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
<u>Family Takaful Fund</u>									
AFS financial assets									
Government Investment Issues	-	-	-	-	6,783	-	-	6,783	
Islamic bonds	8,418	21,741	4,010	-	51,291	-	-	85,460	
Equity securities	-	-	-	-	-	10,541	-	10,541	
Accrued profit	135	110	62	-	603	-	-	910	
FVTPL financial assets									
Government Investment Issues	-	-	-	-	1,043	-	-	1,043	
Islamic bonds	996	5,247	-	-	2,507	-	-	8,750	
Equity securities	-	-	-	-	-	2,352	-	2,352	
Structure investments	4,024	-	-	-	-	-	-	4,024	
Accrued profit	4	27	-	-	32	-	-	63	
Loans and receivables									
Fixed and call deposits	-	1,184	5,488	-	-	-	-	6,672	
Accrued profit	-	6	42	-	-	-	-	48	
Takaful receivables	-	-	-	2,996	15,782	-	2,388	21,166	
Other receivables	-	-	-	-	1,317	-	-	1,317	
Retakaful assets	-	-	16,219	14,292	-	-	-	30,511	
Cash and cash equivalents	905	12,754	97	-	10	-	-	13,766	
	<u>14,482</u>	<u>41,069</u>	<u>25,918</u>	<u>17,288</u>	<u>79,368</u>	<u>12,893</u>	<u>2,388</u>	<u>193,406</u>	

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

	Neither past due nor impaired						Not subject to credit risk RM'000	Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
<u>Family Takaful Fund</u>									
AFS financial assets									
Government Investment Issues	-	-	-	-	13,115	-	-	-	13,115
Islamic bonds	8,895	9,574	4,034	-	10,824	-	-	-	33,327
Equity securities	-	-	-	-	-	5,429	-	-	5,429
Accrued profit	135	111	61	-	342	-	-	-	649
FVTPL financial assets									
Government Investment Issues	-	-	-	-	504	-	-	-	504
Islamic bonds	1,010	4,203	-	-	-	-	-	-	5,213
Equity securities	-	-	-	-	-	1,028	-	-	1,028
Structure investments	3,943	-	24,272	-	-	-	-	-	28,215
Accrued profit	4	31	-	-	8	-	-	-	43
Loans and receivables									
Fixed and call deposits	-	2,874	15,489	-	-	-	-	-	18,363
Accrued profit	-	9	198	-	-	-	-	-	207
Takaful receivables	-	648	-	1,297	2,264	-	1,048	-	5,257
Other receivables	-	-	-	-	767	-	-	-	767
Retakaful assets	-	-	1,754	13,772	-	-	-	-	15,526
Cash and cash equivalents	1,743	33,173	22	-	10	-	-	-	34,948
	<u>15,730</u>	<u>50,623</u>	<u>45,830</u>	<u>15,069</u>	<u>27,834</u>	<u>6,457</u>	<u>1,048</u>	<u>-</u>	<u>162,591</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)
Credit exposure by credit rating (continued)

	Neither past due nor impaired						Not subject to credit risk RM'000	Past due but not impaired RM'000	Total RM'000
	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000				
30 June 2014									
<u>Company</u>									
AFS financial assets									
Government Investment Issues	-	-	-	-	9,392	-	-	-	9,392
Islamic bonds	18,836	67,351	10,028	-	85,872	-	-	-	182,087
Equity securities	-	-	-	-	-	23,607	-	-	23,607
Accrued profit	279	373	146	-	1,022	-	-	-	1,820
FVTPL financial assets									
Government Investment Issues	-	-	-	-	1,043	-	-	-	1,043
Islamic bonds	996	5,247	-	-	2,507	-	-	-	8,750
Equity securities	-	-	-	-	-	2,352	-	-	2,352
Structure investments	4,024	-	-	-	-	-	-	-	4,024
Accrued profit	4	27	-	-	32	-	-	-	63
Loans and receivables									
Fixed and call deposits	-	1,860	5,488	-	-	-	-	-	7,348
Accrued profit	-	13	42	-	-	-	-	-	55
Takaful receivables	-	-	528	3,224	20,726	-	5,255	-	29,733
Other receivables	-	-	-	-	4,022	-	-	-	4,022
Retakaful assets	-	2,396	38,484	24,919	37,052	-	-	-	102,851
Cash and cash equivalents	2,671	31,450	167	-	17	-	-	-	34,305
	<u>26,810</u>	<u>108,717</u>	<u>54,883</u>	<u>28,143</u>	<u>161,685</u>	<u>25,959</u>	<u>5,255</u>	<u>-</u>	<u>411,452</u>

