

Company No.

731996

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2013

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

CONTENTS	PAGES
DIRECTORS' REPORT	1-12
STATEMENT BY DIRECTORS	13
STATUTORY DECLARATION	13
SHARIAH COMMITTEE'S REPORT	14
INDEPENDENT AUDITORS' REPORT	15-16
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	17 - 18
INCOME STATEMENT	19 - 20
STATEMENT OF COMPREHENSIVE INCOME	21
STATEMENT OF CHANGES IN EQUITY	22
CASH FLOW STATEMENT	23
NOTES TO THE FINANCIAL STATEMENTS	24 - 116

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business and all classes of General Takaful business. There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the financial year	10,003

DIVIDENDS

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

The Directors do not recommend any dividend in respect of the current financial year.

RESERVES AND PROVISIONS

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

PROVISION FOR OUTSTANDING CLAIMS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for incurred claims, including Incurred But Not Reported ("IBNR") claims.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing-off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written-off and that adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render the amounts written-off for bad debts or the amount of allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Company which has arisen since the end of the financial year.

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

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of Takaful underwritten in the ordinary course of business of the Company.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

At the date of this report, the Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

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

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

ISSUE OF SHARES

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

CORPORATE GOVERNANCE

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

The Board Committees of the Company comprise a selection of Independent Non-Executive Directors and Non-Independent Non-Executive Directors from the holding company and its fellow subsidiaries.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)****Audit Committee ("AC")**

The composition of the Audit Committee is as follows:

		<u>No. of Attendance</u>
Onn Kien Hoe (Chairman)	Independent Director	6/6
Tan Sri Ahmad bin Mohd Don	Independent Director	6/6
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Independent Director	6/6
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	6/6

The duties and responsibilities of the AC are as follows:

1. To review:
 - i. with the external auditors on their audit plan, scope and nature of audit for the Company;
 - ii. with the external auditors, on their evaluation of the system of internal controls of the Company and its audit findings;
 - iii. with management and the external auditors, changes in accounting standards or rules promulgated by the Malaysian Accounting Standards Board, Accounting and Auditing Organisation For Islamic Financial Institutions, Islamic Financial Services Board, Bank Negara Malaysia or the Securities Commission that may effect the Company's financial statements;
 - iv. any problems and reservations arising from the interim and final external audits, and any matters the external auditors may wish to highlight;
 - v. the quality of external auditors and make recommendations concerning their appointment, termination and remuneration and to consider the nomination of external auditors;
 - vi. the liaison between the external auditors, the management and the Board of Directors and also the assistance given by management and employees to the external auditors;
 - vii. the adequacy of the scope, functions and resources of the Internal Audit Department and that it has the necessary authority to carry out its work;
 - viii. the internal audit programme, processes, results of the audit and whether or not appropriate action has been taken as per the recommendations of the Internal Audit Department; and

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Audit Committee ("AC") (continued)

The duties and responsibilities of the AC are as follows: (continued)

- 1 To review: (continued)
 - ix. quarterly results and year end financial statements prior to the Board of Directors' approval pertaining to:
 - major accounting policy changes
 - significant and unusual events
 - compliance with accounting standards and other legal requirements and to monitor any related party transactions and conflict of interest situation that may arise within the Company and to report, if any, transactions between the Company and any related party outside the Company which are not based on arms-length terms and which are disadvantageous to the Company.
2. To recommend the appointment of the external auditors, and to discuss their audit fees and any questions of resignation or dismissal.
3. To oversee the independence and performance of the Company's independent auditors.
4. To perform any other functions as may be mutually agreed by the Committee and the Board of Directors.

Nomination Committee ("NC")

The composition of the NC is as follows:

		<u>No. of Attendance</u>
Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	2/2
Muhamad Umar Swift	Non-Independent Non-Executive Director	1/2
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	2/2
Dr. Md Khalil bin Ruslan	Independent Director	2/2
Onn Kien Hoe	Independent Director	2/2

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination Committee ("NC") (continued)

The duties and responsibilities of the Committee are as follows:

1. Establishing the scope of work of the Board and the Chief Executive Officer to perform their responsibilities effectively.
2. Recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for appointment, before an application for approval is submitted to BNM.
3. Overseeing 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, through annual reviews.
4. Establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer.
5. Recommending to the Board on removal of a Director/Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities.
6. Ensuring that all Directors undergo appropriate induction programmes and receive continuous training.
7. Overseeing the appointment, management succession planning and performance evaluation of key senior officers, and recommending to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.
8. Undertaking such other matters as the Board of Directors thinks fit.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Remuneration Committee ("RC")

The composition of the RC is as follows:

		<u>No. of Attendance</u>
Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	1/1
Muhamad Umar Swift	Non-Independent Non-Executive Director	1/1
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	1/1
Dr. Md Khalil bin Ruslan	Independent Director	1/1
Onn Kien Hoe	Independent Director	1/1

The duties and responsibilities of the Committee are as follows:

1. Recommending a framework of remuneration for Directors, Chief Executive Officer and key senior officers. The remuneration policy shall:
 - i. be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - ii. reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and key senior officers;
 - iii. be sufficient to attract and retain Directors, Chief Executive Officer and key senior officers of calibre needed to manage the Company successfully; and
 - iv. be balanced against the need to ensure that the funds of the Takaful operator are not used to subsidise excessive remuneration packages.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Remuneration Committee ("RC") (continued)

The duties and responsibilities of the Committee are as follows: (continued)

2. Recommending specific remuneration packages for Directors, Chief Executive Officer and key senior officers. The remuneration packages shall:
 - i. be based on an objective consideration and approved by the full Board;
 - ii. take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Director, Chief Executive Officer or key senior officer concerned;
 - iii. not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - iv. be competitive and is consistent with Takaful's culture, objective and strategy.
3. Undertaking such other matters as the Board of Directors thinks fit.

Risk Management Committee ("RMC")

The composition of the RMC is as follows:

		<u>No. of Attendance</u>
Onn Kien Hoe (Chairman)	Independent Director	7/7
Tan Sri Ahmad bin Mohd Don	Independent Director	7/7
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Independent Director	7/7
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	7/7
Muhamad Umar Swift	Non-Independent Non-Executive Director	6/7

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Risk Management Committee ("RMC") (continued)

The duties and responsibilities of the Committee are as follows:

1. Review and recommend risk management strategies, policies and risk tolerance for the Board's approval.
2. Review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.
3. Ensure adequate infrastructure, resources and systems are in place for an effective risk management i.e. ensuring that the staff responsible for implementing risk management system performs those duties independently of the Company's risk taking activities.
4. Review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

Shariah Committee ("SC")

The composition of the SC is as follows:

		<u>No. of Attendance</u>
Dr. Md Khalil bin Ruslan	Chairman	6/6
Dr. Luqman bin Abdullah	Member	5/6
Dr. Joni Tamkin bin Borhan	Member	5/6
Dr. Yusri bin Mohamad	Member	6/6
Dr. Mohamad bin Abdul Hamid	Member	6/6

The duties and responsibilities of the SC are as follows:

1. Responsibility and accountability
The SC is expected to understand that in the course of discharging the duties and responsibilities as a SC member, they are responsible and accountable for all Shariah decisions, opinions and views provided by them. The SC is also expected to perform an oversight role on Shariah matters related to the Company's business operations and activities.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE (CONTINUED)**Shariah Committee ("SC") (continued)

The duties and responsibilities of the SC are as follows: (continued)

2. Advise the Board and the Company
The SC shall advise the board and provide input to the Company on any matters related to Shariah in order for the Company to comply with Shariah principles at all times.
3. Endorse Shariah policies and procedures
The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure the contents do not contain any elements which are not in line with Shariah.
4. Endorse and validate relevant documentations
To ensure that the products of the Company comply with Shariah principles, the SC must approve:
 - i. The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - ii. The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
5. Assess work carried out by Shariah review and Shariah audit
To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah principles forms part of their duties in providing their assessment of Shariah compliance and accurate information in the annual report.
6. Assist related parties on Shariah matters
The related parties of the Company such as its legal counsel, auditor or consultant may seek advice on Shariah matters from the SC and the SC is expected to provide the necessary assistance to the requesting party.
7. Advise on matters to be referred to the Shariah Advisory Council ("SAC")
The SC may advise the Company to consult the SAC of Bank Negara Malaysia on Shariah matters that could not be resolved.
8. Provide written Shariah opinions
The SC is required to record any opinion given. In particular, the SC shall prepare written Shariah opinions in the following circumstances:
 - i. Where the Company make reference to the SAC for advice, or
 - ii. Where the Company submit applications to BNM for new product approval.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**DIRECTORS**

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

	<u>No. of Attendance</u>
Tan Sri Ahmad bin Mohd Don (Chairman)	8/8
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	7/8
Dr. Md Khalil bin Ruslan	8/8
Muhamad Umar Swift	8/8
Ashraf Adnan Nureddin Bseisu	8/8
Onn Kien Hoe	8/8

Datuk Seri Razman Md Hashim bin Che Din Md Hashim retires pursuant to Section 129 (6) of the Companies Act, 1965 and being eligible, offers himself for re-election.

Muhamad Umar Swift retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

Tan Sri Ahmad bin Mohd Don retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

During and at the end of the financial year, no Director has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration, fees paid to a company in which certain members have an interest and benefits provided to Directors as disclosed in the notes to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which the Director has a substantial financial interest.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**DIRECTORS' INTERESTS IN SHARES**

According to the register of Directors' shareholding, particulars of interests of Directors in office at the end of the financial year in shares in the ultimate holding company, MAA Group Berhad, are as follows:

	Number of ordinary shares of RM1 each			
	At 1.1.2013	Acquired	Disposed	At 31.12.2013
Tan Sri Ahmad bin Mohd Don - Direct	2,055,000	-	-	2,055,000
Datuk Seri Razman Md Hashim bin Che Din Md Hashim - Direct	150,000	-	-	150,000

By virtue of the abovenamed Directors' interest in the shares of the Company's ultimate holding company, they are also deemed to have substantial interest in the shares of the Company and other subsidiary companies of the ultimate holding company, to the extent the ultimate holding company has an interest.

None of the other Directors in office at the end of the financial year held any interest in shares in, or debentures of, the Company or its related corporations during the financial year.

ULTIMATE HOLDING COMPANY

The Directors regard MAA Group Berhad, a company incorporated in Malaysia, as the Company's ultimate holding company.

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 April 2014.



TAN SRI AHMAD BIN MOHD DON
DIRECTOR



MUHAMAD UMAR SWIFT
DIRECTOR

Kuala Lumpur
25 April 2014

Company No.

731996

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

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

We, Tan Sri Ahmad bin Mohd Don and Muhamad Umar Swift, being two of the Directors of MAA Takaful Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 17 to 116 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2013 and the financial performance and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 25 April 2014.



TAN SRI AHMAD BIN MOHD DON
DIRECTOR



MUHAMAD UMAR SWIFT
DIRECTOR

Kuala Lumpur
25 April 2014

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

I, Salim Majid Zain, the officer primarily responsible for the financial management of MAA Takaful Berhad, do solemnly and sincerely declare that the financial statements set out on pages 17 to 116 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.



SALIM MAJID ZAIN

Subscribed and solemnly declared by the abovenamed Salim Majid Zain at Kuala Lumpur in Wilayah Persekutuan on 25 April 2014.

Before me,

COMMISSIONER FOR OATHS
25 April 2014



5B, JALAN TRAVERS
(BRICKFIELDS)
50470 KUALA LUMPUR

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT



In the name of Allah, the Beneficent, the Merciful

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by MAA Takaful Berhad during the financial year ended 31 December 2013. We have also conducted our review to form an opinion as to whether MAA Takaful Berhad has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

The management of MAA Takaful Berhad is responsible for ensuring that it conducts its business in accordance with Shariah principles. It is our responsibility to form an independent opinion, based on our review of the operations of MAA Takaful Berhad.

We have assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by MAA Takaful Berhad.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that MAA Takaful Berhad has not violated the Shariah principles.

In our opinion:

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

We, the members of the Shariah Committee of MAA Takaful Berhad, do hereby confirm that the operations of MAA Takaful Berhad for the financial year ended 31 December 2013 have been conducted in conformity with the Shariah principles.

DR. JONI TAMKIN BIN BORHAN
MEMBER

DR. YUSRI BIN MOHAMAD
MEMBER

25 April 2014



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF MAA TAKAFUL BERHAD
(Incorporated in Malaysia)
(Company No. 731996 H)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of MAA Takaful Berhad, which comprise the statement of financial position as at 31 December 2013 of the Company, and the statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements, as set out on pages 17 to 116.

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 the Malaysian Financial Reporting Standards, International Financial Reporting Standards, and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 MAA TAKAFUL BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996 H)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

A stylized, handwritten signature in black ink, likely representing the firm Price Waterhouse Coopers.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, likely belonging to Manjit Singh.

MANJIT SINGH
(No. 2954/03/15 (J))
Chartered Accountant

Kuala Lumpur
25 April 2014

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		2013				2012			
	Note	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									
Property, plant and equipment	4	13,693	-	-	13,693	13,704	-	-	13,704
Intangible assets	5	2,751	-	-	2,751	3,067	-	-	3,067
Investments:									-
Held-to-maturity	6(a)	-	15,365	25,516	40,881	-	15,366	20,468	35,834
Loans and receivables	6(b)	15,905	20,276	35,552	70,023	11,631	10,050	49,096	70,777
Available-for-sale	6(c)	62,137	45,778	41,634	149,549	69,988	46,596	38,119	154,703
Fair value through profit or loss	6(d)	17,769	-	264,559	273,608	4,230	-	217,850	222,080
Takaful receivables	7	-	37,940	6,276	44,216	-	20,938	8,813	29,751
Qardhul Hassan receivable		-	-	-	-	1,625	-	-	-
Retakaful assets	8	-	200,362	15,490	215,852	-	132,140	13,792	145,932
Other receivables	9	28,395	790	1,769	4,963	34,591	1,387	398	7,528
Deferred tax assets	13	-	47	-	47	-	-	-	-
Cash and bank balances		4,358	400	5,924	10,682	539	38	3,102	3,679
TOTAL ASSETS		145,008	320,958	396,720	826,265	139,375	226,515	351,638	687,055

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013 (CONTINUED)

		2013				2012			
	Note	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
LIABILITIES									
Takaful contract liabilities	10	-	254,065	362,592	606,261	-	172,604	309,971	482,575
Takaful payables	11	-	50,848	2,445	53,293	-	36,388	2,693	39,081
Qardhul Hassan payable		-	-	-	-	-	1,625	-	-
Other payables	12	18,428	15,872	28,879	37,188	15,105	14,659	36,094	37,010
Expense liabilities		1,853	-	-	1,853	1,059	-	-	1,059
Current tax liabilities		305	173	1,081	1,559	1,973	2,388	1,454	5,815
Deferred tax liabilities	13	2,153	-	1,723	3,842	3,496	476	1,426	5,398
TOTAL LIABILITIES		22,739	320,958	396,720	703,996	21,633	228,140	351,638	570,938
SHAREHOLDERS' EQUITY									
Share capital	14	100,000	-	-	100,000	100,000	-	-	100,000
Retained earnings		21,966	-	-	21,966	13,588	(1,625)	-	11,963
Available-for-sale reserves		303	-	-	303	4,154	-	-	4,154
		122,269	-	-	122,269	117,742	(1,625)	-	116,117
TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY		145,008	320,958	396,720	826,265	139,375	226,515	351,638	687,055

