

Company No.

731996	H
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**MAA TAKAFUL BERHAD**

(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS**

**31 DECEMBER 2011**

Company No.

731996

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## MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

### DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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## 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 2011.

### 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	<u>4,707</u>

### 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

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### 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.

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## MAA TAKAFUL BERHAD

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### 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>
Dr. Zaha Rina Zahari (Chairman)	Independent Director	5/5
Tan Sri Ahmad bin Mohd Don	Independent Director	5/5
Datuk Razman Md Hashim bin Che Din Md Hashim	Independent Director	5/5
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	5/5

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

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**DIRECTORS' REPORT (CONTINUED)****CORPORATE GOVERNANCE (CONTINUED)**Audit Committee ("AC") (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 Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	2/2
Dr. Zaha Rina Zahari	Independent Director	2/2
Muhamad Umar Swift	Non-Independent Non-Executive Director	2/2
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	2/2
Dr. Md Khalil bin Ruslan	Independent Director	2/2

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**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.

Remuneration Committee ("RC")

The composition of the RC is as follows:

		<u>No. of Attendance</u>
Datuk Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	1/1
Dr. Zaha Rina Zahari	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



**MAA TAKAFUL BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE GOVERNANCE (CONTINUED)**

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.
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.

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

The composition of the RMC is as follows:

		<u><b>No. of Attendance</b></u>
Dr. Zaha Rina Zahari (Chairman)	Independent Director	5/5
Tan Sri Ahmad bin Mohd Don	Independent Director	5/5
Datuk Razman Md Hashim bin Che Din Md Hashim	Independent Director	5/5
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	5/5
Muhamad Umar Swift	Non-Independent Non-Executive Director	5/5

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.

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**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)	9/9
Datuk Razman Md Hashim bin Che Din Md Hashim	9/9
Dr. Zaha Rina Zahari	8/9
Dr. Md Khalil bin Ruslan	9/9
Muhamad Umar Swift	9/9
Ashraf Adnan Nureddin Bseisu	9/9

Datuk 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 and Ashraf Adnan Nureddin Bseisu retire in accordance with Article 81 of the Company's Articles of Association and being eligible, offer themselves 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.

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**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 (formerly known as MAA Holdings Berhad), are as follows:

	Number of ordinary shares of RM1 each			
	<u>At 1.1.2011</u>	<u>Acquired</u>	<u>Disposed</u>	<u>At 31.12.2011</u>
Tan Sri Ahmad bin Mohd Don				
- Direct	2,055,000	-	-	2,055,000
Datuk 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 (formerly known as MAA Holdings 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 23 April 2012.

TAN SRI AHMAD BIN MOHD DON  
DIRECTOR

MUHAMAD UMAR SWIFT  
DIRECTOR

Kuala Lumpur  
23 April 2012

Company No.

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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 15 to 90 are properly drawn up to give a true and fair view of the state of affairs of the Company as at 31 December 2011 and of the results and cash flows for the financial year then ended, and have been properly drawn up in accordance with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, and comply with the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 April 2012.

TAN SRI AHMAD BIN MOHD DON  
DIRECTOR

MUHAMAD UMAR SWIFT  
DIRECTOR

Kuala Lumpur  
23 April 2012

**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 15 to 90 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 23 April 2012.

Before me,

COMMISSIONER FOR OATHS  
23 April 2012

**MAA TAKAFUL BERHAD**  
(Incorporated in Malaysia)

**SHARIAH COMMITTEE'S REPORT**

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 period ended 31 December 2011. 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 year ended 31 December 2011 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 year ended 31 December 2011 have been conducted in conformity with the Shariah principles.

DR. MD KHALIL BIN RUSLAN  
CHAIRMAN

DR. JONI TAMKIN BIN BORHAN  
MEMBER

23 April 2012

**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 2011, and the statements of income, comprehensive income, changes in equity and cash flow for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 90.

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 Financial Reporting Standards ("FRS"), being the Malaysian Accounting Standard Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities, and comply with the provisions of the Companies Act, 1965 and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

**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 have been properly drawn up in accordance with FRS, being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and comply with the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

**OTHER MATTERS**

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

**PRICEWATERHOUSECOOPERS**  
(No. AF: 1146)  
Chartered Accountants

**SRIDHARAN NAIR**  
(No. 2656/05/12 (J))  
Chartered Accountant

Kuala Lumpur  
23 April 2012



**MAA TAKAFUL BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2011**

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>ASSETS</b>			
Property, plant and equipment	4	5,178	1,350
Intangible assets	5	3,360	2,676
Investments:			
Held-to-maturity	6(a)	20,000	10,000
Loans and receivables	6(b)	105,455	88,024
Available-for-sale	6(c)	144,590	142,638
Fair value through profit or loss	6(d)	132,021	87,428
Retakaful assets	7	117,741	73,571
Takaful receivables	8	62,756	43,635
Other receivables	9	13,263	20,124
Cash and bank balances		2,173	8,058
<b>TOTAL ASSETS</b>		<b>606,537</b>	<b>477,504</b>
<b>LIABILITIES</b>			
Takaful contract liabilities	10	394,708	297,999
Takaful payables	11	65,853	46,561
Tax payable		3,183	348
Deferred tax liabilities	12	4,626	2,530
Other payables	13	24,963	22,372
<b>TOTAL LIABILITIES</b>		<b>493,333</b>	<b>369,810</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	100,000	100,000
Retained earnings		7,799	3,091
Available-for-sale reserves		5,405	4,603
		<b>113,204</b>	<b>107,694</b>
<b>TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY</b>		<b>606,537</b>	<b>477,504</b>