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating (continued)

30 June 2013

Company

AFS financial assets
Government Investment Issues
Islamic bonds
Equity securities
Unit Trust
Accrued profit
FVTPL financial assets
Government Investment Issues
Islamic bonds
Equity securities
Structure investments
Accrued profit
Loans and receivables
Fixed and call deposits
Accrued profit
Takaful receivables
Other receivables
Retakaful assets
Cash and cash equivalents

	Neither past due nor impaired						Not subject to credit risk	Past due but not impaired	Total
	AAA	AA	A	BBB	Not rated				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
	-	-	-	-	14,628	-	-	14,628	
	24,925	52,996	10,088	-	24,942	-	-	112,951	
	-	-	-	-	-	15,782	-	15,782	
	-	-	-	-	-	211	-	211	
	399	376	147	-	456	-	-	1,378	
	-	-	-	-	504	-	-	504	
	1,010	4,203	-	-	-	-	-	5,213	
	3,943	-	24,272	-	-	1,028	-	1,028	
	4	31	-	-	8	-	-	28,215	
	-	3,538	15,489	-	-	-	-	19,027	
	-	16	198	-	-	-	-	214	
	-	648	-	1,297	4,742	-	2,785	9,472	
	-	-	-	-	2,077	-	-	2,077	
	3,913	71,791	37,432	20,055	26,693	-	-	84,768	
	34,194	134,187	87,692	21,352	74,067	17	2,785	371,298	
						17,021			

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Aging analysis of financial assets past-due but not impaired

	Company
30.06.2014	30.06.2013
RM'000	RM'000
Takaful Receivables	
61 to 180 days	1,628
>180 days	1,157
	<u>2,785</u>

Impaired takaful receivables

At 30 June 2014, there are impaired takaful receivables of RM 2.707 million (2013: RM 3.265 million). Impairment of takaful receivables is performed based on individual assessment of receivables where the contractual payments are in arrears for more than 180 days. No collateral is held as security for any past due or impaired assets.

A reconciliation of the allowance for impairment losses for takaful receivables is as follows:

	Company
2014	2013
RM'000	RM'000
As at 1 July	4,178
Write back for the financial year	(913)
As at 30 June	<u>3,265</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Liquidity risk

Liquidity risk arises due to inability of the company to meet its financial obligations as and when they fall due. The Company's investible funds are substantially placed in fixed and call deposits and other money market instruments. The Company endeavours to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

Maturity profiles of financial assets

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities:

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<u>Takaful Operator</u>						
<u>30 June 2014</u>						
AFS financial assets	80,886	3,643	26,761	39,372	11,110	80,886
Other receivables	2,802	2,802	-	-	-	2,802
Cash and cash equivalents	9,847	9,847	-	-	-	9,847
	<u>93,535</u>	<u>16,292</u>	<u>26,761</u>	<u>39,372</u>	<u>11,110</u>	<u>93,535</u>
<u>30 June 2013</u>						
AFS financial assets	72,990	12,199	30,239	19,897	10,655	72,990
Other receivables	9,093	9,093	-	-	-	9,093
Cash and cash equivalents	15,601	15,601	-	-	-	15,601
	<u>97,684</u>	<u>36,893</u>	<u>30,239</u>	<u>19,897</u>	<u>10,655</u>	<u>97,684</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial assets (continued)

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities: (continued)