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

		2013				2012			
	Note	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
Gross earned contributions	16	-	215,757	268,162	473,919	-	152,907	209,099	362,006
Contribution ceded									
to retakaful operators	16	-	(171,125)	(9,455)	(180,580)	-	(121,522)	(18,709)	(140,231)
Net earned contributions	16	-	44,632	258,707	293,339	-	31,385	190,390	221,775
Wakalah fee income		141,546	-	-	-	113,351	-	-	-
Surplus sharing from									
Family Takaful fund		7,250	-	-	-	9,400	-	-	-
Investment income	17	3,884	3,046	12,252	19,182	3,748	2,893	9,263	15,904
Realised gains and losses	18	3,530	874	15,765	20,169	5,042	565	8,345	13,952
Fair value gains and losses	19	(90)	-	9,807	9,287	126	-	5,884	6,010
Fee and commission income		-	46,516	-	46,516	-	31,330	-	31,330
Other operating income - net		12,816	-	-	115	10,392	-	-	96
Other income		168,936	50,436	37,824	95,269	142,059	34,788	23,492	67,292
Total revenue		168,936	95,068	296,531	388,608	142,059	66,173	213,882	289,067
Gross benefits and claims paid	20	-	(67,140)	(151,393)	(218,533)	-	(48,812)	(84,879)	(133,691)
Claims ceded									
to retakaful operators	20	-	48,210	10,286	58,496	-	32,808	20,634	53,442
Gross change to contract									
liabilities	20	-	(51,501)	(52,739)	(93,844)	-	(15,348)	(61,483)	(76,831)
Change in contract liabilities									
ceded to retakaful operators	20	-	43,357	446	43,803	-	18,601	4,486	23,087
Net claims		-	(27,074)	(193,400)	(210,078)	-	(12,751)	(121,242)	(133,993)

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

		2013				2012			
	Note	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
Surplus sharing									
with Takaful Operator		-	-	(7,250)	-	-	-	(9,400)	-
Wakalah fee expenses		-	(63,070)	(78,476)	-	-	(43,316)	(70,035)	-
Fee and commission expenses		(97,168)	-	-	(97,168)	(80,292)	-	-	(80,292)
Management expenses	21	(59,257)	-	-	(59,257)	(51,900)	-	-	(51,900)
Allowance for impairment		-	(2,047)	(1,833)	(3,880)	-	(3)	-	(3)
Other operating expenses		-	-	(12,701)	-	-	-	(10,296)	-
Expense liabilities		(794)	-	-	(794)	(818)	-	-	(818)
Other expenses		(157,219)	(65,117)	(100,260)	(161,099)	(133,010)	(43,319)	(89,731)	(133,013)
Profit before taxation		11,717	2,877	2,871	17,431	9,049	10,103	2,909	22,061
Tax expense attributable to participants	22	-	(1,252)	(2,871)	(4,089)	-	(3,327)	(2,477)	(5,804)
Profit before taxation attributable to Takaful Operator		11,717	1,625	-	13,342	9,049	6,776	432	16,257
Taxation		(3,044)	(1,252)	(2,871)	(7,133)	(3,033)	(3,327)	(2,477)	(8,837)
Tax expense attributable to participants		-	1,252	2,871	4,089	-	3,327	2,477	5,804
Tax expense attributable to Takaful Operator	22	(3,044)	-	-	(3,044)	(3,033)	-	-	(3,033)
Zakat		(295)	-	-	(295)	(225)	-	-	(225)
Net profit for the financial year		8,378	1,625	-	10,003	5,791	6,776	432	12,999

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Note	2013				2012			
		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
Net profit for the financial year		8,378	1,625	-	10,003	5,791	6,776	432	12,999
Other comprehensive loss:									
<u>Items that may be subsequently reclassified to profit or loss:</u>									
Fair value changes on available-for-sale financial assets that may be reclassified to profit or loss:									
- Gross fair value changes	6(e)	(2,310)	(1,218)	(1,472)	(5,000)	2,343	590	1,066	3,999
- Transfer to Income Statement upon disposal of available-for-sale financial assets	18	(2,826)	(874)	(972)	(4,672)	(4,012)	(565)	(1,352)	(5,929)
- Deferred taxation	13	1,285	523	181	1,989	417	(6)	23	434
- Net fair value changes		(3,851)	(1,569)	(2,263)	(7,683)	(1,252)	19	(263)	(1,496)
Change in Takaful contract liabilities arising from unrealised net fair value changes	10	-	1,569	2,263	3,832	-	(19)	263	244
Other comprehensive loss for the financial year, net of tax		(3,851)	-	-	(3,851)	(1,252)	-	-	(1,252)
Total comprehensive income for the financial year		4,527	1,625	-	6,152	4,539	6,776	432	11,747

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

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

	Share <u>capital</u> RM'000	Non- <u>Distributable</u> Available-for- <u>sale reserves</u> RM'000	<u>Distributable</u> Retained <u>earnings</u> RM'000	<u>Total</u> RM'000
At 1 January 2013	100,000	4,154	11,963	116,117
Net profit for the financial year	-	-	10,003	10,003
Other comprehensive loss for the financial year	-	(3,851)	-	(3,851)
At 31 December 2013	<u>100,000</u>	<u>303</u>	<u>21,966</u>	<u>122,269</u>
At 1 January 2012	100,000	5,406	(1,036)	104,370
Net profit for the financial year	-	-	12,999	12,999
Other comprehensive loss for the financial year	-	(1,252)	-	(1,252)
At 31 December 2012	<u>100,000</u>	<u>4,154</u>	<u>11,963</u>	<u>116,117</u>

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u> RM'000	<u>2012</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated in operating activities	23	2,479	2,945
Dividend income received		5,756	3,298
Profit income received		12,788	11,211
Income tax paid		(10,817)	(4,557)
Net cash flows from operating activities		<u>10,206</u>	<u>12,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		-	1
Purchase of property, plant and equipment		(2,383)	(10,280)
Purchase of intangible assets		(820)	(1,112)
Net cash flows used in investing activities		<u>(3,203)</u>	<u>(11,391)</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
		7,003	1,506
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR			
		<u>3,679</u>	<u>2,173</u>
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR			
		<u>10,682</u>	<u>3,679</u>
Cash and cash equivalents consist of:			
Cash and bank balances		10,682	3,679
		<u>10,682</u>	<u>3,679</u>

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013**1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

The Company is engaged principally in the underwriting of Family Takaful including Investment-linked business and all classes of General Takaful business. There have been no significant changes 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 and principal place of business of the Company are located at:

Registered office

Suite 12.03, 12th Floor
No. 566, Jalan Ipoh
51200 Kuala Lumpur

Principal place of business

8th Floor, No. 566 Jalan Ipoh
51200 Kuala Lumpur

The holding company and the company regarded by the Directors as the ultimate holding company is MAA Group Berhad, a company incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 17 April 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

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

Following the adoption of MFRS, a Takaful Operator is required to present its financial statements for itself and the Takaful funds it manages.

In preparing the Company-level financial statements as a whole, the assets, liabilities, income and expenses of the Takaful funds are combined with those of the Takaful Operator whereby the related inter-fund balances, including Qardhul Hassan, and transactions are eliminated in full.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

The inclusion of separate financial information of the Takaful funds and the Takaful Operator together with the Company-level financial statements in the statement of financial position, the statements of income and 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 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.

The preparation of financial statements in conformity with the MFRS requires the use of 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 revenue and expenses during the financial year. It also requires Directors to exercise their judgement 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 from those estimates.

Furthermore, assets and financial liabilities are offset and the net amount approved in the statement of financial position only where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to release the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required to or permitted by an accounting standard or interpretation as specifically described in the accounting policies of the Company.

The preparation of financial statements in conformity of MFRS requires the use of terminology under relevant standards. The use of key terms such as "insurance", "reinsurance" in the financial statements refers to Shariah compliant Takaful or Islamic insurance transactions, assets or liabilities.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

- (i) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company's financial year beginning on or after 1 January 2013 are as follows:

<u>MFRSs/Interpretations</u>	<u>Effective Date</u>
MFRS 7 "Financial Instruments: Disclosures"	1 January 2013
FRS 13 "Fair Value Measurement"	1 January 2013
MFRS 101 "Presentation of items of Other Comprehensive Income"	1 July 2012

- 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.
- Amendment to MFRS 101 'Presentation of items of other comprehensive income' requires entities to separate items presented in 'other comprehensive income' ("OCI") in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future.

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

- (ii) The Company will apply the new standards, amendments to standards and interpretations in the following periods:

Effective from financial year beginning on/after 1 January 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 is not expected to have a material impact on the financial statements of the Company.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

- (ii) The Company will apply the new standards, amendments to standards and interpretations in the following periods (continued):

Effective date yet to be determined by the Malaysian Accounting Standards Board ("MASB")

- MFRS 9, 'Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities' replaces the parts of MFRS 139 that relate to the classification and measurement of financial instruments. MFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the MFRS 139 requirements. 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.
- The Company has yet to assess the full impact of MFRS 9 onto the Company's accounting policies. The Company will also consider the impact of the remaining phases of MFRS 9 when completed by the MASB.

All other new amendments to the published standards and interpretations to existing standards issued by the MASB effective for financial periods subsequent to 1 January 2014 are not relevant to the Company.

(b) Functional and presentation currency

The financial statement is presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial statement presented in RM has been rounded to the nearest thousand, unless otherwise stated.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Subsequent cost is 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. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Property, plant and equipment (continued)**

The residual values and useful life of assets are reviewed and adjusted if appropriate at each date of the statement of financial position. Depreciation of property, plant and equipment is provided so as to allocate the cost of each asset on a straight line basis over the estimated useful life of the assets. The annual depreciation rates are as follows:

Computer equipment	20%
Furniture and fittings	10%
Motor vehicles	10%
Office equipment	10%
Renovation	10%

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. (See accounting policy Note 2(h) to the financial statements on impairment of non-financial assets.)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the income statement.

(d) Intangible asset**Computer software**

Acquired computer software licences 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 developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable software systems controlled by the Company, which do not form an integral part of the hardware, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Investments and other financial assets**

The Company classifies its investments and other financial assets into the following categories: financial assets measured at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investment at initial recognition.

(i) Financial assets measured at fair value through profit or loss ("FVTPL")

The Company classifies assets acquired for the purpose of selling in the short-term as held-for-trading or it is part of a portfolio of identified investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Investments held by investment-linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

Financial assets classified as FVTPL are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value and any gain or loss arising from the change in fair values is recognised in the income statement. 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.

(ii) Held-to-maturity ("HTM")

Held-to-maturity investments are debt instruments with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity.

Financial assets classified as held-to-maturity are initially recognised at fair value. After initial recognition, these financial assets are subsequently measured at amortised cost using the effective interest method, less impaired loss. A gain or loss is recognised in the income statement when the asset is derecognised or impaired.

(iii) Loans and receivables ("LAR")

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment loss.

Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Investments and other financial assets (continued)****(iv) Available-for-sale ("AFS") financial assets**

AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These assets are initially recognised at fair value. After initial measurement AFS financial assets are remeasured at fair value.

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the asset is derecognised or asset is determined to be impaired, except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities. Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and the changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in income statement, translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity except for the General Takaful and Family Takaful funds, where such fair value gains or losses are reported as a separate component of Takaful contract liabilities until the asset is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred through the statement of comprehensive income or from Takaful contract liabilities to the income statement.

(f) Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted or published bid prices on the date of the statement of financial position.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Fair value of financial instruments (continued)**

The fair value of floating rate, over-night and time deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement and accrued profit. The fair value of fixed yield-bearing deposits is measured using estimated discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the date of the statement of financial position.

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

The carrying amounts of financial assets and financial liabilities with a maturity period of less than one year are assumed to approximate their fair values. Fair value measurements are classified using a fair value hierarchy based on the observability of the inputs used in the fair value measurement. The levels of the fair value hierarchy are defined as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 inputs are market based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets; (iii) inputs other than quoted prices that are observable and (iv) inputs derived from, or corroborated by, observable market data.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes and discounted cash flow and investment in structured products with fair values obtained via investment bankers and/or fund managers are considered as Level 2 valuation basis.

Level 3 inputs are unobservable inputs which reflect the Company's own assumptions about market pricing using the best internal and external information available. Fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. There are no level 3 valued financial investments held by the Company during the current financial year.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective profit rate/yield. The carrying amount of the asset is reduced through the use of an allowance account and the impairment loss is recorded in the income statement.

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 date of the statement of financial position.

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

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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Impairment of financial assets (continued)****(ii) AFS financial assets**

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity through the statement of comprehensive income or from Takaful contract liabilities to the income statement. Reversals in respect of equity instruments classified as AFS are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as AFS are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

(h) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the 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. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to the income statement immediately.

A subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(i) Takaful receivables

Takaful receivables are recognised when due. They are measured at initial recognition at the fair value. Subsequent to initial recognition, Takaful receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the Takaful receivables are impaired, the Company reduces the carrying amount of the Takaful receivables accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that Takaful receivables are impaired using the procedures adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(g) to the financial statements.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) 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 has post-employment benefit schemes for eligible employees, which are defined contribution plans.

The Company's contributions to defined contribution plans, including the Employees' Provident Fund, are charged to the income statement in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(k) Product classification

The Company issues contracts that transfer Takaful risk or financial risk or both.

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.

Takaful contracts are those contracts that transfer significant Takaful risk. A Takaful contract is a contract under which the Company (the insurer) has accepted significant Takaful risk from another party (the participants) by agreeing to compensate the participants if a specified uncertain future event (the insured event) adversely affects the participants. As a general guideline, the Company determines whether it has significant Takaful risk by comparing benefits paid with 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 expired. Investment contracts can, however, be reclassified as Takaful contracts after inception if Takaful risk becomes significant.

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Product classification (continued)**

The Company defines Takaful risk to be significant when the ratio of the Takaful risk over the deposit component is not less than 110% of the deposit component at any point of the Takaful contract in force. Based on this definition, all Takaful contracts issued by the Company met the definition of Takaful contracts as at the date of this statement of financial position.

(l) Retakaful

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

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

Retakaful assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the retakaful asset that the Company 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 Company will receive from the retakaful operators. The impairment loss is recorded in the income statement.

Gains or losses on buying retakaful are recognised in the income statement immediately at the date of purchase and are not amortised.

The Company also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable. Contribution and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the retakaful business. Retakaful liabilities represent balances due to retakaful companies. 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 any explicitly identified contribution or fees to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective yield method when accrued.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) General Takaful underwriting results**

The General Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and consists of unearned contribution reserves and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the General Takaful fund distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. The General Takaful underwriting results are determined for each class of General Takaful business after taking into account retakaful, wakalah fee, unearned contributions and claims incurred.

Any deficit in the General takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

Contribution income

Contribution income is recognised in a financial year in respect of risks assumed during that particular year. Contributions from direct business are recognised during the financial year upon the issuance of Takaful certificates. Contributions in respect of risks inception for which Takaful certificates have not been raised as of the date of the statement of financial position are accrued at that date.

Outward retakaful contributions are recognised in the same accounting period as the original certificate to which the retakaful relates.

Unearned contribution reserves

Unearned contribution reserves ("UCR") represent the portion of the net contributions of Takaful certificates written that relate to the unexpired periods of the certificates at the end of the financial year.

In determining the UCR at the date of the statement of financial position, the method that most accurately reflects the actual unearned contribution is used, as follows:

- 1/365th method for all classes of General Takaful business within Malaysia; and
- Time apportionment method for non-annual certificates and first year annual certificates coverage period of more than one year

with a further reduction for Wakalah fee expenses to reflect the Wakalah business principle.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) General Takaful underwriting results (continued)**Provision for outstanding claims

A liability for outstanding claims is recognised in respect of both direct Takaful and inward retakaful. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the statement of financial position.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported ("IBNR") at the date of the statement of financial position, based on an actuarial valuation by an independent qualified actuary.