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

**MAA TAKAFUL BERHAD**  
(Incorporated in Malaysia)

**INCOME STATEMENT**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
Operating revenue	16	301,475	266,377
Gross earned contributions	17(a)	288,222	256,955
Contribution ceded to retakaful	17(b)	(105,432)	(71,030)
Net earned contributions	17	182,790	185,925
Investment income	18	13,253	9,422
Realised gains and losses	19	8,242	5,337
Fair value gains and losses	20	2,200	8,502
Fee and commission income	21	25,477	15,960
Other operating income – net		61	92
Other income		49,233	39,313
Gross benefits and claims paid	22(a)	(83,870)	(64,982)
Claims ceded to retakaful	22(b)	31,356	12,851
Gross change to contract liabilities	22(c)	(31,042)	(37,257)
Change in contract liabilities ceded to retakaful	22(d)	28,295	17,795
Net claims		(55,261)	(71,593)
Fee and commission expenses		(67,347)	(57,815)
Management expenses	23	(37,349)	(30,554)
Allowance for doubtful debts		(168)	(109)
Other operating expenses		(473)	(132)
Expense reserves		(241)	-
Other expenses		(105,578)	(88,610)
Surplus before taxation		71,184	65,035
Taxation on takaful funds	24	(2,080)	(1,122)
Surplus after taxation		69,104	63,913
Surplus retained in takaful funds		(61,593)	(56,706)
Profit before zakat and taxation		7,511	7,207
Zakat		(188)	(180)
Taxation	24	(2,616)	-
Profit for the financial year		4,707	7,027

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

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**MAA TAKAFUL BERHAD**  
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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

	<u>Note</u>	<u>2011</u> RM'000	<u>2009</u> RM'000
Profit for the financial year		4,707	7,027
Other comprehensive income:			
Net fair value gain during the financial year	6(e)	1,070	4,754
Tax effects thereon	12	(267)	(1,189)
		<u>803</u>	<u>3,565</u>
Total comprehensive income for the financial year		<u>5,510</u>	<u>10,592</u>

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

## MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	Share capital RM'000	Non- distributable Available-for- sale reserves RM'000	Distributable (Accumulated losses)/ retained earnings RM'000	Total RM'000
At 1 January 2010	100,000	1,038	(3,936)	97,102
Total comprehensive income for the financial year	-	3,565	7,027	10,592
At 31 December 2010	100,000	4,603	3,091	107,694
At 1 January 2011	100,000	4,603	3,091	107,694
Total comprehensive income for the financial year	-	803	4,707	5,510
At 31 December 2011	100,000	5,406	7,798	113,204

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

## MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CASH FLOW  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised in operating activities	25	(11,272)	(11,038)
Distribution income received		1,985	1,198
Profit income received		10,268	7,261
Income tax paid		(250)	(160)
Net cash flows from operating activities		<u>739</u>	<u>(2,739)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of property, plant and equipment		116	-
Purchase of property, plant and equipment		(4,724)	(739)
Purchase of intangibles		(2,006)	(730)
Net cash flows from investing activities		<u>(6,614)</u>	<u>(1,469)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(5,884)</b>	<b>(4,208)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>8,058</b>	<b>12,266</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR</b>		<b><u>2,173</u></b>	<b><u>8,058</u></b>
<b>Fixed and call deposits (with maturity of less than three months):</b>			
Cash and bank balances		<u>2,173</u>	<u>8,058</u>
		<u>2,173</u>	<u>8,058</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 2011

#### 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 20.03, 20<sup>th</sup> Floor  
Menara MAA  
12, Jalan Dewan Bahasa  
50460 Kuala Lumpur

##### Principal place of business

8<sup>th</sup> 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 (formerly known as MAA Holdings 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 23 April 2012.

#### 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. The financial statements comply with the Financial Reporting Standards ("FRS"), being the Malaysian Accounting Standard Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities and comply with the provisions of Companies Act, 1965.

At the beginning of the current financial year, the Company has adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2011 as described in Note 2(a)(i) to the financial statements.

**MAA TAKAFUL BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

The preparation of financial statements in conformity with FRS 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 revenues and expenses during the reported financial year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from 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 FRS requires the use of terminology under relevant standards.

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

**(i) Standards and relevant amendment to published standards and interpretations to existing standards that are applicable to the Company**

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's current financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time Adoption of Financial Reporting Standards"
- Revised FRS 127 "Consolidated and Separate Financial Statements"
- Amendment to FRS 7 "Financial Instruments: Disclosures"
- Amendment to FRS 1 "First-time Adoption of Financial Reporting Standards"
- Amendment to FRS 132 "Financial Instruments: Presentation"
- IC Interpretation 4 "Determining Whether an Arrangement contains a Lease"
- IC Interpretation 17 "Distribution of Non-cash Assets to Owners"
- Improvements to FRSs (2010)

The adoption of the new accounting standards, amendments and improvements to published standards and interpretations does not have any significant impact to the financial statements of the Company other than enhanced disclosures to the financial statements.