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<u>General Takaful Fund</u>						
<u>30 June 2014</u>						
AFS financial assets	37,236	277	24,071	6,022	6,866	37,236
Loan and receivables	683	683	-	-	-	683
Retakaful assets	72,340	26,758	31,190	14,392	-	72,340
Takaful receivables	8,567	8,567	-	-	-	8,567
Other receivables	1,476	1,476	-	-	-	1,476
Cash and cash equivalents	10,692	10,692	-	-	-	10,692
	<u>130,994</u>	<u>48,453</u>	<u>55,261</u>	<u>20,414</u>	<u>6,866</u>	<u>130,994</u>
<u>30 June 2013</u>						
AFS financial assets	24,193	664	18,866	-	4,663	24,193
Loan and receivables	671	671	-	-	-	671
Retakaful assets	69,242	32,460	15,993	20,789	-	69,242
Takaful receivables	4,215	4,215	-	-	-	4,215
Other receivables	1,013	1,013	-	-	-	1,013
Cash and cash equivalents	25,238	25,238	-	-	-	25,238
	<u>124,572</u>	<u>64,261</u>	<u>34,859</u>	<u>20,789</u>	<u>4,663</u>	<u>124,572</u>

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HONG LEONG MSIG TAKAFUL BERHAD
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial assets (continued)

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities: (continued)

Family Takaful Fund

30 June 2014

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
AFS financial assets	103,694	2,916	15,860	74,377	10,541	103,694
FVTPL financial assets	16,232	63	9,762	4,055	2,352	16,232
Loan and receivables	6,720	6,720	-	-	-	6,720
Retakaful assets	30,511	6,236	527	23,748	-	30,511
Takaful receivables	21,166	21,166	-	-	-	21,166
Other receivables	1,317	1,317	-	-	-	1,317
Cash and cash equivalents	13,766	13,766	-	-	-	13,766
	<u>193,406</u>	<u>52,184</u>	<u>26,149</u>	<u>102,180</u>	<u>12,893</u>	<u>193,406</u>

30 June 2013

AFS financial assets	52,520	1,556	24,622	20,913	5,429	52,520
FVTPL financial assets	35,003	24,909	4,606	4,460	1,028	35,003
Loan and receivables	18,570	18,570	-	-	-	18,570
Retakaful assets	15,526	713	254	14,559	-	15,526
Takaful receivables	5,257	5,257	-	-	-	5,257
Other receivables	767	767	-	-	-	767
Cash and cash equivalents	34,948	34,948	-	-	-	34,948
	<u>162,591</u>	<u>86,720</u>	<u>29,482</u>	<u>39,932</u>	<u>6,457</u>	<u>162,591</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial assets (continued)

The table below analyses the carrying amount of financial assets based on the remaining contractual maturities: (continued)

Company	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<u>30 June 2014</u>						
AFS financial assets	216,906	6,836	66,692	119,771	23,607	216,906
FVTPL financial assets	16,232	63	9,762	4,055	2,352	16,232
Loan and receivables	7,403	7,403	-	-	-	7,403
Retakaful assets	102,851	32,994	31,717	38,139	-	102,851
Takaful receivables	29,733	29,733	-	-	-	29,733
Other receivables	4,022	4,022	-	-	-	4,022
Cash and cash equivalents	34,305	34,305	-	-	-	34,305
	<u>411,452</u>	<u>115,356</u>	<u>108,171</u>	<u>161,965</u>	<u>25,959</u>	<u>411,452</u>
<u>30 June 2013</u>						
AFS financial assets	144,950	14,419	73,727	40,810	15,994	144,950
FVTPL financial assets	35,003	24,909	4,606	4,460	1,028	35,003
Loan and receivables	19,241	19,241	-	-	-	19,241
Retakaful assets	84,768	33,173	16,247	35,348	-	84,768
Takaful receivables	9,472	9,472	-	-	-	9,472
Other receivables	2,077	2,077	-	-	-	2,077
Cash and cash equivalents	75,787	75,787	-	-	-	75,787
	<u>371,298</u>	<u>179,078</u>	<u>94,580</u>	<u>80,618</u>	<u>17,022</u>	<u>371,298</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Maturity profiles of financial liabilities

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

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

Investment-linked funds' 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.