Commission and agency expenses

Commission and agency expenses which are costs directly incurred in securing contributions on Takaful certificates, net of commission income derived from retakaful in the course of ceding of contributions, are charged to the income statement of the General Takaful business as part of Wakalah fees payable to the Takaful Operator (see Note 2(r) to the financial statements) in the financial year in which they are incurred.

Deficits/accumulated deficits

Deficits reported by the General Takaful fund during the financial year are reported as a loss in the income statement of the General Takaful fund to the extent that there are no unallocated surplus balances residing within the General Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the financial statements of the Company.

(n) Family Takaful underwriting results

The Family Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and includes the amount attributable to participants. 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 attributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

Any actuarial deficit in the Family Takaful fund will be made good via a benevolent loan or Qardhul Hassan from the Takaful Operator.

Contribution income

Contribution income represents contribution recognised in the Family Takaful and Investment-linked funds.

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) Family Takaful underwriting results (continued)**Contribution income (continued)

Outward retakaful contributions are recognised in the same accounting periods as the original certificates to which the retakaful relates.

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

Provision for outstanding claims

Claims and settlement costs that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

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

Claims and provisions for claims arising on Family Takaful certificates including settlement costs, less retakaful recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a 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 assured or occurrence of contingency covered.

Deficits/accumulated deficits

Deficits reported by the Family Takaful fund during the financial year are reported as a loss in the income statement of the Family Takaful fund to the extent that there are no unallocated surplus balances residing within the Family Takaful contract liabilities. Accordingly, accumulated deficits and available-for-sale reserve attributable to Takaful Operator are treated as an equity in the statement of financial position of the Company.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Takaful contract liabilities****Family Takaful contract liabilities**

Family Takaful contract liabilities are recognised when contracts are entered into and contributions are charged.

A liability adequacy test is performed at 75th sufficiency level, in line with BNM's valuation guidelines on Family Takaful business and the requirements of MFRS 4 Insurance Contract. Hence, claim rates, surrender assumptions and other valuation parameters are determined at a 75 percentile confidence level.

For Investment-linked products, the non-unit liabilities were valued on a cash flow basis by projecting tabarru' (risk charges) stream on a certificate basis, taking into account expected death and surrenders as decrements. The tabarru' streams were then compared against the corresponding projected mortality and other risk benefits. Future deficits were reserved on a present value basis, using the risk free spot rates of return. The higher of the UCR and total present value of deficits was taken as the actuarial liability. The value of Participant Investment Account ("PIA") is taken as the unit reserves.

In the case of yearly renewable term products with no savings elements, the liability for such Family Takaful certificate comprises the provision for unearned contributions and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the operator. Where the portfolio demonstrates deteriorating experience, a deficiency reserve is set up as an additional reserve.

For long-term term products with implicit guarantees, the liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of present value of future benefits less the present value of future contributions, discounted at the appropriate risk discount rate.

Expense reserve in the Shareholder's fund is determined by taking the present value of future deficits, discounted at appropriate spot rates. Future deficits are defined as the excess of future expense stream over future income cash flows, in aggregate basis.

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

General Takaful contract liabilities

General Takaful contract liabilities are recognised when contracts are entered into and contributions are charged.

These liabilities comprise outstanding claims provisions and reserves for unearned contributions.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Takaful contract liabilities (continued)**General Takaful contract liabilities (continued)

Outstanding claims provision 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 that may include a margin for adverse deviation. 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.

Unearned contributions reserves represents contributions received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as contribution income.

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. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking into account of the investment return expected to arise on assets relating to the relevant general technical provisions. If these estimates show that the carrying amount of the unearned contributions is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

(p) Takaful Operator's expense liabilities

The expense liabilities of the Takaful Operator consist of expense liabilities of the General and Family Takaful funds which are based on estimations performed by a qualified actuary. The expense liabilities are released over the term of the Takaful certificate and recognised in the income statement.

(q) Measurement and impairment of Qardhul Hassan

Any deficit in the Takaful risk fund will be made good via a benevolent loan, or Qardhul Hassan, granted by the Takaful Operator to the Takaful funds. Qardhul Hassan shall be repaid from future surplus of the Takaful funds.

Qardhul Hassan is accounted for as receivable and payable in the financial statements of the Takaful Operator and Takaful funds respectively, and is stated at cost. 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. As write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2(g) to the financial statements on impairment of assets.

Qardhul Hassan payable in the respective Takaful funds is stated at cost.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(r) Management expenses, commission expenses and Wakalah fee**

Acquisition costs, commissions and management expenses are borne by the Family Takaful and General Takaful funds respectively at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by the Company's Shariah Committee and agreed between the participants and the Company, and are allocated to the Takaful Operator and recognised as income upon issuance of certificates.

(s) Other revenue recognition

Profit including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis that takes into account the effective yield of the asset.

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to the income statement.

(t) Zakat

Zakat represents tithes payable by the Company to comply with Shariah principles and as approved by the Shariah Committee of the Company. Zakat provision is calculated on 2.5% of the profit before zakat and taxation of the Company for the financial year.

(u) Income taxes

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 liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

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.

Deferred tax is determined using the tax rate (and the tax law) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is relieved or the deferred tax liability is settled.

(v) Dividends

Dividends are recognised as liabilities when the obligation to pay is established.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(w) 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 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 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.

(x) Provisions

Provisions are recognised when the Company has a present legal constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(y) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances excluding fixed and call deposits.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates 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) Valuation of General Takaful claims liabilities ("IBNR") reserves

The estimation of claims liabilities or equivalently, the ultimate claim liability arising from claims incurred under a Takaful contract, is the Company's most critical accounting estimate.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(a) Critical accounting estimates and assumptions (continued)****(i) Valuation of General Takaful claims liabilities ("IBNR") reserves (continued)**

The Company engages an independent external actuary to perform the IBNR claims reserve estimation. The general approach taken in the actuarial estimation of outstanding claims is to analyse past experience with respect to the number of claims paid, number of claims open, the value of claims paid and value of claims outstanding. By using an appropriate set of assumptions, the actuary will select the future payment and reserving patterns of the outstanding claims in estimating the Ultimate Loss.

As the Company has been in operation for six and half years, we have placed full credibility on the Company's own claims experience in estimating the claim liability on a Central Estimate basis.

The chain ladder method involves developing each accident year's claim amount to ultimate loss through the use of loss development factors selected from trends apparent in the historical data and market benchmarks.

When used alongside the Bornheutter Ferguson method, the loss development factors become a credibility weight between actual development and the expected loss taken from the previous valuation results or some other prior estimates.

The frequency / severity method is also utilised in calculating the ultimate loss in this analysis. The ultimate loss is calculated as the number of open claims multiplied by the selected open severity plus the paid amount to date, where both number of open claims and selected open severity are determined using the chain ladder method.

The IBNR amount is derived by subtracting the claims reported to date from the projected ultimate loss.

The Company holds the reserve at 75% level of sufficiency. This means the reserve will be sufficient in most but not all potential scenarios. To select the 75% risk margin the actuary has run a Stochastic chain ladder analysis. Ultimately the actuary is guided by the market average to select a risk margin that is appropriate given the Company's size and lines of business written.

The actual value of the future claim liability is dependent upon many factors such as changes in procedures for claims settlement, and social and economic inflation. This means there is an inherent uncertainty in the estimate of the ultimate claim liability. As such, any changes in the future claim environment may result in changes to the estimated claim liability.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(ii) Valuation of General Takaful contribution liabilities

The Company reviews its unexpired risks and runs a liability adequacy test to determine whether there is any excess of expected claims at a 75% confidence level and deferred acquisition costs over the unearned contribution at a fund level. If the estimated total unexpired risk reserve ("URR") is larger than the total UCR less related deferred acquisition costs, then the total deficiency will be recognised in the income statement by setting up a provision for liability adequacy.

(iii) Actuarial liabilities for Family Takaful fund

The Company engages an independent external appointed actuary to perform the actuarial liabilities for Family Takaful plans. All the products are valued in such a manner that the overall liabilities secure 75% sufficiency, as prescribed by BNM's valuation guidelines on Family Takaful business. The liabilities were set up based on product type as follows:

- Investment-Linked Personal Risk Investment Account ("PRIA Investment-Linked")

This is the risk fund that involves investment-linked certificates including unit deducting riders. The Tabarru' rates are dripped from the Participant Investment Account ("PIA") to the risk fund on a monthly basis. The UCR is calculated by taking half of the monthly drip at the valuation date. The liabilities in this fund are calculated as the larger of UCR or total present value of future deficits. Future deficits were reserved on a present value basis using the risk free spot rates of return and claims assumptions were determined at 75% sufficiency level.

In addition to this liability, IBNR reserve is also included for Critical Illness and Medical unit deducting riders. From the experience study, 2 months and 1 month average claims were assumed in calculating the IBNR for Critical Illness and Medical riders respectively.

The Company has also included a provision for certificates under waiver of contributions. This is taken as the present value of future gross contributions to be waived throughout the term, discounted using risk free spot rates of returns.

- Ordinary Personal Risk Investment Account ("PRIA Ordinary Life")

This fund consists of four products, Cancer Care, Smart Medic, Term 80 and Takafulife Series.

CancerCare is a guaranteed renewable medical takaful product with an additional death benefit. The contribution reserve is calculated as 100% of unearned cancer tabarru' using 1/24th method. For the death benefit, the valuation reserve is calculated using M9903 mortality table discounted at spot rates. In addition, 2 months of average claims are set aside for IBNR.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions (continued)

(iii) Actuarial liabilities for Family Takaful fund (continued)

- Ordinary Personal Risk Investment Account ("PRIA Ordinary Life") (continued)

SmartMedic is an individual Hospital and Surgical product with guaranteed renewability up to age 80. It also provides an additional benefit, funeral expense, which is payable upon death due to all causes. The contribution reserve is calculated as 100% of unearned medical tabarru. Reserve for funeral expense benefit is calculated as 100% of unearned funeral expense tabarru using 1/24th method. An additional provision of 1 month of average claims is set aside as IBNR for SmartMedic. An additional 70% provision for contribution reserve is set aside as deficiency reserve, to reflect the portfolio experience. Reserves for SmartMedic100 and SmartMedic200 are adjusted to reflect the 50% and 75% retained portion respectively after retakaful arrangement.

The Takafulife series and Term 80 are ordinary whole life and termplan respectively. The Tabarru' rates are dripped from the PIA to the risk fund on a monthly basis. The UCR is calculated by taking half of the monthly drip at the valuation date. The liabilities in this fund are calculated as the larger of UCR or total present value of future deficits. Future deficits were reserved on a present value basis using the risk free spot rates of return and claims assumptions were determined at 75% sufficiency level. In addition, 2 months of average claims are set aside for IBNR of Critical Illness riders.

- Group Fund Risk Investment Account ("GFRIA")

Currently there are 3 products in this fund, which are Group Term Takaful, Comprehensive Group Takaful Scheme and Group Mortgage Protection Plan.

The net liability for Group Term Takaful has been calculated has been calculated on URR basis using the 1/24th method.

For Comprehensive Group Takaful Scheme, the reserve is calculated at 100% of unearned contribution using the 1/24th method.

IBNR is set aside for the Critical Illness riders attachable to Group Term Takaful and Comprehensive Group Takaful Scheme based on 5 months of average claims.

The reserving method used for Group Mortgage Protection Plan is based on Gross Premium Valuation ("GPV") method. The present value of future benefits was discounted at risk free spot rates using M9903 mortality table on the retained portion of the risk.

At subsequent reporting dates, these estimates will be reassessed for adequacy and reasonableness and changes will be made accordingly.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(a) Critical accounting estimates and assumptions (continued)****(iv) Valuation of Takaful Operator's fund expenses liabilities**

- Expense liabilities from Family Takaful products

The expense liability is calculated by discounting future deficits. Deficit is defined by outgo minus income of the Takaful Operator's fund, at office level. Takaful Operator's fund income comprises future wakalah fees, certificate fees, fund management fees and risk fund surplus after Qardhul Hassan repayments, whereby the outgoes are future renewal expenses, commissions and agency related expenses.

- Expense liabilities from General Takaful products

The expense liability is determined by selecting the higher of the unearned wakalah fee ("UWF") and the unearned expense reserve ("UER") at a 75% confidence level. The central estimate of UER contains the following three components, which are the claims handling expenses on the outstanding claims and IBNR, claims handling expenses on the unexpired risks and policy servicing costs on unearned contribution. The central estimate of UER is projected to secure an overall level of 75% confidence.

(b) Critical judgment in applying the entity's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of a specific policy could materially affect the reported results and financial position of the Company.

Significant judgment is required in determining the income and deferred taxes applicable to the Company's business as a Takaful Operator. There are transactions and calculations for which the ultimate tax determination is subject to agreement with the tax authorities. The Company recognises tax liabilities on anticipated issues based on the best estimate of the amount of taxes expected to be paid. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Company No.

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

4 PROPERTY, PLANT AND EQUIPMENT

<u>Takaful Operator/Company</u>	<u>Computer equipment</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>						
At 1 January 2012	2,185	2,493	395	305	499	5,877
Additions	2,481	3,618	6	2,696	1,480	10,281
Disposals	(6)	-	(4)	(8)	-	(18)
At 31 December 2012/1 January 2013	4,660	6,111	397	2,993	1,979	16,140
Additions	941	595	-	523	324	2,383
Disposals	(4)	-	-	(24)	-	(28)
At 31 December 2013	5,597	6,706	397	3,492	2,303	18,495

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Takaful Operator/Company</u>	<u>Computer equipment</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Total</u> RM'000
<u>Accumulated depreciation</u>						
At 1 January 2012	547	62	50	36	4	699
Depreciation charge for the financial year	892	447	40	221	141	1,741
Disposals for the financial year	(1)	-	(2)	(1)	-	(4)
At 31 December 2012/1 January 2013	1,438	509	88	256	145	2,436
Depreciation charge for the financial year	1,085	687	40	356	223	2,391
Disposals for the financial year	(2)	-	-	(23)	-	(25)
At 31 December 2013	2,521	1,196	128	589	368	4,802
<u>Net carrying amount</u>						
At 31 December 2012	3,222	5,602	309	2,737	1,834	13,704
At 31 December 2013	3,076	5,510	269	2,903	1,935	13,693

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

5 INTANGIBLE ASSETS

	2013 RM'000	2012 RM'000
<u>Takaful Operator/Company</u>		
Cost:		
At 1 January	8,822	7,710
Additions	820	1,112
At 31 December	<u>9,642</u>	<u>8,822</u>
Accumulated amortisation:		
At 1 January	5,755	4,350
Amortisation for the financial year	1,136	1,405
At 31 December	<u>6,891</u>	<u>5,755</u>
Net book value:		
At 31 December	<u>2,751</u>	<u>3,067</u>

The intangible assets consist mainly of development costs and costs that are directly associated with identifiable software systems controlled by the Company that do not form an integral part of the hardware, and that will generate economic benefits exceeding costs beyond one year.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
<u>At 31 December 2013</u>				
Malaysian Government Guaranteed financing	-	19,241	29,393	48,634
Islamic debt securities, unquoted	62,137	41,902	89,015	190,054
Shariah-approved quoted equities	5,828	-	208,951	209,059
Other investments	1,511	-	4,350	5,861
Investment-linked units	10,430	-	-	10,430
Deposits with financial institutions	15,905	20,276	35,552	70,023
	<u>95,811</u>	<u>81,419</u>	<u>367,261</u>	<u>534,061</u>

At 31 December 2012

Malaysian Government Guaranteed financing	5,026	24,133	24,279	53,438
Islamic debt securities, unquoted	64,962	37,829	75,805	178,596
Shariah-approved quoted equities	4,230	-	130,675	134,905
Other investments	-	-	45,678	45,678
Deposits with financial institutions	11,631	10,050	49,096	70,777
	<u>85,849</u>	<u>72,012</u>	<u>325,533</u>	<u>483,394</u>

The Company's investments are summarised as follows:-

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
<u>At 31 December 2013</u>				
Held-to-maturity ("HTM")	-	15,365	25,516	40,881
Loans and receivables ("LAR")	15,905	20,276	35,552	70,023
Available-for-sale ("AFS")	62,137	45,778	41,634	149,549
Fair value through profit or loss ("FVTPL")	17,769	-	264,559	273,608
	<u>95,811</u>	<u>81,419</u>	<u>367,261</u>	<u>534,061</u>

At 31 December 2012

Held-to-maturity ("HTM")	-	15,366	20,468	35,834
Loans and receivables ("LAR")	11,631	10,050	49,096	70,777
Available-for-sale ("AFS")	69,988	46,596	38,119	154,703
Fair value through profit or loss ("FVTPL")	4,230	-	217,850	222,080
	<u>85,849</u>	<u>72,012</u>	<u>325,533</u>	<u>483,394</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
The following investments mature after 12 months:				
<u>At 31 December 2013</u>				
HTM	-	15,365	25,516	40,881
AFS	62,137	45,778	41,634	149,549
<u>At 31 December 2012</u>				
HTM	-	15,366	20,468	35,834
AFS	69,988	46,596	38,119	154,703
(a) HTM investments				
<u>At 31 December 2013</u>				
Amortised cost:				
Malaysian Government Guaranteed financing	-	15,365	25,516	40,881
Fair value:				
Malaysian Government Guaranteed financing	-	14,688	24,289	38,977
<u>At 31 December 2012</u>				
Amortised cost:				
Malaysian Government Guaranteed financing	-	15,366	20,468	35,834
Fair value:				
Malaysian Government Guaranteed financing	-	15,604	21,034	36,638

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(b) LAR				
<u>At 31 December 2013</u>				
Amortised cost:				
Fixed and call deposits with:				
Licensed financial institutions	15,905	20,276	35,552	70,023
<u>At 31 December 2012</u>				
Amortised cost:				
Fixed and call deposits with:				
Licensed financial institutions	11,631	10,050	49,096	70,777

The Company has restricted cash and cash equivalents in the LAR amounts to RM999,029 (2012: RM961,963).