**MAA TAKAFUL BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

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

In the next financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters. It is expected that there would not be any significant impact to the existing accounting policies of the Company upon application of this new framework.

In the planning stage, the Company has completed its review of the MFRS requirements. Critical conversion issues were identified and methodologies were designed to address those issues. The Company is now progressing to the implementation of the identified changes and will complete the process.

The new accounting standards, amendments and improvements to published standards and interpretations to the existing standards that are relevant and applicable to the Company's following financial periods are as follows:

Financial year beginning on/after 1 January 2012:

- The amendment to MFRS 112 Income Taxes (effective for annual periods beginning on or after 1 January 2012). This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 Investment Property. As a result of the amendments, IC Interpretation 121 Income Taxes – recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial periods beginning 1 January 2012.



## MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (a) Basis of preparation (continued)

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

Financial year beginning on/after 1 January 2012 (continued)

- MFRS 124 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2012). The previous version of FRS 124 exempts Malaysian state-controlled entities from disclosing transactions with other state-controlled entities. This amendment will result in the following disclosures by Malaysian state-controlled entities:
  - The name of the government that has a control, joint control or significant influence over the reporting entity and the nature of their relationship;
  - The nature and amount of any individually-significant transactions;
  - The extent of any other collectively-significant transactions, qualitatively or quantitatively.

The amended definition of “related party” means that some entities will be required to make additional disclosures. For example, a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity. The Company will apply this standard from financial periods beginning 1 January 2012.

Financial year beginning on/after 1 January 2013:

- The amendment to MFRS 7 Financial Instruments: Disclosures on transfers of financial assets (effective for annual periods beginning on or after 1 July 2011). This amendment will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. The Company will apply this standard from financial periods beginning 1 January 2013.

## MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (a) Basis of preparation (continued)

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

Financial year beginning on/after 1 January 2013 (continued)

- The amendment to MFRS 101 Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012). This amendment 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. The amendments do not address which items are presented in OIC. The Company will apply this standard from financial periods beginning 1 January 2013.
- MFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013). The MFRS applies to MFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The Company will apply this standard from financial periods beginning 1 January 2013.
- MFRS 119 Employee Benefits (effective for annual periods beginning on or after 1 January 2013). This standard prescribes the accounting and disclosure by employers for employee benefits which categories in four categories:
  - Short-term employee benefits
  - Post-employment benefits
  - Other long-term employee benefits
  - Termination benefits

The Company will apply this standard from financial periods beginning 1 January 2013.

**MAA TAKAFUL BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

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

Financial year beginning on/after 1 January 2013 (continued)

- MFRS 9 Financial Instruments – classification and measurement of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2015). The objective of this MFRS is to replace the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ("FVTPL"). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

The Company will apply this standard from financial periods beginning 1 January 2015.

**(b) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Property, plant and equipment (continued)**

Depreciation of property, plant and equipment is provided so as to write off 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%

The residual values and useful life of assets are reviewed and adjusted if appropriate at each date of the statement of financial position.

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(g) 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.

**(c) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) 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 determined 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 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 stated 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 subsequently measured at amortised cost using the effective interest method. 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 determination payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the financial asset. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment.

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(d) Investments and other financial assets (continued)****(iv) Available-for-sale ("AFS") financial assets**

Available-for-sale 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 cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement available-for-sale 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 is transferred through the statement of comprehensive income or from takaful contract liabilities to the income statement.

**(e) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) 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.

**(f) 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 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Impairment of financial assets (continued)****(i) Financial assets carried at amortised cost (continued)**

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.

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

If an available-for-sale 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 available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale 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.

**(g) 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.

**(h) Takaful receivables**

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



**MAA TAKAFUL BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(h) Takaful receivables (continued)**

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an takaful receivable is 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(f) to the financial statements.

**(i) 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 and/or revenue accounts in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

**(j) Product classification**

The Company issues contracts that transfer insurance 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. Insurance risk is the risk other than financial risk.

Takaful contracts are those contracts that transfer significant insurance risk. A takaful contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the participants) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Investment contracts are those contracts that do not transfer significant insurance risk.

**MAA TAKAFUL BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Product classification (continued)**

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 insurance 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 insurance risk becomes significant.

When takaful contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance 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.

The Company defines insurance risk to be significant when the ratio the insurance 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 policy contracts issued by the Company are considered takaful contracts as at the date of this statement of financial position.

**(k) Retakaful**

The Company cedes insurance 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 reinsurance 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Retakaful (continued)**

Retakaful contracts that do not transfer significant insurance 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.

**(l) General takaful underwriting results**

The General takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 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 revenue account, 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.

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 incepted 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 cover period of more than one year

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(l) 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 Shareholders' fund (see Note 2(p) to the financial statements) in the financial year in which they are incurred.

**(m) Family takaful underwriting results**

The Family takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 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.

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.

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.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (m) Family takaful underwriting results (continued)

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.