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
<u>Takaful Operator</u>						
<u>30 June 2014</u>						
Amount due to related companies	362	362	-	-	-	362
Other payables	7,379	7,379	-	-	-	7,379
	<u>7,741</u>	<u>7,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,741</u>
<u>30 June 2013</u>						
Amount due to related companies	212	212	-	-	-	212
Other payables	6,970	6,970	-	-	-	6,970
	<u>7,182</u>	<u>7,182</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,182</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

General Takaful Fund

30 June 2014

Claims liabilities
Takaful payables
Other payables
Total liabilities

Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
89,817	33,222	38,726	17,869	-	89,817
5,224	5,224	-	-	-	5,224
2,226	2,226	-	-	-	2,226
<u>97,267</u>	<u>40,672</u>	<u>38,726</u>	<u>17,869</u>	<u>-</u>	<u>97,267</u>

30 June 2013

Claims liabilities
Takaful payables
Other payables
Total liabilities

75,978	35,619	17,550	22,809	-	75,978
5,769	5,769	-	-	-	5,769
5,934	5,934	-	-	-	5,934
<u>87,681</u>	<u>47,322</u>	<u>17,550</u>	<u>22,809</u>	<u>-</u>	<u>87,681</u>

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

Liquidity risk (continued)

Maturity profiles (continued)

Family Takaful Fund

30 June 2014

	Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
Actuarial liabilities	165,916	3,645	309	17,488	144,474	165,916
Claims liabilities	5,844	5,844	-	-	-	5,844
Takaful payables	14,640	14,640	-	-	-	14,640
Other payables	3,214	3,214	-	-	-	3,214
Total liabilities	189,614	27,343	309	17,488	144,474	189,614
<u>30 June 2013</u>						
Actuarial liabilities	146,111	20,743	234	16,969	108,165	146,111
Claims liabilities	3,098	3,098	-	-	-	3,098
Takaful payables	2,366	2,366	-	-	-	2,366
Other payables	5,526	5,526	-	-	-	5,526
Total liabilities	157,101	31,733	234	16,969	108,165	157,101

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)**

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Maturity profiles (continued)

Company

30 June 2014

Amount due to related companies

Claims liabilities

Actuarial liabilities

Takaful payables

Other payables

Total liabilities

Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
362	362	-	-	-	362
95,661	39,066	38,726	17,869	-	95,661
165,916	3,645	309	17,488	144,474	165,916
19,864	19,864	-	-	-	19,864
11,246	11,246	-	-	-	11,246
<u>293,049</u>	<u>74,183</u>	<u>39,035</u>	<u>35,357</u>	<u>144,474</u>	<u>293,049</u>

30 June 2013

Amount due to related companies

Claims liabilities

Actuarial liabilities

Takaful payables

Other payables

Total liabilities

Carrying value RM'000	Up to a year RM'000	1-5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
212	212	-	-	-	212
79,076	38,717	17,550	22,809	-	79,076
141,358	20,524	156	12,513	108,165	141,358
8,135	8,135	-	-	-	8,135
9,634	9,634	-	-	-	9,634
<u>238,415</u>	<u>77,222</u>	<u>17,706</u>	<u>35,322</u>	<u>108,165</u>	<u>238,415</u>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in market prices (price risk) or market profit rates (profit rate risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, profit rate risk exposure and liquidity targets.

(i) Profit rate risk

Profit rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market profit rate. This risk arises due to differences in pricing or tenure of investments and liabilities. The profit rate risk is managed through setting the appropriate asset allocation reflecting the liability profile and the availability of the suitable instrument in the investment market.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before tax RM'000	Impact equity* RM'000
<u>30 June 2014</u>		
Change in variables		
+ 100 basis point of profit rate	-	(3,359)
- 100 basis point of profit rate	-	3,651
<u>30 June 2013</u>		
Change in variables		
+ 100 basis point of profit rate	-	(2,500)
- 100 basis point of profit rate	-	2,730

Impact on equity reflects adjustments for tax, when applicable.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(ii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market prices. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. The Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Group's and Company's profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit before tax RM'000	Impact equity* RM'000
<u>30 June 2014</u>		
Change in variables		
+ 20% of equity price	-	930
- 20% of equity price	-	(930)
<u>30 June 2013</u>		
Change in variables		
+ 20% of equity price	-	885
- 20% of equity price	-	(885)

* Impact on equity reflects adjustments for tax, when applicable.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Market risk (continued)

(iii) Operational risks

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls.

31 CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	<u>Takaful Operator/Company</u>	
	30.06.2014	30.06.2013
	RM'000	RM'000
Authorised but not contracted for:		
Intangible assets	-	<u>5,843</u>