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(c) AFS investments				
<u>At 31 December 2013</u>				
Fair value:				
Malaysian Government				
Guaranteed financing	-	3,876	3,877	7,753
Islamic debt securities, unquoted	62,137	41,902	37,757	141,796
	62,137	45,778	41,634	149,549
<u>At 31 December 2012</u>				
Fair value:				
Malaysian Government				
Guaranteed financing	5,026	8,766	3,811	17,603
Islamic debt securities, unquoted	64,962	37,830	34,308	137,100
	69,988	46,596	38,119	154,703

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(d) FVTPL investments				
<u>At 31 December 2013</u>				
Fair value at designation:				
Shariah-approved quoted equities	5,828	-	208,951	209,059
Islamic debt securities, unquoted	-	-	51,258	48,258
Other investments	1,511	-	4,350	5,861
Investment-linked units	10,430	-	-	10,430
	<u>17,769</u>	<u>-</u>	<u>264,559</u>	<u>273,608</u>
<u>At 31 December 2012</u>				
Fair value at designation:				
Shariah-approved quoted equities	4,230	-	130,675	134,905
Islamic debt securities, unquoted	-	-	41,497	41,497
Other investments	-	-	45,678	45,678
	<u>4,230</u>	<u>-</u>	<u>217,850</u>	<u>222,080</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying value of investments

(i) Takaful Operator

	<u>LAR</u>	<u>AFS</u>	<u>FVTPL</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	15,141	59,246	9,209	83,596
Purchases	-	35,126	7,512	42,638
Disposals including maturities and redemptions	(3,528)	(21,669)	(12,617)	(37,814)
Fair value gains recorded in:				
Income statement (Note 19)	-	-	126	126
Other comprehensive income	-	2,343	-	2,343
Realised gains (Note 18(a))	-	(4,012)	-	(4,012)
Movement in accrued profit	18	(1,037)	-	(1,019)
Amortisation adjustment (Note 17(a))	-	(9)	-	(9)
At 31 December 2012	11,631	69,988	4,230	85,849
Purchases	4,226	31,616	15,843	51,685
Disposals including maturities and redemptions	-	(34,528)	(2,214)	(36,742)
Fair value loss recorded in:				
Income statement (Note 19)	-	-	(90)	(90)
Other comprehensive income	-	(2,310)	-	(2,310)
Realised gains (Note 18(a))	-	(2,826)	-	(2,826)
Movement in accrued profit	48	328	-	376
Amortisation adjustment (Note 17(a))	-	(131)	-	(131)
At 31 December 2013	15,905	62,137	17,769	95,811

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying values of investments (continued)

(ii) General Takaful fund

	<u>HTM</u>	<u>LAB</u>	<u>AES</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	10,153	6,802	45,294	62,249
Purchases	5,000	3,239	27,275	35,514
Disposals including maturities and redemptions	-	-	(25,986)	(25,986)
Fair value gains recorded in:				
Takaful contract liabilities (Note 10(b)(iii))	-	-	590	590
Realised gains (Note 18(b))	-	-	(565)	(565)
Movement in accrued profit	213	9	(49)	173
Accretion adjustment (Note 17(b))	-	-	37	37
At 31 December 2012	15,366	10,050	46,596	72,012
Purchases	-	10,225	21,350	31,575
Disposals including maturities and redemptions	-	-	(20,292)	(20,292)
Fair value loss recorded in:				
Takaful contract liabilities (Note 10(b)(iii))	-	-	(1,218)	(1,218)
Realised gains (Note 18(b))	-	-	(874)	(874)
Movement in accrued profit	(1)	1	195	195
Accretion adjustment (Note 17(b))	-	-	21	21
At 31 December 2013	15,365	20,276	45,778	81,419

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying values of investments (continued)

(iii) Family Takaful fund

	<u>HTM</u>	<u>LAB</u>	<u>AFS</u>	<u>FVTPL</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	10,155	40,872	40,962	165,862	257,851
Purchases	10,044	8,289	5,043	100,302	123,678
Disposals including maturities and redemptions	-	-	(7,662)	(54,675)	(62,337)
Fair value gains recorded in:					
Income statement (Note 19)	-	-	-	5,884	5,884
Takaful contract liabilities (Note 10(a))	-	-	1,066	-	1,066
Realised gains (Note 18(c))	-	-	(1,352)	-	(1,352)
Movement in accrued profit (Amortisation)/accretion adjustment (Note 17(c))	270	(65)	(16)	477	666
	(1)	-	78	-	77
At 31 December 2012	20,468	49,096	38,119	217,850	325,533
Purchases	5,000	-	16,897	181,989	203,886
Disposals including maturities and redemptions	-	(13,532)	(10,905)	(145,259)	(169,696)
Fair value (loss)/gains recorded in:					
Income statement (Note 19)	-	-	-	9,807	9,807
Takaful contract liabilities (Note 10(a))	-	-	(1,472)	-	(1,472)
Realised gains (Note 18(c))	-	-	(972)	-	(972)
Movement in accrued profit (Amortisation)/accretion adjustment (Note 17(c))	49	(12)	(83)	234	188
	(1)	-	50	(62)	(13)
At 31 December 2013	25,516	35,552	41,634	264,559	367,261

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying values of investments (continued)

(iv) Company

	<u>HTM</u>	<u>LAB</u>	<u>AFS</u>	<u>FVTPL</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2012	20,308	62,815	145,502	175,071	403,696
Purchases	15,044	11,528	67,444	107,814	201,830
Disposals including maturities and redemptions	-	(3,528)	(55,317)	(67,292)	(126,137)
Fair value gains recorded in:					
Income statement (Note 19)	-	-	-	6,010	6,010
Takaful contract liabilities	-	-	1,656	-	1,656
Other comprehensive income	-	-	2,343	-	2,343
Realised gains (Note 18(d))	-	-	(5,929)	-	(5,929)
Movement in accrued profit	483	(38)	(1,102)	477	(180)
(Amortisation)/accretion adjustment (Note 17(d))	(1)	-	106	-	105
At 31 December 2012	35,834	70,777	154,703	222,080	483,394
Purchases	5,000	14,451	69,863	197,832	287,146
Disposals including maturities and redemptions	-	(15,242)	(65,725)	(155,763)	(236,730)
Fair value (loss)/gains recorded in:					
Income statement (Note 19)	-	-	-	9,287	9,287
Takaful contract liabilities	-	-	(2,690)	-	(2,690)
Other comprehensive income	-	-	(2,310)	-	(2,310)
Realised gains (Note 18(d))	-	-	(4,672)	-	(4,672)
Movement in accrued profit	48	37	440	234	759
Amortisation adjustment (Note 17(d))	(1)	-	(60)	(62)	(123)
At 31 December 2013	40,881	70,023	149,549	273,608	534,061

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments

Recurring fair value measurements:

The following tables show the analysis of the different hierarchy of fair values for financial instruments recorded at fair value and financial instruments not measured at fair value but fair values are disclosed:

	<u>HTM</u> RM'000	<u>AES</u> RM'000	<u>FVTPL</u> RM'000	<u>Total</u> RM'000
(i) <u>Takaful Operator</u>				
<u>2013</u>				
Quoted market price (level 1)	-	-	17,769	17,769
Valuation techniques - market observable inputs (level 2)	-	62,137	-	62,137
	<u>-</u>	<u>62,137</u>	<u>17,769</u>	<u>79,906</u>
<u>2012</u>				
Quoted market price (level 1)	-	-	4,230	4,230
Valuation techniques - market observable inputs (level 2)	-	69,988	-	69,988
	<u>-</u>	<u>69,988</u>	<u>4,230</u>	<u>74,218</u>
(ii) <u>General Takaful fund</u>				
<u>2013</u>				
Valuation techniques - market observable inputs (level 2)	14,688	45,778	-	60,466
	<u>14,688</u>	<u>45,778</u>	<u>-</u>	<u>60,466</u>
<u>2012</u>				
Valuation techniques - market observable inputs (level 2)	15,604	46,596	-	62,200
	<u>15,604</u>	<u>46,596</u>	<u>-</u>	<u>62,200</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

Recurring fair value measurements (continued):

The following tables show the analysis of the different hierarchy of fair values for financial instruments recorded at fair value and financial instruments not measured at fair value but fair values are disclosed (continued):

	HTM RM'000	AFS RM'000	FVTPL RM'000	Total RM'000
(iii) <u>Family Takaful fund</u>				
<u>2013</u>				
Quoted market price (level 1)	-	-	213,301	213,301
Valuation techniques - market observable inputs (level 2)	24,289	41,634	51,258	117,181
	<u>24,289</u>	<u>41,634</u>	<u>264,559</u>	<u>330,482</u>
<u>2012</u>				
Quoted market price (level 1)	-	-	130,675	130,675
Valuation techniques - market observable inputs (level 2)	21,034	38,119	87,175	146,328
	<u>21,034</u>	<u>38,119</u>	<u>217,850</u>	<u>277,003</u>
(iv) <u>Company</u>				
<u>2013</u>				
Quoted market price (level 1)	-	-	225,350	225,350
Valuation techniques - market observable inputs (level 2)	38,977	149,549	48,258	236,784
	<u>38,977</u>	<u>149,549</u>	<u>273,608</u>	<u>462,134</u>
<u>2012</u>				
Quoted market price (level 1)	-	-	134,905	134,905
Valuation techniques - market observable inputs (level 2)	36,638	154,703	87,175	278,516
	<u>36,638</u>	<u>154,703</u>	<u>222,080</u>	<u>413,421</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

7 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2013</u>			
Due contributions including agents/brokers and co-insurers	30,517	1,243	31,760
Due from retakaful and cedants	9,710	6,866	16,576
	40,227	8,109	48,336
Allowance for impairment	(2,287)	(1,833)	(4,120)
	37,940	6,276	44,216
Receivable within 12 months	37,940	6,276	44,216
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	43,568	10,697	54,265
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(5,628)	(4,421)	(10,049)
Net amounts of financial assets presented in the statement of financial position	37,940	6,276	44,216
<u>At 31 December 2012</u>			
Due contributions including agents/brokers and co-insurers	18,032	970	19,002
Due from retakaful and cedants	3,725	7,843	11,568
	21,757	8,813	30,570
Allowance for impairment	(819)	-	(819)
	20,938	8,813	29,751
Receivable within 12 months	20,938	8,813	29,751
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	24,968	14,553	39,521
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(4,030)	(5,740)	(9,770)
Net amounts of financial assets presented in the statement of financial position	20,938	8,813	29,751

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

7 TAKAFUL RECEIVABLES (CONTINUED)

There are no financial assets subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2013 (2012: nil).

Movement in allowance for impairment

	General Takaful <u>Fund</u> RM'000	Family Takaful <u>Fund</u> RM'000	<u>Company</u> RM'000
At 1 January 2012	816	-	816
Allowance during the financial year	3	-	3
At 31 December 2012/1 January 2013	819	-	819
Allowance during the financial year	1,468	1,833	3,301
At 31 December 2013	<u>2,287</u>	<u>1,833</u>	<u>4,120</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

8 RETAKAFUL ASSETS

	<u>2013</u> RM'000	<u>2012</u> RM'000
(a) <u>General Takaful fund</u>		
Retakaful of Takaful contracts (Note 10)	<u>200,362</u>	<u>132,140</u>
(b) <u>Family Takaful fund</u>		
Retakaful of Takaful contracts (Note 10)	<u>15,490</u>	<u>13,792</u>
(c) <u>Company</u>		
Retakaful of Takaful contracts (Note 10)	<u>215,852</u>	<u>145,932</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

9 OTHER RECEIVABLES

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2013</u>					
Staff financing		117	-	-	117
Knock-for-knock ("KFK") claims recoverable		-	407	-	407
KFK claims recoverable at gross		-	986	-	986
Less: Allowance for impairment	9 (a)	-	(579)	-	(579)
Other receivables, deposits and prepayments		2,670	-	1,769	4,439
		<u>2,787</u>	<u>407</u>	<u>1,769</u>	<u>4,963</u>
<u>Inter-fund balances</u>					
Amount due from General Takaful fund	12	6,067	-	-	-
Certificate fees receivable from Family Takaful fund	12	866	-	-	-
Tharawat fees receivable from Family Takaful fund	12	1,929	-	-	-
Amount due from Family Takaful fund	12	9,496	383	-	-
Surplus receivable from Family Takaful fund	12	7,250	-	-	-
		<u>25,608</u>	<u>383</u>	<u>-</u>	<u>-</u>
Total other receivables		<u>28,395</u>	<u>790</u>	<u>1,769</u>	<u>4,963</u>
Receivable within 12 months		<u>28,395</u>	<u>790</u>	<u>1,769</u>	<u>4,963</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

9 OTHER RECEIVABLES (CONTINUED)

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2012</u>					
Staff financing		166	-	-	166
KFK claims recoverable		-	1,004	-	1,004
Other receivables, deposits and prepayments		5,960	-	398	6,358
		<u>6,126</u>	<u>1,004</u>	<u>398</u>	<u>7,528</u>
<u>Inter-fund balances</u>					
Amount due from General Takaful fund	12	2,258	-	-	-
Certificate fees receivable from Family Takaful fund	12	1,001	-	-	-
Tharawat fees receivable from Family Takaful fund	12	3,013	-	-	-
Amount due from Family Takaful fund	12	11,793	383	-	-
Surplus receivable from Family Takaful fund	12	10,400	-	-	-
		<u>28,465</u>	<u>383</u>	<u>-</u>	<u>-</u>
Total other receivables		<u>34,591</u>	<u>1,387</u>	<u>398</u>	<u>7,528</u>
Receivable within 12 months		<u>34,591</u>	<u>1,387</u>	<u>398</u>	<u>7,528</u>