## (n) 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 75<sup>th</sup> sufficiency level, in line with BNM's new valuation guidelines on Family takaful business which is applicable for financial period beginning on or after 1 July 2011 and is consistent with the requirement of FRS 4 Insurance Contract.

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 of 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(n) Takaful contract liabilities (continued)**Family takaful contract liabilities (continued)

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. The liability is then compared against reserves derived from the statutory method, and the larger of the two reserves is held as the liability. In the event that the surrender value is higher than the reserve in aggregate, the excess is held as an additional reserve.

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 provision and provision for unearned contributions.

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 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.

The provision for unearned contributions 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 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Qardhul Hassan**

Qardhul Hassan is stated at cost as prescribed by the Guidelines on Financial Statements for Takaful operators issued by BNM and at each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2(g) on impairment of assets.

**(p) Management expenses, commission expenses and Wakalah fee**

Acquisition costs, commissions and management expenses (collectively known as "Wakalah fees") 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 shareholders' fund and recognised as income upon issuance of certificates.

**(q) 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.

**(r) 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.

**(s) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(t) Dividends**

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

**(u) 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.

**(v) 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.

**(w) Cash and cash equivalents**

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)****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 an takaful contract, is the Company's most critical accounting estimate.

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

The actuary has incorporated appropriate market data to allow the use of chain ladder and Bornheutter Ferguson methods on claim count and value. With the additional development data in 2011, the actuary has increasingly relied on internal data and experience rather than the use of industry benchmarks.

The chain ladder method involves developing each accident year's claim numbers to ultimate through the 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 2010 valuation results. 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 many but not all potential scenarios. In selecting the 75% risk margin the actuary has run bootstrapping and stochastic chain ladder analyses. 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 claims 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 ultimate claims liability. As such, any changes in the future claim environment may result in changes to the estimated claims liability.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (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 basis. If the estimated unexpired risk reserves are larger than the unearned contribution reserves less related deferred acquisition costs, then the total deficiency will be recognised in the income statement by a provision for liability adequacy.

**(iii) Actuarial liabilities for Family takaful fund**

For Family takaful plans, the actuarial liabilities are determined by the Company's Appointed Actuary. All the products are valued in such a manner that the overall liabilities secure 75% sufficiency, as prescribed by BNM's new valuation guidelines on Family takaful business. The liabilities were set up based on the 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 and 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 a 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 average claims were assumed in calculating IBNR.

A provision for certificates currently under waiver of contributions, estimated at the present value of future gross contributions is also included.

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

This fund consists of three products, Cancer Care, Smart Medic and Takafulife Series.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

## (a) Critical accounting estimates and assumptions (continued)

## (iii) Actuarial liabilities for Family takaful fund (continued)

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

CancerCare is a guaranteed renewable medical takaful product with an additional death benefit. The contribution reserve is calculated as 45% of unearned gross cancer contribution using 1/24<sup>th</sup> 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.

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 30% or 60% of unearned gross medical contribution using the 1/24<sup>th</sup> method for first certificate year and renewal certificate year respectively. Reserve for funeral expense benefit is calculated as 80% of unearned gross funeral expense contribution using 1/24<sup>th</sup> method. An additional provision of 2 months of average claims are set aside as IBNR for SmartMedic. An additional 60% of contribution reserve is set aside as deficiency reserve, to reflect the portfolio experience. Reserves for SmartMedic are adjusted to reflect the 80% retained portion after retakaful arrangement.

The Takafulife, an ordinary whole life plan, was valued on Gross Premium Valuation ("GPV") basis at 75<sup>th</sup> confidence level and the resulted reserve is taken to be at least equal to the UCR.

- 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 on Unexpired Risk Reserve ("URR") basis using the 1/24<sup>th</sup> method, with the risk rates assumed to be 130% of LIAM risk rates.

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

The reserving method used for Group Mortgage Protection Plan is based on 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.

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**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)****3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(a) Critical accounting estimates and assumptions (continued)****(iv) Impairment review of Qardhul Hassan**

The Company performs an impairment review whenever changes in circumstances indicate that the carrying amount of Qardhul Hassan may not be recoverable. The recoverable amount represents the estimated future surplus to be generated from the General takaful and Family takaful businesses.

In arriving at the estimated future surplus, management has applied projected growth in contributions based on the Company's business plan. The underwriting surplus was arrived after deducting for underwriting outgo. Claim outgo was projected based on the Company's experience and industry information. The Company had incorporated current retakaful arrangements in the estimation of net contribution, claims recovery and retakaful commissions. The surpluses generated include investment income from investment assets of the fund projected based on current return on investment.

Assumptions used in estimating the future surplus from the takaful funds include business growth projection that is based on the Company's strategy as a new entrant in the industry and the takaful industry forecast growth of 15% to 20% per annum.

**(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. However, the Directors are of the view that there are currently no accounting policies which require significant judgement to be exercised in their application.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 4 PROPERTY, PLANT AND EQUIPMENT

	Computer equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2011</u>						
<u>Cost</u>						
At 1 January 2011	609	367	560	90	260	1,886
Additions	1,590	2,384	-	251	499	4,724
Disposals	(14)	(258)	(165)	(36)	(260)	(733)
At 31 December 2011	<u>2,185</u>	<u>2,493</u>	<u>395</u>	<u>305</u>	<u>499</u>	<u>5,877</u>
<u>Accumulated depreciation</u>						
At 1 January 2011	254	114	77	40	51	536
Depreciation charge for the financial year	300	55	49	14	28	446
Disposals for the financial year	(7)	(107)	(76)	(18)	(75)	(283)
At 31 December 2011	<u>547</u>	<u>62</u>	<u>50</u>	<u>36</u>	<u>4</u>	<u>699</u>
<u>Net carrying amount</u>						
At 31 December 2011	<u>1,638</u>	<u>2,431</u>	<u>345</u>	<u>269</u>	<u>495</u>	<u>5,178</u>

## MAA TAKAFUL BERHAD

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Computer equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>2010</u>						
<u>Cost</u>						
At 1 January 2010	440	287	169	78	173	1,147
Additions	169	80	391	12	87	739
At 31 December 2010	<u>609</u>	<u>367</u>	<u>560</u>	<u>90</u>	<u>260</u>	<u>1,886</u>
<u>Accumulated depreciation</u>						
At 1 January 2010	143	79	50	29	26	327
Depreciation charge for the financial year	111	35	27	11	25	209
At 31 December 2010	<u>254</u>	<u>114</u>	<u>77</u>	<u>40</u>	<u>51</u>	<u>536</u>
<u>Net carrying amount</u>						
At 31 December 2010	<u>355</u>	<u>253</u>	<u>483</u>	<u>50</u>	<u>209</u>	<u>1,350</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**5 INTANGIBLE ASSETS**

	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>SHAREHOLDERS' FUND</b>		
<u>Cost</u>		
At 1 January	5,704	4,974
Additions	2,006	730
At 31 December	<u>7,710</u>	<u>5,704</u>
<u>Accumulated amortisation</u>		
At 1 January	3,028	1,958
Amortisation for the financial year	1,322	1,070
At 31 December	<u>4,350</u>	<u>3,028</u>
<u>Net book value</u>		
At 31 December	<u>3,360</u>	<u>2,676</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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**6 INVESTMENTS**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Malaysian Government Guaranteed financing	20,000	10,000
Islamic debt securities	173,724	164,633
Shariah-approved quoted equities	94,641	60,193
Investment-linked units	8,246	5,240
Deposits with financial institutions	105,455	88,024
	<u>402,066</u>	<u>328,090</u>

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

Held-to-maturity ("HTM")	20,000	10,000
Loans and receivables ("LAR")	105,455	88,024
Available-for-sale ("AFS")	144,590	142,638
Fair value through profit or loss ("FVTPL")	132,021	87,428
	<u>402,066</u>	<u>328,090</u>

The following investments mature after 12 months:

Held-to-maturity ("HTM")	20,000	10,000
Available-for-sale ("AFS")	144,590	142,638
	<u>164,590</u>	<u>152,638</u>

(a) Held-to-maturity investment

Amortised cost

Malaysian Government Guaranteed financing	<u>20,000</u>	<u>10,000</u>
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Fair value

Malaysian Government Guaranteed financing	<u>20,875</u>	<u>10,631</u>
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(b) Loans and receivables ("LAR")

Amortised cost

Fixed and call deposits with:

Licensed financial institutions	<u>105,455</u>	<u>88,024</u>
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

				2011 RM'000	2010 RM'000	
(c)	Available-for-sale financial assets ("AFS")					
	<u>Fair value</u>					
	Islamic debt securities, unquoted			144,590	142,638	
(d)	Fair value through profit or loss ("FVTPL")					
	<u>Fair value at designation</u>					
	Shariah-approved equities			94,641	60,193	
	Islamic debt securities			29,134	21,995	
	Investment linked units			8,246	5,240	
				132,021	87,428	
(e)	Carrying values of investment					
		Held-to-maturity RM'000	Loans and receivables RM'000	Available-for-sale RM'000	Fair value through profit/loss RM'000	Total RM'000
	<u>2011</u>					
	At 1 January 2011	10,000	88,024	142,638	87,428	328,090
	Purchases	10,000	17,431	56,348	95,386	179,165
	Disposals including (maturities and redemptions)	-	-	(58,541)	(52,993)	(111,534)
	Fair value gains recorded in:					
	Income statement	-	-	-	2,200	2,200
	Other comprehensive income	-	-	1,070	-	1,070
	Takaful contract liabilities	-	-	2,201	-	2,201
	Amortisation adjustment	-	-	874	-	874
	At 31 December 2011	20,000	105,455	144,590	132,021	402,066
	<u>2010</u>					
	At 1 January 2010	10,000	88,567	67,217	42,524	208,308
	Purchases	-	-	99,328	102,047	201,375
	Disposals including (maturities and redemptions)	-	(543)	(31,623)	(65,645)	(97,811)
	Fair value gains recorded in:					
	Income statement	-	-	-	8,502	8,502
	Other comprehensive income	-	-	4,754	-	4,754
	Takaful contract liabilities	-	-	2,495	-	2,495
	Amortisation adjustment	-	-	467	-	467
	At 31 December 2010	10,000	88,024	142,638	87,428	328,090