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

(a) Movement in allowance for impairment

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>2013</u>				
At 1 January	-	-	-	-
Allowance during the financial year	-	579	-	579
At 31 December	<u>-</u>	<u>579</u>	<u>-</u>	<u>579</u>
<u>2012</u>				
At 1 January	-	-	-	-
Allowance during the financial year	-	-	-	-
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES

	2013			2012		
	<u>Gross</u>	Re-	<u>Net</u>	<u>Gross</u>	Re-	<u>Net</u>
	RM'000	Takaful	RM'000	RM'000	Takaful	RM'000
Family Takaful (Note 10(a))	362,592	(15,490)	347,102	309,971	(13,792)	296,179
General Takaful (Note 10(b))	254,065	(200,362)	53,703	172,604	(132,140)	40,464
Company	606,261	(215,852)	390,409	482,575	(145,932)	336,643

(a) Family Takaful

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

	2013			2012		
	<u>Gross</u>	Re-	<u>Net</u>	<u>Gross</u>	Re-	<u>Net</u>
	RM'000	Takaful	RM'000	RM'000	Takaful	RM'000
Certificateholders' liabilities	64,571	(13,648)	50,923	54,621	(13,202)	41,419
Net asset value attributable to unitholders	288,463	-	288,463	246,482	-	246,482
Actuarial liabilities	353,034	(13,648)	339,386	301,103	(13,202)	287,901
Unallocated surplus	4,823	-	4,823	4,015	-	4,015
Claims liabilities	4,671	(1,842)	2,829	2,526	(590)	1,936
Available-for-sale fair value adjustment						
- gross	85	-	85	2,529	-	2,529
- deferred tax	(21)	-	(21)	(202)	-	(202)
	64	-	64	2,327	-	2,327
	362,592	(15,490)	347,102	309,971	(13,792)	296,179
				<u>Gross</u>	Re-	<u>Net</u>
				RM'000	RM'000	RM'000
At 1 January 2012				246,107	(10,049)	236,058
Contribution received (Note 16(b))				209,099	(18,709)	190,390
Liabilities paid for death, maturities, surrender, benefit and claims (Note 20(b)(i),(ii))				(84,879)	20,634	(64,245)
Movement in claims liabilities				2,755	(743)	2,012
Experience variance on inforce Takaful certificates				7,021	(4,486)	2,535
Reserve on new policies				13,461	(6,365)	7,096
Miscellaneous				4,187	5,926	10,113
Fees deducted				(77,685)	-	(77,685)
Repayment of Qardhul Hassan to Takaful Operator				(432)	-	(432)
Surplus distributed to Takaful Operator				(9,400)	-	(9,400)
Movement in available-for-sale fair value adjustment						
- gross fair value changes				1,066	-	1,066
- transfer to Income Statement upon disposal of available-for-sale financial assets (Note 18(c))				(1,352)	-	(1,352)
- deferred tax				23	-	23
				(263)	-	(263)
At 31 December 2012				309,971	(13,792)	296,179

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful (continued)

	<u>Gross</u> RM'000	Re- <u>Takaful</u> RM'000	<u>Net</u> RM'000
At 1 January 2013	309,971	(13,792)	296,179
Contribution received (Note 16(b))	268,162	(9,455)	258,707
Liabilities paid for death, maturities, surrender, benefit and claims (Note 20(b)(i),(ii))	(151,393)	10,286	(141,107)
Movement in claims liabilities	(2,145)	1,252	(893)
Experience variance on inforce Takaful certificates	11,811	(8,854)	2,957
Reserve on new policies	9,175	(2,108)	7,067
Miscellaneous	5,000	7,181	12,181
Fees deducted	(78,476)	-	(78,476)
Surplus distributed to Takaful Operator	(7,250)	-	(7,250)
Movement in available-for-sale fair value adjustment			
- gross fair value changes	(1,472)	-	(1,472)
- transfer to Income Statement upon disposal of available-for-sale financial assets (Note 18(c))	(972)	-	(972)
- deferred tax	181	-	181
	(2,263)	-	(2,263)
At 31 December 2013	<u>362,592</u>	<u>(15,490)</u>	<u>347,102</u>

(b) General Takaful

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

	2013			2012		
	<u>Gross</u> RM'000	Re- <u>Takaful</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	Re- <u>Takaful</u> RM'000	<u>Net</u> RM'000
Provision for claims	100,097	(80,349)	19,748	72,520	(55,960)	16,560
Provision for IBNR	43,678	(33,778)	9,900	24,359	(18,672)	5,687
Provision for adverse deviation	16,261	(13,370)	2,891	11,721	(9,508)	2,213
Claim liabilities (i)	160,036	(127,497)	32,539	108,600	(84,140)	24,460
Unearned contribution reserves (ii)	94,104	(72,865)	21,239	62,575	(48,000)	14,575
General Takaful fund (iii)	(140)	-	(140)	1,429	-	1,429
Unallocated surplus	65	-	65	-	-	-
	<u>254,065</u>	<u>(200,362)</u>	<u>53,703</u>	<u>172,604</u>	<u>(132,140)</u>	<u>40,464</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

	2013			2012		
	Gross RM'000	Re- Takaful RM'000	Net RM'000	Gross RM'000	Re- Takaful RM'000	Net RM'000
(i) Claims liabilities						
At 1 January	108,600	(84,140)	24,460	93,253	(65,537)	27,716
Claims incurred in the current accident year	122,510	(94,354)	28,156	75,801	(58,140)	17,661
Other movements in claims incurred in prior accident years	(8,474)	6,649	(1,825)	(10,618)	7,201	(3,417)
Claims paid during the financial year (Note 20(a)(i),(ii))	(67,140)	48,210	(18,930)	(48,812)	32,808	(16,004)
Movements in provision for adverse deviation	4,540	(3,862)	678	(1,024)	(472)	(1,496)
At 31 December	160,036	(127,497)	32,539	108,600	(84,140)	24,460
(ii) Unearned contribution reserves						
At 1 January	62,575	(48,000)	14,575	53,509	(42,154)	11,355
Contribution written in the financial year (Note 16(a))	247,286	(195,990)	51,296	161,973	(127,368)	34,605
Contribution earned during the financial year	(215,757)	171,125	(44,632)	(152,907)	121,522	(31,385)
At 31 December	94,104	(72,865)	21,239	62,575	(48,000)	14,575
(iii) General Takaful fund						
<u>AFS fair value reserves</u>				Gross RM'000	Deferred tax RM'000	Net RM'000
<u>2013</u>						
At 1 January				1,905	(476)	1,429
Fair value movements arising from AFS investments				(1,218)	305	(913)
Derecognition upon disposal of AFS investments (Note 18(b))				(874)	218	(656)
At 31 December				(187)	47	(140)
<u>2012</u>						
At 1 January				1,880	(470)	1,410
Fair value movements arising from AFS investments				590	(147)	443
Derecognition upon disposal of AFS investments (Note 18(b))				(565)	141	(424)
At 31 December				1,905	(476)	1,429

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

11 TAKAFUL PAYABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2013</u>			
Due to agents and intermediaries	12,031	-	12,031
Due to retakaful operators and cedants	37,770	2,445	40,215
	49,801	2,445	52,246
Deposits received from retakaful operators	1,047	-	1,047
	50,848	2,445	53,293
Payable within 12 months	50,848	2,445	53,293
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial liabilities	56,476	6,866	63,342
Less:			
Gross amounts of recognised financial assets set off in the statement of financial position	(5,628)	(4,421)	(10,049)
Net amounts of financial liabilities presented in the statement of financial position	50,848	2,445	53,293
<u>At 31 December 2012</u>			
Due to agents and intermediaries	6,699	-	6,699
Due to retakaful operators and cedants	29,234	2,693	31,927
	35,933	2,693	38,626
Deposits received from retakaful operators	455	-	455
	36,388	2,693	39,081
Payable within 12 months	36,388	2,693	39,081

The carrying amounts approximate the fair values as at the date of statement of financial position.

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial liabilities	40,418	8,433	48,851
Less:			
Gross amounts of recognised financial assets set off in the statement of financial position	(4,030)	(5,740)	(9,770)
Net amounts of financial liabilities presented in the statement of financial position	36,388	2,693	39,081

There are no financial liabilities subjected to an enforceable master netting arrangement or similar agreement and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2013 (2012: nil).

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 OTHER PAYABLES

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2013</u>					
Amount due to a related company	24	781	-	-	781
Commission payable		8,127	-	-	8,127
Deposits contribution		-	-	4,879	4,879
Provision for Perbadanan Insurans Deposit Malaysia ("PIDM") levy		908	-	-	908
Provision for zakat		294	-	-	294
Accruals for staff costs		303	-	-	303
Other payables and accruals		8,015	9,805	4,076	21,896
		18,428	9,805	8,955	37,188
<u>Inter-fund balances</u>					
Amount due to Takaful Operator	9	-	6,067	9,496	-
Certificate fees payable to Takaful Operator	9	-	-	866	-
Tharawat fees payable to Takaful Operator	9	-	-	1,929	-
Surplus payable to Takaful Operator	9	-	-	7,250	-
Amount due to General Takaful fund	9	-	-	383	-
		-	6,067	19,924	-
Total other payables		18,428	15,872	28,879	37,188
Payable within 12 months		18,428	15,872	28,879	37,188

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

12 OTHER PAYABLES (CONTINUED)

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2012</u>					
Amount due to a related company	24	222	-	-	222
Commission payable		9,225	-	-	9,225
Deposits contribution		-	-	6,048	6,048
Provision for PIDM levy		811	-	-	811
Provision for zakat		226	-	-	226
Accruals for staff costs		1,045	-	-	1,045
Other payables and accruals		3,576	12,401	3,446	19,423
Withholding tax		-	-	10	10
		<u>15,105</u>	<u>12,401</u>	<u>9,504</u>	<u>37,010</u>
<u>Inter-fund balances</u>					
Amount due to Takaful Operator	9	-	2,258	11,793	-
Certificate fees payable to Takaful Operator	9	-	-	1,001	-
Tharawat fees payable to Takaful Operator	9	-	-	3,013	-
Surplus payable to Takaful Operator	9	-	-	10,400	-
Amount due to General Takaful fund	9	-	-	383	-
		<u>-</u>	<u>2,258</u>	<u>26,590</u>	<u>-</u>
Total other payables		<u>15,105</u>	<u>14,659</u>	<u>36,094</u>	<u>37,010</u>
Payable within 12 months		<u>15,105</u>	<u>14,659</u>	<u>36,094</u>	<u>37,010</u>

The carrying amounts approximate their fair values as at the date of statement of financial position due to the relatively short-term maturity of these balances.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)**13 DEFERRED TAXATION**

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

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2013</u>					
Deferred tax (asset)/liabilities	2,153	(47)	21	1,702	3,795
Current	-	-	-	1,702	1,702
Non-current	2,153	(47)	21	-	2,127
	2,153	(47)	21	1,702	3,795
<u>At 31 December 2012</u>					
Deferred tax liabilities	3,496	476	202	1,224	5,398
Current	-	-	-	1,224	1,224
Non-current	3,496	476	202	-	4,174
	3,496	476	202	1,224	5,398

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment- linked Fund RM'000	Company RM'000
At 1 January 2012	3,181	470	225	749	4,625
Charged/(credited) to income statement:					
FVTPL investments	-	-	-	475	475
Property, plant and equipment	732	-	-	-	732
Credited to other comprehensive income:					
AFS investments	(417)	-	-	-	(417)
Charged/(credited) to Takaful contract liabilities:					
AFS investments (Note 10 (a), (b)(iii))	-	6	(23)	-	(17)
At 31 December 2012	3,496	476	202	1,224	5,398
Charged/(credited) to income statement:					
FVTPL investments	-	-	-	478	444
Property, plant and equipment	(58)	-	-	-	(58)
Credited to other comprehensive income:					
AFS investments	(1,285)	-	-	-	(1,285)
Credited to Takaful contract liabilities:					
AFS investments (Note 10 (a), (b)(iii))	-	(523)	(181)	-	(704)
At 31 December 2013	2,153	(47)	21	1,702	3,795

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

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

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Company</u> RM'000
2013					
<u>Subject to income tax:</u>					
<u>Deferred tax assets:</u> (before offsetting)					
- AFS investments	-	47	-	-	47
- FVTPL investments	-	-	-	19	19
	-	47	-	19	66
Offsetting	-	-	-	(19)	(19)
Deferred tax assets after offsetting	-	47	-	-	47
<u>Deferred tax liabilities:</u> (before offsetting)					
- FVTPL investments	-	-	-	1,721	1,721
- Property, plant and equipment	2,054	-	-	-	2,054
- AFS investments	99	-	21	-	120
	2,153	-	21	1,721	3,895
Offsetting	-	-	-	(19)	(19)
Deferred tax liabilities after offsetting	2,153	-	21	1,702	3,842
2012					
<u>Subject to income tax:</u>					
<u>Deferred tax liabilities:</u> (before offsetting)					
- FVTPL investments	-	-	-	1,224	1,224
- Property, plant and equipment	2,112	-	-	-	2,112
- AFS investments	1,384	476	202	-	2,062
	3,496	476	202	1,224	5,398
Offsetting	-	-	-	-	-
Deferred tax liabilities after offsetting	3,496	476	202	1,224	5,398

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

14 SHARE CAPITAL

	2013 RM'000	2012 RM'000
<u>Authorised ordinary shares of RM1 each:</u>		
At beginning and end of financial year	<u>150,000</u>	<u>150,000</u>
<u>Issued and fully paid ordinary shares of RM1 each:</u>		
At beginning and end of financial year	<u>100,000</u>	<u>100,000</u>

15 RESERVES

(a) Retained earnings

The retained earnings represent the amount available for dividend distribution to the equity shareholders of the Company.

Under the single tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of the shareholders.

Companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credit under Section 108 ("Section 108 balance") and opt to pay dividends under the single-tier system. The change in the tax legislation also provides for the Sections 108 balance to be locked in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007. With the expiry of the transitional period of 6 years on 31 December 2013, the unutilised tax credit balance under Section 108(6) of the Income Tax Act, 1967 will be disregarded.

Any future dividend payment made by the Company will be given under the single-tier system.