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**6 INVESTMENTS (CONTINUED)**

**(f) Fair values of investments**

The following tables show financial investments recorded at fair value analysed by the different basis of fair values as follows:

	Available- for sale RM'000	Fair value through profit/loss RM'000	Total RM'000
<u>31 December 2011</u>			
Quoted market price (level 1)	-	102,887	102,887
Valuation techniques - market observable inputs (level 2)	144,590	29,134	173,724
	<u>144,590</u>	<u>132,021</u>	<u>276,611</u>
<u>31 December 2010</u>			
Quoted market price (level 1)	-	65,433	65,433
Valuation techniques - market observable inputs (level 2)	142,638	21,995	164,633
	<u>142,638</u>	<u>87,428</u>	<u>230,066</u>

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. 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. This is considered as level 1 valuation basis.

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. This is considered as level 2 valuation basis.

Level 3 valuation basis refers to non-market observable inputs, ie. where 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**7 RETAKAFUL ASSETS**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Retakaful of takaful contracts (Note 10)	117,741	73,571

**8 TAKAFUL RECEIVABLES**

Due contributions including agents/brokers and co-insurers balances	44,572	33,408
Due from retakaful and cedants	19,000	10,875
	<u>63,572</u>	<u>44,283</u>
Allowance for impairment	(816)	(648)
	<u>62,756</u>	<u>43,635</u>

**9 OTHER RECEIVABLES**

Staff loans	215	261
Profit and dividend receivable	1,629	1,527
Tax recoverable	-	1
Qardhul Hassan	8,833	16,644
Other receivables, deposits and prepayments	2,586	1,691
	<u>13,263</u>	<u>20,124</u>

Qardhul Hassan represents a benevolent loan to the General takaful fund and the Family takaful fund to make good the underwriting deficit in the respective takaful funds. The amount is unsecured, not subject to any profit element and has no fixed terms of repayment.

As at 31 December 2011, the total Qardhul Hassan payable by the General takaful fund to the Shareholders' fund amounted to RM8,403,000 (2010: RM14,519,000) and payable by the Family takaful fund to the Shareholders' fund amounted to RM430,000 (2010: RM2,125,000)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**10 TAKAFUL CONTRACT LIABILITIES**

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
		RM'000			RM'000	
Family takaful	246,537	(10,049)	236,488	193,250	(11,389)	181,861
General takaful	148,171	(107,692)	40,479	104,749	(62,182)	42,567
	<u>394,708</u>	<u>(117,741)</u>	<u>276,967</u>	<u>297,999</u>	<u>(73,571)</u>	<u>224,428</u>

**(a) Family takaful**

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

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
		RM'000			RM'000	
Actuarial liabilities:						
Liability for future certificateholders' benefits	47,108	(8,716)	38,392	43,721	(11,361)	32,360
Net asset value attributable to unitholders	191,558	-	191,558	139,997	-	139,997
	<u>238,666</u>	<u>(8,716)</u>	<u>229,950</u>	<u>183,718</u>	<u>(11,361)</u>	<u>172,357</u>
Claims liabilities	5,281	(1,333)	3,948	8,164	(28)	8,136
Available-for-sale reserves	2,590	-	2,590	1,368	-	1,368
	<u>246,537</u>	<u>(10,049)</u>	<u>236,488</u>	<u>193,250</u>	<u>(11,389)</u>	<u>181,861</u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(a) Family takaful (continued)**

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
At 1 January 2010	111,160	(1,389)	109,771
Certificate received (Note 17(a)(b))	157,434	(5,332)	152,102
Liabilities paid for death, maturities, surrender, benefit and claims	(49,484)	5,057	(44,427)
Movement in claims liabilities	(4,140)	(845)	(4,985)
Benefit and claims, experience variation	33,887	(9,653)	24,234
Fees deducted	(55,245)	773	(54,472)
Surplus transfer to Shareholders' fund	(3,400)	-	(3,400)
Increase of Qardhul Hassan	1,670	-	1,670
Fair value movements arising in AFS investments	1,368	-	1,368
At 31 December 2010	193,250	(11,389)	181,861
Certificate received (Note 17(a)(b))	163,751	(12,927)	150,824
Liabilities paid for death, maturities, surrender, benefit and claims	(51,362)	13,418	(37,944)
Movement in claims liabilities	2,883	1,305	4,188
Benefit and claims, experience variation	7,740	(2,394)	5,346
Fees deducted	(62,852)	1,938	(60,914)
Surplus transfer to Shareholders' fund	(6,400)	-	(6,400)
Repayment of Qardhul Hassan	(1,695)	-	(1,695)
Fair value movements arising in AFS investments	1,222	-	1,222
At 31 December 2011	246,537	(10,049)	236,488

Included in the above is the repayment of Qardhul Hassan funds arising from the surplus in the current financial year of RM1,695,000. In the previous financial year, a transfer of fund of RM1,670,000 was made from the Shareholders' fund to the Family takaful fund under the Qardhul Hassan principle. As at 31 December 2011, the total Qardhul Hassan payable amounted to RM430,000 (2010: RM2,125,000)