(b) Available-for-sale

The fair value reserves in the Company-level financial statements represent the fair value gains or losses from available-for-sale financial investments of the Takaful Operator.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

16 NET EARNED CONTRIBUTION

(a) General Takaful fund

	2013 RM'000	2012 RM'000
(i) Gross earned contributions		
Takaful contract (Note 10(b)(ii))	247,286	161,973
Change in unearned contribution reserves	(31,529)	(9,066)
	<u>215,757</u>	<u>152,907</u>
(ii) Contribution ceded to retakaful operators		
Takaful contract (Note 10(b)(ii))	(195,990)	(127,368)
Change in unearned contribution reserves	24,865	5,846
	<u>(171,125)</u>	<u>(121,522)</u>
Net earned contribution	<u>44,632</u>	<u>31,385</u>

(b) Family Takaful fund

(i) Gross earned contributions		
Takaful contract (Note 10(a))	268,162	209,099
(ii) Contribution ceded to retakaful operators		
Takaful contract (Note 10(a))	(9,455)	(18,709)
Net earned contribution	<u>258,707</u>	<u>190,390</u>

(c) Company

(i) Gross earned contributions		
Takaful contract (Note 10(b)(ii))	505,448	371,072
Change in unearned contribution reserves	(31,529)	(9,066)
	<u>473,919</u>	<u>362,006</u>
(ii) Contribution ceded to retakaful operators		
Takaful contract (Note 10(b)(ii))	(205,445)	(146,077)
Change in unearned contribution reserves	24,865	5,846
	<u>(180,580)</u>	<u>(140,231)</u>
Net earned contribution	<u>293,339</u>	<u>221,775</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

17 INVESTMENT INCOME

(a) Takaful Operator

	2013 RM'000	2012 RM'000
FVTPL investments:		
- Dividend income	129	99
AFS investments:		
- Hibah/profit income	3,532	3,408
- Amortisation of premiums - net	(131)	(9)
LAR:		
- Hibah/profit income	354	250
	<u>3,884</u>	<u>3,748</u>

(b) General Takaful fund

HTM investments:		
- Hibah/profit income	662	553
AFS investments:		
- Hibah/profit income	1,827	1,928
- Accretion of discounts - net	21	37
LAR:		
- Hibah/profit income	536	375
	<u>3,046</u>	<u>2,893</u>

(c) Family Takaful fund

FVTPL investments:		
- Hibah/profit income	2,084	1,854
- Dividend income	5,677	3,648
- Amortisation of premiums - net	(62)	-
HTM investments:		
- Hibah/profit income	982	709
- Amortisation of premiums - net	(1)	(1)
AFS investments:		
- Hibah/profit income	1,857	1,800
- Accretion of discounts - net	50	78
LAR:		
- Hibah/profit income	1,665	1,175
	<u>12,252</u>	<u>9,263</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

17 INVESTMENT INCOME (CONTINUED)

(d) Company

	2013 RM'000	2012 RM'000
FVTPL investments:		
- Hibah/profit income	2,084	1,854
- Dividend income	5,806	3,747
- Amortisation of premiums - net	(62)	-
HTM investments:		
- Hibah/profit income	1,644	1,262
- Amortisation of premiums - net	(1)	(1)
AFS investments:		
- Hibah/profit income	7,216	7,136
- (Amortisation of premiums)/accretion of discounts - net	(60)	106
LAR:		
- Hibah/profit income	2,555	1,800
	<u>19,182</u>	<u>15,904</u>

18 REALISED GAINS AND LOSSES

	2013 RM'000	2012 RM'000
(a) <u>Takaful Operator</u>		
AFS investments:		
Islamic debt securities	2,826	4,012
FVTPL investments:		
Equity securities	707	1,044
Loss on disposal of property, plant and equipment	(3)	(14)
	<u>3,530</u>	<u>5,042</u>
(b) <u>General Takaful fund</u>		
AFS investments:		
Islamic debt securities	<u>874</u>	<u>565</u>
(c) <u>Family Takaful fund</u>		
AFS investments:		
Islamic debt securities	972	1,352
FVTPL investments:		
Equity securities	14,793	6,993
	<u>15,765</u>	<u>8,345</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

18 REALISED GAINS AND LOSSES (CONTINUED)

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
(d) <u>Company</u>		
AFS investments:		
Islamic debt securities	4,672	5,929
FVTPL investments:		
Equity securities	15,500	8,037
Loss on disposal of property, plant and equipment	(3)	(14)
	<u>20,169</u>	<u>13,952</u>

19 FAIR VALUE GAINS AND LOSSES

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
FVTPL investments:		
Takaful Operator	(90)	126
Family Takaful fund	9,807	5,884
	<u>9,287</u>	<u>6,010</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

20 NET BENEFITS AND CLAIMS

	2013 RM'000	2012 RM'000
(a) <u>General Takaful fund</u>		
(i) Gross benefits and claims paid	(67,140)	(48,812)
(ii) Claims ceded to retakaful operators	48,210	32,808
(iii) Gross change in contract liabilities	(51,501)	(15,348)
(iv) Change in contract liabilities ceded to retakaful operators	43,357	18,601
Net claims	<u>(27,074)</u>	<u>(12,751)</u>
(b) <u>Family Takaful fund</u>		
(i) Gross benefits and claims paid	(151,393)	(84,879)
(ii) Claims ceded to retakaful operators	10,286	20,634
(iii) Gross change in contract liabilities	(52,739)	(61,483)
(iv) Change in contract liabilities ceded to retakaful operators	446	4,486
Net claims	<u>(193,400)</u>	<u>(121,242)</u>
(c) <u>Company</u>		
(i) Gross benefits and claims paid	(218,533)	(133,691)
(ii) Claims ceded to retakaful operators	58,496	53,442
(iii) Gross change in contract liabilities	(93,844)	(76,831)
(iv) Change in contract liabilities ceded to retakaful operators	43,803	23,087
Net claims	<u>(210,078)</u>	<u>(133,993)</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

21 MANAGEMENT EXPENSES

Takaful Operator

	2013 RM'000	2012 RM'000
Staff salaries and bonus	22,694	19,707
Defined contribution plan	3,485	2,981
Other staff costs	1,114	1,249
	<hr/> 27,293	<hr/> 23,937
Auditors' remuneration		
- Statutory audit	221	221
Non-executive Directors' remuneration:		
- fees	345	350
- other emoluments	217	173
Shariah committee remuneration:		
- fees	120	120
- other emoluments	28	28
Depreciation charge on property, plant and equipment	2,391	1,741
Amortisation of intangible assets	1,136	1,405
Office rental	2,288	2,336
Printing and stationery	1,861	1,983
Advertising and promotions	4,286	2,731
Postage and telephone	974	1,274
Professional fees	2,032	1,038
Agency training	3,125	2,365
Other expenses	12,940	12,198
	<hr/> 59,257	<hr/> 51,900

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer ("CEO") of the Company during the financial year, as included in staff salaries and bonus, amounted to RM1,061,000 (2012: RM994,000).

Included in staff costs are the remuneration for key management personnel, which is disclosed in Note 24 to the financial statements.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

22 TAXATION

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2013				
Income tax:				
Current financial year	3,233	1,354	3,073	7,660
Over provision in prior financial year	(131)	(102)	(680)	(913)
	3,102	1,252	2,393	6,747
Deferred tax (Note 13)	(58)	-	478	386
Tax expenses	<u>3,044</u>	<u>1,252</u>	<u>2,871</u>	<u>7,133</u>
2012				
Income tax:				
Current financial year	1,972	2,388	2,002	6,362
Over provision in prior financial year	329	939	-	1,268
	2,301	3,327	2,002	7,630
Deferred tax (Note 13)	732	-	475	1,207
Tax expenses	<u>3,033</u>	<u>3,327</u>	<u>2,477</u>	<u>8,837</u>

The numerical reconciliation between statutory tax rate and the effective tax rate of the Company is as follows:

	2013 RM'000	2012 RM'000
Profit before taxation	17,431	22,061
Tax expense attributable to participants	(4,089)	(5,804)
Profit before taxation attributable to Takaful Operator	<u>13,342</u>	<u>16,257</u>
Taxation at Malaysia statutory tax rate of 25% (2012: 25%)	3,336	4,064
Expenses not deductible for the purposes	404	442
Income not subject to tax	(565)	(1,802)
(Over)/under provision in prior financial year	(131)	329
Tax expense attributable to Takaful Operator	<u>3,044</u>	<u>3,033</u>
Tax expense attributable to participants	4,089	5,804
Tax expense attributable to Takaful Operator	<u>3,044</u>	<u>3,033</u>
Total tax expenses	<u>7,133</u>	<u>8,837</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

23 CASH FLOWS

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Net profit for the financial year	10,003	12,999
Adjustment for:		
Investment income	(19,182)	(15,904)
Realised gains and losses	(20,169)	(13,966)
Fair value gains and losses	(9,287)	(6,010)
Purchases of FVTPL investments	(197,832)	(107,813)
Proceeds from sale of FVTPL investments	162,973	74,332
Purchases of AFS investments	(69,863)	(67,444)
Proceeds from sale and maturity of AFS	70,397	63,713
Purchase of HTM investments	(5,000)	(15,044)
Non-cash items:		
Depreciation of property, plant and equipment	2,391	1,739
Loss on disposal of property, plant and equipment	3	14
Amortisation of intangible assets	1,136	1,405
Allowance for impairment	3,880	3
Tax expense attributable to Takaful Operator	3,044	3,033
Tax expense attributable to participants	4,089	5,804
Changes in working capital:		
Increase in LAR	(918)	(7,999)
Increase in retakaful assets	(69,920)	(28,190)
(Increase)/decrease in Takaful receivables	(17,767)	16,897
Decrease/(increase) in other receivables	1,984	(4,729)
Increase in Takaful contract liabilities	137,914	88,111
Increase in Takaful payables	13,620	452
Increase in other payables	983	1,542
Cash generated from operating activities	<u>2,479</u>	<u>2,945</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

24 SIGNIFICANT RELATED PARTY DISCLOSURE

The Directors regards MAA Group Berhad ("MAAG") as the ultimate holding company of the Company.

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

<u>Name of Company</u>	<u>Country of incorporation</u>	<u>Relationship</u>
MAA Group Berhad	Malaysia	Ultimate holding company
MAA Corporation Sdn Bhd	Malaysia	Subsidiary of ultimate holding company
MAAKL Mutual Bhd	Malaysia	Former subsidiary of ultimate holding company
Trace Management Services Sdn Bhd	Malaysia	Company controlled by a person connected to a Director of MAAG

Significant related party transactions

The significant related party transactions during the financial year, which were carried out on agreed terms and conditions, are as follows:

	<u>2013</u> RM'000	<u>2012</u> RM'000
Transactions with MAA Group Berhad		
Management service fees	(69)	(51)
Infrastructure costs recovery	439	292
Transactions with MAA Corporation Sdn Bhd		
Office rental expenses	(312)	(126)
Electricity charges	-	(96)
Property renovation service	(455)	-
Property maintenance service	(182)	-
Internal security service	(144)	-
Transactions with MAAKL Mutual Bhd **		
Infrastructure costs recovery	470	289
Training room costs recovery	<u>1</u>	<u>31</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

24 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

	<u>2013</u> RM'000	<u>2012</u> RM'000
Other transactions with related parties:		
Trace Management Services Sdn Bhd		
- Company secretarial and professional fees	(142)	(97)
Wira Security Sdn Bhd *		
- Office security services	<u>-</u>	<u>(267)</u>

* The transactions with Wira Security Sdn Bhd during the previous financial year relate to that entered into until 28 June 2012.

** The transactions with MAAKL Mutual Bhd during the current financial year relate to that entered into until 31 December 2013.

Related party balances

Included in the statement of financial position of the Company are significant related party balances as shown below:

	<u>2013</u> RM'000	<u>2012</u> RM'000
MAA Group Berhad		
Other receivables	24	292
MAA Corporation Sdn Bhd		
Other payables	(781)	(222)
MAAKL Mutual Bhd **		
Other receivables	3	320
Trace Management Services Sdn Bhd		
Other payables	<u>(12)</u>	<u>(10)</u>

These related party balances are current, unsecured, non profit-bearing and payable within 12 months.

Key management personnel

Key management personnel received remuneration for services rendered during the financial year. The key management personnel of the Company comprised the Chief Executive Officer ("CEO"). The total compensation paid to the Company's key management personnel is as follows:

	<u>2013</u> RM'000	<u>2012</u> RM'000
Salaries and bonus	893	835
Defined contribution plan	137	128
Benefits-in-kind	<u>31</u>	<u>31</u>

There were no outstanding balances due from key management personnel.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

25 CAPITAL AND OTHER COMMITMENTS

Capital expenditure and other commitments not provided for in the financial statements are as follows:

	<u>2013</u>	<u>2012</u>
	RM'000	RM'000
Authorised and contracted for:		
- Office rental	1,822	4,042
- Office renovation	637	1,948

26 TAKAFUL FUNDS

The Company's activities are organised by funds and segregated into the Family Takaful, General Takaful and Takaful Operator, in accordance with the Islamic Financial Services Act, 2013. The Company's statement of financial position and income statement have been further analysed by funds.

The Family Takaful business offers primary investment-linked products as well as group medical covers. The General Takaful business offers all General Takaful products, which include motor, fire, marine, aviation and transit ("MAT"), and miscellaneous products.

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2013**

	<u>Takaful Operator</u>	<u>General Takaful Fund</u>	<u>Family Takaful Fund</u>	<u>Investment- linked Fund</u>	<u>Company</u>
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2013</u>					
Assets:					
Property, plant and equipment	13,693	-	-	-	13,693
Intangible assets	2,751	-	-	-	2,751
Investments	95,811	81,419	75,334	291,927	534,061
Takaful receivables	-	37,940	6,276	-	44,216
Retakaful assets	-	200,362	15,490	-	215,852
Other receivables	2,787	407	397	1,372	4,963
Deferred tax assets	-	47	-	-	47
Cash and bank balances	4,358	400	2,876	3,048	10,682
Total assets	<u>119,400</u>	<u>320,575</u>	<u>100,373</u>	<u>296,347</u>	<u>826,265</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2013 (CONTINUED)**

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Company</u> RM'000
Equity, participants' fund and liabilities:					
Total equity	122,269	-	-	-	122,269
Takaful contract liabilities	-	254,065	74,129	288,463	606,261
Takaful payables	-	50,848	2,445	-	53,293
Other payables	18,428	9,805	5,324	3,631	37,188
Expense liabilities	1,853	-	-	-	1,853
Current tax liabilities	305	173	43	1,038	1,559
Deferred tax liabilities	2,153	-	21	1,702	3,842
Total liabilities	22,739	314,891	81,962	294,834	703,996
Total equity, participants' fund and liabilities	145,008	314,891	81,962	294,834	826,265
Inter-fund balances	(25,608)	5,684	18,411	1,513	-

2012

Assets:

Property, plant and equipment	13,704	-	-	-	13,704
Intangible assets	3,067	-	-	-	3,067
Investments	85,849	72,012	72,800	252,733	483,394
Takaful receivables	-	20,938	8,813	-	29,751
Qardhul Hassan receivable	1,625	-	-	-	-
Retakaful assets	-	132,140	13,792	-	145,932
Other receivables	6,126	1,004	277	121	7,528
Cash and bank balances	539	38	2,632	470	3,679
Total assets	110,910	226,132	98,314	253,324	687,055

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2013 (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Company</u> RM'000
Equity, participants' fund and liabilities:					
Total equity	117,742	(1,625)	-	-	116,117
Qardhul Hassan payable	-	1,625	-	-	-
Takaful contract liabilities	-	172,604	63,489	246,482	482,575
Takaful payables	-	36,388	2,693	-	39,081
Other payables	15,105	12,401	7,961	1,543	37,010
Expense liabilities	1,059	-	-	-	1,059
Current tax liabilities	1,973	2,388	355	1,099	5,815
Deferred tax liabilities	3,496	476	202	1,224	5,398
Total liabilities	21,633	225,882	74,700	250,348	570,938
Total equity, participants' fund and liabilities	139,375	224,257	74,700	250,348	687,055
Inter-fund balances	(28,465)	1,875	23,614	2,976	-