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

**(b) General takaful**

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

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
Provision for claims	62,268	(44,802)	17,466	41,040	(25,228)	15,812
Provision for incurred but not reported claims ("IBNR")	18,240	(11,698)	6,542	14,708	(8,076)	6,632
Provision for liability adequacy	12,745	(9,037)	3,708	6,463	(3,938)	2,525
Claim liabilities (i)	93,253	(65,537)	27,716	62,211	(37,242)	24,969
Unearned contribution reserves (ii)	53,508	(42,155)	11,353	41,782	(24,940)	16,842
General takaful fund (iii)	1,410	-	1,410	756	-	756
	<u>148,171</u>	<u>(107,692)</u>	<u>40,479</u>	<u>104,749</u>	<u>(62,182)</u>	<u>42,567</u>

**(i) Claims liabilities**

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
At 1 January	62,211	(37,242)	24,969	25,830	(20,324)	5,506
Claims incurred in the current accident year	57,359	(39,870)	17,489	54,138	(28,948)	25,190
Other movements in claims incurred in prior accident years	(91)	(1,264)	(1,355)	(4,835)	5,068	233
Claims paid during the financial year (Note 22(a),(b))	(32,508)	17,938	(14,570)	(15,498)	7,794	(7,704)
Provision for liability adequacy	5,442	(5,099)	343	2,576	(832)	1,744
claims handling expenses	840	-	840	-	-	-
At 31 December	<u>93,253</u>	<u>(65,537)</u>	<u>27,716</u>	<u>62,211</u>	<u>(37,242)</u>	<u>24,969</u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)**

(b) General takaful (continued)

(ii) Unearned contribution reserves

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
At 1 January	41,782	(24,940)	16,842	30,190	(16,349)	13,841
Contribution written in the financial year (Note 17(a),(b))	136,197	(109,720)	26,477	111,113	(74,289)	36,824
Contribution earned during the financial year	(124,471)	92,505	(31,966)	(99,521)	65,698	(33,823)
At 31 December	<u>53,508</u>	<u>(42,155)</u>	<u>11,353</u>	<u>41,782</u>	<u>(24,940)</u>	<u>16,842</u>

(iii) General takaful fund

	2011			2010		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
At 1 January	756	-	756	-	-	-
Surplus/(deficit) arising during the financial year	6,116	-	6,116	(5,845)	-	(5,845)
Fair value movements arising from AFS investments	654	-	654	756	-	756
Movement in Qardhul Hassan	(6,116)	-	(6,116)	5,845	-	5,845
	<u>1,410</u>	<u>-</u>	<u>1,410</u>	<u>756</u>	<u>-</u>	<u>756</u>

Included in the above is the repayment of Qardhul Hassan funds arising from the surplus in the current financial year of RM6,116,000. In the previous financial year, a transfer of funds of RM5,845,000 was made from the Shareholders' fund to the General takaful fund under the Qardhul Hassan principle. As at 31 December 2011, the total Qardhul Hassan payable amounted to RM8,403,000 (2010: RM14,519,000).

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**11 TAKAFUL PAYABLES**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Due to agents and intermediaries	9,401	4,268
Due to retakaful and cedants	56,448	42,150
	<hr/>	<hr/>
	65,849	46,418
Deposits received from retakaful	4	143
	<hr/>	<hr/>
	<u>65,853</u>	<u>46,561</u>

The carrying amounts disclosed above approximate the fair value at the date of the statement of financial position.

All amounts are payable within one year.



**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**12 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>Shareholders</u> RM'000	<u>General takaful</u> RM'000	<u>Family takaful</u> RM'000	<u>Investment linked</u> RM'000	<u>Total</u> RM'000
At 31 December 2011					
Deferred tax liabilities	<u>(3,181)</u>	<u>(470)</u>	<u>(226)</u>	<u>(749)</u>	<u>(4,626)</u>
At 31 December 2010					
Deferred tax liabilities	<u>(1,534)</u>	<u>(252)</u>	<u>(119)</u>	<u>(625)</u>	<u>(2,530)</u>
At 1 January 2010	(345)	-	-	40	(305)
Charged to income statement:					
- FVTPL investments (Note 24)	-	-	-	(665)	(665)
Charged to other comprehensive income:					
- AFS reserves	(1,189)	-	-	-	(1,189)
Charged to takaful contract liabilities:					
- AFS reserves	<u>-</u>	<u>(252)</u>	<u>(119)</u>	<u>-</u>	<u>(371)</u>
At 31 December 2010	(1,534)	(252)	(119)	(625)	(2,530)
Charged to income statement:					
- FVTPL investments (Note 24)	-	-	-	(124)	(124)
- Property, plant and equipment	(1,380)	-	-	-	(1,380)
Charged to other comprehensive income:					
- AFS reserves	(267)	-	-	-	(267)
Charged to takaful contract liabilities:					
- AFS reserves	<u>-</u>	<u>(218)</u>	<u>(107)</u>	<u>-</u>	<u>(325)</u>
At 31 December 2011	<u>(3,181)</u>	<u>(470)</u>	<u>(226)</u>	<u>(749)</u>	<u>(4,626)</u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**12 DEFERRED TAXATION (CONTINUED)**