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

INCOME STATEMENT BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment- linked Fund RM'000	Elimination RM'000	Company RM'000
2013						
Gross earned contribution	-	215,757	268,162	-	(10,000)	473,919
Contribution ceded to retakaful operators	-	(171,125)	(9,455)	-	-	(180,580)
Net contribution	-	44,632	258,707	-	(10,000)	293,339
Wakalah fee income	141,546	-	-	-	(141,546)	-
Surplus sharing from Family Takaful fund	7,250	-	-	-	(7,250)	-
Investment income	3,884	3,046	3,180	9,072	-	19,182
Realised gains and losses	3,530	874	(2,863)	18,628	-	20,169
Fair value losses and gains	(90)	-	3,896	5,911	(430)	9,287
Fee and commission income	-	46,516	-	-	-	46,516
Other operating income - net	12,816	-	-	-	(12,701)	115
Other income	168,936	50,436	4,213	33,611	(161,927)	95,269
Total revenue	168,936	95,068	262,920	33,611	(171,927)	388,608
Gross benefits and claims paid	-	(67,140)	(151,393)	-	-	(218,533)
Claims ceded to retakaful operators	-	48,210	10,286	-	-	58,496
Gross change to contract liabilities	-	(51,501)	(24,797)	(27,942)	10,396	(93,844)
Change in contract liabilities ceded to retakaful operators	-	43,357	446	-	-	43,803
Net claims	-	(27,074)	(165,458)	(27,942)	10,396	(210,078)
Surplus sharing with Takaful Operator	-	-	(7,250)	-	7,250	-
Wakalah fee expenses	-	(63,070)	(78,476)	-	141,546	-
Fee and commission expenses	(97,168)	-	-	-	-	(97,168)
Management expenses	(59,257)	-	-	-	-	(59,257)
Allowance for impairment	-	(2,047)	(1,833)	-	-	(3,880)
Other operating expenses	-	-	(9,255)	(3,446)	12,701	-
Expense liabilities	(794)	-	-	-	-	(794)
Other expenses	(157,219)	(65,117)	(96,814)	(3,446)	161,497	(161,099)
Profit before taxation	11,717	2,877	648	2,223	(34)	17,431
Tax expense attributable to participants	-	(1,252)	(648)	(2,223)	34	(4,089)
Profit before taxation attributable to Takaful Operator	11,717	1,625	-	-	-	13,342
Taxation	(3,044)	(1,252)	(648)	(2,223)	34	(7,133)
Tax expense attributable to participants	-	1,252	648	2,223	(34)	4,089
Tax expense attributable to Takaful Operators	(3,044)	-	-	-	-	(3,044)
Zakat	(295)	-	-	-	-	(295)
Net profit for the financial year	8,378	1,625	-	-	-	10,003

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

INCOME STATEMENT BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Elimination</u> RM'000	<u>Company</u> RM'000
2012						
Gross earned contribution	-	152,907	209,099	-	-	362,006
Contribution ceded to retakaful operators	-	(121,522)	(18,709)	-	-	(140,231)
Net contribution	-	31,385	190,390	-	-	221,775
Wakalah fee income	113,351	-	-	-	(113,351)	-
Surplus sharing from Family Takaful fund	9,400	-	-	-	(9,400)	-
Investment income	3,748	2,893	2,874	6,389	-	15,904
Realised gains and losses	5,056	565	1,352	6,993	-	13,966
Fair value losses and gains	126	-	-	5,884	-	6,010
Fee and commission income	-	31,330	-	-	-	31,330
Other operating income - net	10,378	-	-	-	(10,296)	82
Other income	142,059	34,788	4,226	19,266	(133,047)	67,292
Total revenue	142,059	66,173	194,616	19,266	(133,047)	289,067
Gross benefits and claims paid	-	(48,812)	(84,879)	-	-	(133,691)
Claims ceded to retakaful operators	-	32,808	20,634	-	-	53,442
Gross change to contract liabilities	-	(15,348)	(46,405)	(15,078)	-	(76,831)
Change in contract liabilities ceded to retakaful operators	-	18,601	4,486	-	-	23,087
Net claims	-	(12,751)	(106,164)	(15,078)	-	(133,993)
Surplus sharing with Takaful Operator	-	-	(9,400)	-	9,400	-
Wakalah fee expenses	-	(43,316)	(70,035)	-	113,351	-
Fee and commission expenses	(80,292)	-	-	-	-	(80,292)
Management expenses	(51,900)	-	-	-	-	(51,900)
Allowance for impairment	-	(3)	-	-	-	(3)
Other operating expenses	-	-	(7,650)	(2,646)	10,296	-
Expense liabilities	(818)	-	-	-	-	(818)
Other expenses	(133,010)	(43,319)	(87,085)	(2,646)	133,047	(133,013)
Profit before taxation	9,049	10,103	1,367	1,542	-	22,061
Tax expense attributable to participants	-	(3,327)	(935)	(1,542)	-	(5,804)
Profit before taxation attributable to Takaful Operator	9,049	6,776	432	-	-	16,257
Taxation	(3,033)	(3,327)	(935)	(1,542)	-	(8,837)
Tax expense attributable to participants	-	3,327	935	1,542	-	5,804
Tax expense attributable to Takaful Operators	(3,033)	-	-	-	-	(3,033)
Zakat	(225)	-	-	-	-	(225)
Net profit for the financial year	5,791	6,776	432	-	-	12,999

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

27 RISK MANAGEMENT FRAMEWORK

(a) Risk Governance

The risk governance structure within the Company aims to ensure effective management of the different type of risks while meeting the specific strategic objectives of the Company. The Company manages its obligations and pursues opportunities that involve an acceptable degree of risks, with the aim of achieving its business and operating objectives while fulfilling the expectations of all stakeholders. The Company's policy is to give consistent consideration to the balance of risks and commercial implications in order to support the achievement of stakeholder expectations.

The Company's risk governance and risk reporting requirements are incorporated in the Company's Risk Management Framework which acts as a foundation to a sound system of internal control, contributing to effective corporate governance and risk reporting requirements. The framework describes the risk management cycle of risk identification, analysis, and evaluation, treatment, monitoring and reporting. The key risks are reviewed on a regular basis and reported up the hierarchy as required.

The adoption of the framework is the responsibility of the Board with certain delegation of responsibilities to Risk Management Committee. The Company has established senior management committees which act as bilateral communication platform in discharging obligations. The committees include Investment Committee, IT Steering Committee, Asset-Liability Management Committee, Executive Committee and Management Committee. These committees are chaired by the Chief Executive Officer, and are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

(b) Regulatory Framework

The Company is required to comply with the Islamic Financial Services Act, 2013, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policy rests with the Board. The Board exercises oversight on investments to safeguard the interests of participants and shareholders while ensuring compliance with Shariah.

The Investment Committee plays the oversight role in the implementation of the investment policy as approved by the Board. The Committee also reviews the investment policy on a regular basis such that it remains consistent with the outlook of investment climate, product pricing and asset-liability management strategies. It is also responsible for overseeing assets allocation and ensuring that the policies and procedures that govern internal controls of investment processes are sufficient.

(c) Capital Management

The Company's capital management policy is to create shareholder value, maintain a strong capital position with sufficient buffer to meet certificate holders' obligations and regulatory requirements and make strategic investments for business growth.

The Company is required to maintain a surplus of assets over its liabilities in its respective Takaful funds at all times.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK

The Company accepts Takaful risk through its written Takaful contracts. The Company writes Family Takaful contracts (health, group family, mortgage and investment-linked) and General Takaful contracts (motor, fire, marine, aviation and transit ("MAT") and miscellaneous). Takaful risk is the inherent uncertainty regarding the fluctuations in the timing, frequency and severity of insured events, relative to our expectations at the time of underwriting. It can also refer to fluctuations in the timing and amount of claim settlements. The Takaful risk appetite is defined through the review of portfolio size, underwriting criteria, product limits, retakaful arrangements, underwriting authorities, claims signing authorities, delegation of authorities, pricing adequacy, aggregate risks and loss scenarios.

(a) Family Takaful

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks. Medical selection is part of the Company's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval. Products are reviewed by the Management Committee on periodic basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

The table below shows the concentration of Family Takaful contract liabilities, excluding AFS reserves, by type of contract.

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
<u>31 December 2013</u>			
Family Takaful contract liabilities			
Whole life	894	-	894
Endowment	329,742	(2,585)	327,157
Term	31,892	(12,905)	18,987
Total Family Takaful contract liabilities	<u>362,528</u>	<u>(15,490)</u>	<u>347,038</u>
<u>31 December 2012</u>			
Family Takaful contract liabilities			
Whole life	501	-	501
Endowment	259,536	(5)	259,531
Term	47,607	(13,787)	33,820
Total Family Takaful contract liabilities	<u>307,644</u>	<u>(13,792)</u>	<u>293,852</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

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

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

a) Mortality rates

Assumption is based on industry standard table – M9903.

b) Morbidity rates

Assumption is mainly based on reinsurer rates.

c) Investment return

Assumptions are 5.5% per annum for Participant Investment Account (“PIA”) on Investment-linked, 4.7% per annum for PIA on Non Investment-linked and 4.0% per annum for Participant Risk Investment Account (“PRIA”).

d) Expenses

Assumption varies by product type is as follows:-

<u>Product Type</u>	<u>RM per certificate</u>
Investment-linked	52
Ordinary Family	36
Group Family	3

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

e) Lapse and surrender rates

2% per annum is assumed for single contribution certificate.

For regular contribution policies, lapse rate varies by certificate year is as follows:

Plan	Certificate Year (%)					
	1	2	3	4	5	6+
Takafulink	25	15	13	12	10	4.5
Takafulink Education	15	10	10	8	5	4.5
Takafulife Series	25	20	10	3.5	3.5	3.5
CancerCare	30	45	20	3.5	3.5	3.5
SmartMedic	15	40	30	25	25	25
Term80	25	20	10	3.5	3.5	3.5

f) Contribution holiday for Investment-linked Products

Plan	Certificate Year (%)					
	1	2	3	4	5	6+
Takafulink	4	15	10	8	5	5

g) Discount rate

Discount rate used is the Government Investment Issue ("GII") spot rate as at the date of statement of financial position.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivities

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

	Change in assumptions %	Impact on Family Takaful contract liabilities		
		Gross RM'000	Net RM'000	Profit before taxation RM'000
<u>31 December 2013</u>				
Mortality/morbidity	10	2,598	809	809
Expenses	10	52	52	52
Lapse and surrender rates	10	16	193	193
Discount rate	1	(2,775)	(1,950)	(1,950)
<u>31 December 2012</u>				
Mortality/morbidity	10	2,594	686	686
Lapse and surrender rates	10	(17)	165	165
Discount rate	1	(1,905)	(2,572)	(2,572)

There is minimal impact on the Family Takaful contract liabilities in relation to changes made to longevity and investment return assumptions.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful

The Company's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome. The underwriting strategy is set out in an annual business plan that establishes the classes of business to be written, and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, geographically and industry in order to ensure appropriate risk selection within the portfolio. The underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal. The Company's Management Committee meets periodically to review certain management information including contribution income and key ratios by class of business.

The concentration of the General Takaful contract liabilities in relation to claims liabilities by the type of Takaful contracts accepted is as summarised below:

	2013			2012		
	Gross	Re-Takaful	Net	Gross	Re-Takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	25,861	(24,523)	1,338	14,930	(12,903)	2,027
Motor	63,232	(46,637)	16,595	41,192	(30,130)	11,062
MAT	12,191	(11,625)	566	8,637	(7,959)	678
Miscellaneous	58,752	(44,712)	14,040	43,841	(33,148)	10,693
At 31 December	160,036	(127,497)	32,539	108,600	(84,140)	24,460
<u>Key assumptions</u>						

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 development of claims paid and development of claims reported amount. The methods employed also require assumptions on prior estimate (for Bornhuetter-Ferguson based methods) for each accident year. For frequency/severity analysis, this method uses the fact that the number of claims reported is unlikely to have been affected by any changes in the claims handling process, and thus, the link ratio techniques are appropriate in determining the ultimate number of claims. Any changes in reporting, reserving or settlement process can affect the reliability of assumptions.

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

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table

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

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary 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.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2013:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	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	96	6,816	24,168	54,138	57,359	75,801	122,510	
One year later	78	4,592	20,219	58,203	55,296	73,172		
Two years later	50	3,714	16,567	52,314	52,335			
Three years later	42	3,214	13,865	49,989				
Four years later	39	3,249	13,352					
Five years later	39	3,203						
Six years later	39							
Current estimate of cumulative claims incurred	39	3,203	13,352	49,989	52,335	73,172	122,510	

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2013 (continued):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	-	1,100	4,021	10,114	12,429	18,204	33,270	
One year later	39	2,807	9,177	29,052	34,709	45,537		
Two years later	39	3,035	10,273	35,595	39,689			
Three years later	39	3,076	12,049	37,091				
Four years later	39	3,089	12,107					
Five years later	39	3,092						
Six years later	39							
Cumulative payments to-date	39	3,092	12,107	37,091	39,689	45,537	33,270	
Gross General Takaful contract liabilities	-	111	1,245	12,898	12,646	27,635	89,240	143,775
Provision for adverse deviation								16,261
Gross General Takaful contract liabilities								160,036

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Net General Takaful contract liabilities for 2013:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	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	39	1,640	5,655	25,190	17,488	17,660	28,156	
One year later	48	1,642	6,165	24,835	15,510	17,635		
Two years later	32	1,370	5,340	23,500	14,818			
Three years later	26	1,198	5,204	22,573				
Four years later	24	1,230	5,040					
Five years later	24	1,213						
Six years later	23							
Current estimate of cumulative claims incurred	<u>23</u>	<u>1,213</u>	<u>5,040</u>	<u>22,573</u>	<u>14,818</u>	<u>17,635</u>	<u>28,156</u>	

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Net General Takaful contract liabilities for 2013 (continued):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	-	339	1,548	5,284	4,927	5,573	9,537	
One year later	23	1,032	3,831	14,461	11,260	12,654		
Two years later	23	1,169	4,285	18,328	12,480			
Three years later	23	1,182	4,511	19,342				
Four years later	23	1,186	4,587					
Five years later	23	1,187						
Six years later	23							
Cumulative payments to-date	<u>23</u>	<u>1,187</u>	<u>4,587</u>	<u>19,342</u>	<u>12,480</u>	<u>12,654</u>	<u>9,537</u>	
Net General Takaful contract liabilities	<u>-</u>	<u>26</u>	<u>453</u>	<u>3,231</u>	<u>2,338</u>	<u>4,981</u>	<u>18,619</u>	<u>29,648</u>
Provision for adverse deviation								<u>2,891</u>
Net General Takaful contract liabilities								<u><u>32,539</u></u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Gross General Takaful contract liabilities for 2012:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>							
At end of accident year	96	6,815	24,168	54,138	57,359	75,801	
One year later	78	4,592	20,219	58,203	55,296		
Two years later	50	3,714	16,567	52,314			
Three years later	42	3,214	13,865				
Four years later	39	3,249					
Five years later	39						
Current estimate of cumulative claims incurred	39	3,249	13,865	52,314	55,296	75,801	

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Gross General Takaful contract liabilities for 2012 (continued):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	-	1,100	4,021	10,114	12,429	18,204	
One year later	39	2,807	9,177	29,052	34,709		
Two years later	39	3,035	10,273	35,595			
Three years later	39	3,076	12,049				
Four years later	39	3,089					
Five years later	39						
Cumulative payments to-date	<u>39</u>	<u>3,089</u>	<u>12,049</u>	<u>35,595</u>	<u>34,709</u>	<u>18,204</u>	
Gross General Takaful contract liabilities	<u>-</u>	<u>160</u>	<u>1,816</u>	<u>16,719</u>	<u>20,587</u>	<u>57,597</u>	<u>96,879</u>
Provision for adverse deviation							<u>11,721</u>
Gross General Takaful contract liabilities							<u>108,600</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Net General Takaful contract liabilities for 2012:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>							
At end of accident year	39	1,640	5,655	25,190	17,488	17,660	
One year later	48	1,642	6,165	24,835	15,510		
Two years later	32	1,370	5,340	23,500			
Three years later	26	1,198	5,204				
Four years later	24	1,230					
Five years later	24						
Current estimate of cumulative claims incurred	<u>24</u>	<u>1,230</u>	<u>5,204</u>	<u>23,500</u>	<u>15,510</u>	<u>17,660</u>	

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Net General Takaful contract liabilities for 2012 (continued):

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	-	339	1,548	5,284	4,927	5,573	
One year later	23	1,032	3,831	14,461	11,260		
Two years later	23	1,169	4,285	18,328			
Three years later	23	1,182	4,511				
Four years later	23	1,186					
Five years later	23						
Cumulative payments to-date	<u>23</u>	<u>1,186</u>	<u>4,511</u>	<u>18,328</u>	<u>11,260</u>	<u>5,573</u>	
Net General Takaful contract liabilities	<u>1</u>	<u>44</u>	<u>693</u>	<u>5,172</u>	<u>4,250</u>	<u>12,087</u>	<u>22,247</u>
Provision for adverse deviation							<u>2,213</u>
Net General Takaful contract liabilities							<u>24,460</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Sensitivities

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

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and profit after tax. 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.

		<u>Impact on General Takaful claims liabilities</u>			
	<u>Change in assumptions</u>	<u>Gross</u>	<u>Net</u>	<u>Profit before tax</u>	<u>Profit after tax</u>
	%	RM'000	RM'000	RM'000	RM'000
<u>2013</u>					
Average open claims	+10	16,004	3,254	3,254	2,441
Loss ratio	+10	22,577	4,510	4,510	3,383
Provision for adverse deviation	+1	163	29	29	22
<u>2012</u>					
Average open claims	+10	10,860	2,446	2,446	1,835
Loss ratio	+10	15,291	3,138	3,138	2,354
Provision for adverse deviation	+1	117	22	22	17

The method used for deriving sensitivity information and significant assumptions did not change from the previous period. There is no impact to the equity of the Company as the Company applies the Wakalah principle.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK

The Company's activities expose it to credit risk, liquidity risk and market risk. The Company's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Company's financial performance. The Board is responsible for setting the objectives and underlying principles of financial risk management for the Company and detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, and exposure limits in accordance with the objectives and underlying principles approved by the Board. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The major classes of financial assets of the Company are investment in cash, Islamic private debt securities, receivables, including amounts due from Takaful contracts and amounts due from retakaful in respect of payments already made to participants. For investments in Islamic private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss. The retakaful share of unearned contribution reserves in relation to the General Takaful fund and Qardhul Hassan are not financial instruments, and hence these items are not exposed to credit risk.

For receivables, the Company adopts the policy of dealing only with customers of appropriate credit history. Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary Takaful operator. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the participants. The creditworthiness of retakaful is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company issues Investment-linked investment contracts. In the Investment-linked funds, the holders of these contract bear the investment risks on the assets held in the Investment-linked funds as the contract benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on Investment-linked financial assets.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk

The table below show the maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements.

<u>2013</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Investment- linked Fund</u> RM'000	<u>Total</u> RM'000
HTM investments:					
Malaysian Government					
Guaranteed financing	-	15,365	25,516	-	40,881
AFS investments:					
Malaysian Government					
Guaranteed financing	-	3,876	3,877	-	7,753
Islamic debt securities, unquoted	62,137	41,902	37,757	-	141,796
FVTPL investments:					
Shariah-approved quoted equities*	5,828	-	-	208,951	209,059
Islamic debt securities, unquoted	-	-	-	51,258	48,258
Other investments*	1,511	-	-	4,350	5,861
Investment-linked units*	10,430	-	-	-	10,430
LAR:					
Fixed and call deposits with:					
Licensed financial institutions	15,905	20,276	8,184	27,368	70,023
Retakaful assets	-	127,497	15,490	-	142,987
Takaful receivables	-	37,940	6,276	-	44,216
Other receivables	2,787	407	397	1,372	4,963
Cash and bank balances	4,358	400	2,876	3,048	10,682
	<u>102,956</u>	<u>247,663</u>	<u>100,373</u>	<u>296,347</u>	<u>736,909</u>

* Not subject to credit risk

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Investment- linked Fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2012					
HTM investments:					
Malaysian Government					
Guaranteed financing	-	15,366	20,468	-	35,834
AFS investments:					
Malaysian Government					
Guaranteed financing	5,026	8,766	3,811	-	17,603
Islamic debt securities, unquoted	64,962	37,830	34,308	-	137,100
FVTPL investments:					
Shariah-approved quoted equities*	4,230	-	-	130,675	134,905
Islamic debt securities, unquoted	-	-	-	41,497	41,497
Other investments*	-	-	-	45,678	45,678
LAR:					
Fixed and call deposits with:					
Licensed financial institutions	11,631	10,050	14,213	34,883	70,777
Retakaful assets	-	84,140	13,792	-	97,932
Takaful receivables	-	20,938	8,813	-	29,751
Other receivables	6,126	1,004	277	121	7,528
Cash and bank balances	539	38	2,632	470	3,679
	<u>92,514</u>	<u>178,132</u>	<u>98,314</u>	<u>253,324</u>	<u>622,284</u>

* Not subject to credit risk

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the RAM and/or MARC credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	Neither past due nor impaired	BBB	Not rated	Not subject to credit risk	Investment-linked Fund	Past due but not impaired	Past due and impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2013											
HTM investments:											
Malaysian Government											
Guaranteed financing	-	-	-	-	40,881	-	-	-	-	-	40,881
AFS investments:											
Malaysian Government											
Guaranteed financing	-	-	-	-	7,753	-	-	-	-	-	7,753
Islamic debt securities, unquoted	55,392	86,404	-	-	-	-	-	-	-	-	141,796
FVTPL investments:											
Shariah-approved quoted equities	-	-	-	-	-	5,828	203,231	-	-	-	209,059
Islamic debt securities, unquoted	-	-	-	-	-	-	48,258	-	-	-	48,258
Other investments	-	-	-	-	-	1,511	4,350	-	-	-	5,861
Investment-linked units	-	-	-	-	-	10,430	-	-	-	-	10,430
LAR:											
Fixed and call deposits with:											
Licensed financial institutions	28,749	14,516	-	-	1,100	-	25,658	-	-	-	70,023
Retakaful assets	-	7,685	84,622	37,005	13,675	-	-	-	-	-	142,987
Takaful receivables	-	-	-	431	7,148	-	-	36,637	4,120	-	48,336
Other receivables	-	-	-	-	3,591	-	1,372	-	-	-	4,963
Cash and bank balances	5,245	692	392	-	1,305	-	3,048	-	-	-	10,682
Allowance for impairment losses	-	-	-	-	-	-	-	-	(4,120)	(4,120)	
	89,386	109,297	85,014	37,436	75,453	17,769	285,917	36,637	-	-	736,909

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	AAA	AA	Neither past due nor impaired		Not subject	Investment-	Past due but	Past due	Total
	RM'000	RM'000	A	BBB	to credit risk	linked Fund	not impaired	and impaired	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2012									
HTM investments:									
Malaysian Government									
Guaranteed financing	-	-	-	-	35,834	-	-	-	35,834
AFS investments:									
Malaysian Government									
Guaranteed financing	-	-	-	-	17,603	-	-	-	17,603
Islamic debt securities, unquoted	58,140	78,960	-	-	-	-	-	-	137,100
FVTPL investments:									
Shariah-approved quoted equities	-	-	-	-	-	4,230	130,675	-	134,905
Islamic debt securities, unquoted	-	-	-	-	-	-	41,497	-	41,497
Other investments	-	-	-	-	-	-	45,678	-	45,678
LAR:									
Fixed and call deposits with:									
Licensed financial institutions	24,162	10,619	-	-	1,113	-	34,883	-	70,777
Retakaful assets	-	3,178	58,936	30,629	5,189	-	-	-	97,932
Takaful receivables	-	1,318	370	706	4,064	-	23,293	819	30,570
Other receivables	-	-	-	-	7,407	-	121	-	7,528
Cash and bank balances	2,300	481	53	-	375	-	470	-	3,679
Allowance for impairment losses	-	-	-	-	-	-	-	(819)	(819)
	<u>84,602</u>	<u>94,556</u>	<u>59,359</u>	<u>31,335</u>	<u>71,585</u>	<u>4,230</u>	<u>253,324</u>	<u>23,293</u>	<u>622,284</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Aged analysis of financial assets past due but not impaired

<u>Company</u>	<u>> 60 days RM'000</u>	<u>> 120 days RM'000</u>	<u>Total RM'000</u>
<u>2013</u>			
Takaful receivables	11,430	25,207	36,637
<u>2012</u>			
Takaful receivables	19,181	4,112	23,293

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and Takaful liabilities that are settled by delivering cash or another financial asset. The Company is exposed to calls on its available cash resources mainly from claims arising from takaful and investment contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of lapses/surrenders. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior period.

The Company's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. This involves projecting cash flows on a regular basis to predict cash outflows from Takaful and investment contracts over the short, medium and long term; which include purchases of assets with similar durations to its Takaful contracts; assets purchased by the Company to satisfy specified marketability requirements; and the Company maintains cash and liquid assets to meet daily calls on its Takaful contracts and other obligations.

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations. All liabilities are presented on a contractual cash flow basis except for Takaful contract liabilities, the maturity profiles are determined based on the estimated timing of net cash outflows from the recognised Takaful liabilities.

Available-for-sale fair value adjustment, unearned contribution reserve and retakaful's share of unearned contribution have been excluded from the analysis as they are not contractual obligations.

Investment-linked fund liabilities are repayable or transferable upon notice by certificate holders and are disclosed separately under the "Investment-linked fund" column. Repayments which are subject to notice are treated as if such notice was to be given immediately.

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Investment- linked Fund	Total
Company 2013	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
HTM investments:									
Malaysian Government Guaranteed financing	40,881	-	-	-	39,586	29,273	-	-	68,859
AFS investments:									
Malaysian Government Guaranteed financing	7,753	-	-	-	10,000	-	-	-	10,000
Islamic debt securities, unquoted	141,796	-	-	9,888	126,984	89,289	-	-	226,161
FVTPL investments:									
Shariah-approved quoted equities	209,059	-	-	-	-	-	5,828	203,231	209,059
Islamic debt securities, unquoted	48,258	-	-	-	-	-	-	48,258	48,258
Other investments	5,861	-	-	-	-	-	1,511	4,350	5,861
Investment-linked units	10,430	-	-	-	-	-	10,430	-	10,430
LAR:									
Fixed and call deposits with:									
Licensed financial institutions	70,023	46,411	-	-	-	-	-	27,368	73,779
Retakaful assets	142,987	123,920	10,021	140	493	8,413	-	-	142,987
Takaful receivables	44,216	44,216	-	-	-	-	-	-	44,216
Other receivables	4,963	3,591	-	-	-	-	-	1,372	4,963
Cash and bank balances	10,682	7,634	-	-	-	-	-	3,048	10,682
Total assets	736,909	225,772	10,021	10,028	177,063	126,975	17,769	287,627	855,255
Takaful contract liabilities	512,233	449,349	12,402	215	1,540	48,727	-	-	512,233
Takaful payables	53,293	53,293	-	-	-	-	-	-	53,293
Other payables	37,188	33,557	-	-	-	-	-	3,631	37,188
Total liabilities	602,714	536,199	12,402	215	1,540	48,727	-	3,631	602,714

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Investment- linked Fund	Total
Company 2012	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000
HTM investments:									
Malaysian Government Guaranteed financing	35,834	-	-	-	32,030	29,988	-	-	62,018
AFS investments:									
Malaysian Government Guaranteed financing	17,603	5,000	-	-	10,000	9,360	-	-	24,360
Islamic debt securities, unquoted	137,100	-	5,786	12,188	117,455	70,332	-	-	205,761
FVTPL investments:									
Shariah-approved quoted equities	134,905	-	-	-	-	-	4,230	130,675	134,905
Islamic debt securities, unquoted	41,497	-	-	-	-	-	-	41,497	41,497
Other investments	45,678	-	-	-	-	-	-	45,678	45,678
LAR:									
Fixed and call deposits with:									
Licensed financial institutions	70,777	37,951	-	-	-	-	-	34,883	72,834
Retakaful assets	97,932	70,459	18,043	2,269	536	6,625	-	-	97,932
Takaful receivables	29,751	29,751	-	-	-	-	-	-	29,751
Other receivables	7,528	7,407	-	-	-	-	-	121	7,528
Cash and bank balances	3,679	3,209	-	-	-	-	-	470	3,679
Total assets	622,284	153,777	23,829	14,457	160,021	116,305	4,230	253,324	725,943
Takaful contract liabilities	416,244	347,456	23,022	2,946	1,202	41,618	-	-	416,244
Takaful payables	39,081	39,081	-	-	-	-	-	-	39,081
Other payables	37,010	35,467	-	-	-	-	-	1,543	37,010
Total liabilities	492,335	422,004	23,022	2,946	1,202	41,618	-	1,543	492,335

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Market risks

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and equity prices which will affect the value of the Company's assets, the amount of its liabilities and/or the Company's income. Market risk arises in the Company due to fluctuations in the value of liabilities and the value of investments held. The Company is exposed to market risk on all of its financial assets, including those held to back investment-linked contracts to the extent that the fees earned by the Company on these contracts are often dependent on the market value of the underlying portfolio.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing credit risk have not changed significantly from the prior period.

The Investment Committee manages and monitors market risks. The Committee's reports are tabled to the Board. For each of the major components of market risk the Company has policies and procedures in place which detail how each risk should be managed and monitored.

Profit rate risk

Profit rate risk arises primarily from the Company's investments. Changes in investment values attributable to profit rate changes are mitigated by corresponding and partially offsetting changes in the economic value of takaful provisions, investment contract liabilities. The Company manages its profit rate risk by matching, where possible, the duration and profile of assets and liabilities to minimise the impact of mismatches between the value of assets and liabilities from profit rate movements. The Company monitors its profit rate risk exposure through periodic reviews of the asset and liability position, as well as through stress testing by using duration and convexity measurements. The nature of the Company's exposures to profit rate risk and its objectives, policies and processes for managing profit rate risk have not changed significantly from the prior period.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of profit before tax (due to changes in fair value of fixed and floating rate/yield financial instruments) and equity (that reflects adjustments to profit before tax and re-valuing fixed rate/yield AFS financial assets).

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Profit rate risk (continued)

		<u>Impact on profit before tax[^]</u>		<u>Impact on equity[*]</u>		<u>Impact on Takaful contract liabilities[*]</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<u>Changes in</u>	<u>variables</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Takaful</u>							
<u>Operator</u>							
RM	+ 100 basis points	159	116	(5,138)	(5,494)	-	-
RM	- 100 basis points	(159)	(116)	5,862	6,244	-	-
<u>General</u>							
<u>Takaful Fund</u>							
RM	+ 100 basis points	203	100	-	-	(2,594)	(2,595)
RM	- 100 basis points	(203)	(100)	-	-	2,819	2,832
<u>Family</u>							
<u>Takaful Fund</u>							
RM	+ 100 basis points	82	142	-	-	(3,406)	(3,059)
RM	- 100 basis points	(82)	(142)	-	-	3,861	3,492

[^] Impact on Islamic money market instruments only.

^{*} Impact on equity/Takaful contract liabilities reflects adjustments for tax, when applicable.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). Exposures to foreign currency risk are monitored on an ongoing basis.

The Company has no significant exposure to currency risk.

Operational risks

This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Our major risk exposures within operational risk are data security, business continuity and reputational damage affecting customer demand. Our operational risk appetite is minimal. In order to mitigate these risks, the Internal Auditor reviews the effectiveness of the internal controls and reports to the Audit Committee on a regular basis.

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Price risk

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

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through stress testing. In addition, the Company monitors and manages the equity exposure against policies set and agreed by the Investment Committee. These policies include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). 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.

<u>Market Indices</u> <u>Takaful Operator</u>	<u>Changes in</u> <u>variables</u>	<u>Impact on profit before tax</u>		<u>Impact on equity*</u>	
		<u>2013</u> RM'000	<u>2012</u> RM'000	<u>2013</u> RM'000	<u>2012</u> RM'000
Bursa Malaysia	15%	648	606	486	455
Bursa Malaysia	-15%	(648)	(606)	(486)	(455)

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

The potential impacts arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

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