	<u>31.12.2011</u> RM'000	<u>31.12.2010</u> RM'000
Subject to income tax:		
Deferred tax assets (before offsetting)		
- investments	-	40
Offsetting	-	(40)
	<hr/>	<hr/>
Deferred tax assets after offsetting	-	-
	<hr/> <hr/>	<hr/> <hr/>
Deferred liabilities (before offsetting)		
- Investments	(2,590)	(2,199)
- Property, plant and equipment	(1,380)	-
- AFS reserves	(696)	(371)
	<hr/>	<hr/>
Offsetting	(4,666) 40	(2,570) 40
	<hr/>	<hr/>
Deferred tax liabilities after offsetting	(4,626)	(2,530)
	<hr/> <hr/>	<hr/> <hr/>

**13 OTHER PAYABLES**

Amount due to related company	464	1,143
Deposit contributions	5,603	3,656
Commission payable	6,741	5,438
Withholding tax	404	132
Other payables and accruals	11,510	12,003
Expense reserves	241	-
	<hr/>	<hr/>
	24,963	22,372
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts disclosed above approximate the fair value at the date of the statement of financial position.

All amounts are payable within one year.

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**14 SHARE CAPITAL**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Authorised ordinary shares of RM1 each:		
At beginning and end of financial year	<u>150,000</u>	<u>150,000</u>
Issued and fully paid ordinary shares of RM1 each:		
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 tax credits as at 31 December 2007 may continue to frank dividends until the Section 108 tax credits are exhausted or on 31 December 2013, whichever is earlier unless they opt to disregard the Section 108 tax credits to pay single tier dividends under the special transitional provision of the Finance Act, 2007.

**(b) Available-for-sale**

The fair value reserves represent the fair value gains or losses from available-for-sale financial investments of the Shareholders' fund.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**16 OPERATING REVENUE**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Gross earned contribution	288,222	256,955
Investment income (Note 18)	13,253	9,422
	<u>301,475</u>	<u>266,377</u>

**17 NET EARNED CONTRIBUTION**

(a) Gross contributions

Takaful contracts:

Family takaful (Note 10(a))

163,751

157,434

General takaful (Note 10(b)(ii))

136,197

111,113

Change in unearned contribution reserves

299,948  
(11,726)

268,547  
(11,592)

288,222

256,955

(b) Contribution ceded

Takaful contracts:

Family takaful (Note 10(a))

(12,927)

(5,332)

General takaful (Note 10(b)(ii))

(109,720)

(74,289)

Change in unearned contribution reserves

(122,647)  
17,215

(79,621)  
8,591

(105,432)

(71,030)

Net earned contribution

182,790

185,925

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**18 INVESTMENT INCOME**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Investments at FVTPL:		
Hiba/profit income	1,471	1,029
Dividend:		
- Equity securities quoted in Malaysia	1,910	1,186
Investments as HTM:		
- Hiba/profit income	3,659	1,683
Investments at AFS:		
- Hiba/profit income	3,605	3,678
- Dividend	10	-
- Accretion of discount	874	467
Investments at LAR:		
- Hiba/profit income	1,724	1,379
	<u>13,253</u>	<u>9,422</u>

**19 REALISED GAINS AND LOSSES**

FVTPL investments:		
Equity securities		
- Quoted in Malaysia	5,633	3,178
AFS investments:		
Islamic debt securities		
- Quoted in Malaysia	2,944	2,159
Property, plant and equipment	(335)	-
	<u>8,242</u>	<u>5,337</u>

**20 FAIR VALUE GAINS AND LOSSES**

FVTPL investment	<u>2,200</u>	<u>8,502</u>
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**21 FEE AND COMMISSION INCOME**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Family takaful	1,938	775
General takaful	23,539	15,185
	<u>25,477</u>	<u>15,960</u>

**22 NET BENEFITS AND CLAIMS**

(a) Gross benefits and claims paid

Takaful contracts:	Family takaful	(51,362)	(49,484)
	General takaful	(32,508)	(15,498)
		<u>(83,870)</u>	<u>(64,982)</u>

(b) Claims ceded to retakaful

Takaful contracts:	Family takaful	13,418	5,057
	General takaful	17,938	7,794
		<u>31,356</u>	<u>12,851</u>

(c) Gross change in contract liabilities

Takaful contracts:	Family takaful	-	-
	General takaful	(31,042)	(37,257)
		<u>(31,042)</u>	<u>(37,257)</u>

(d) Change in contract liabilities ceded to retakaful

Takaful contracts:	Family takaful	-	-
	General takaful	28,295	17,795
		<u>28,295</u>	<u>17,795</u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**23 MANAGEMENT EXPENSES**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Staff salaries and bonus	13,872	9,128
Defined contribution plan	2,080	1,192
Other staff costs	1,068	581
	<u>17,020</u>	<u>10,901</u>
Auditors' remuneration		
- Statutory audit	196	91
- Under accrual in prior financial year	105	-
Directors' remuneration:		
- fees	345	345
- other emoluments	165	406
Shariah committee remuneration:		
- fees	120	29
- other emoluments	31	-
Depreciation charge on property, plant and equipment	446	209
Amortisation of intangible assets	1,322	1,070
Office rental	1,319	772
Printing and stationery	1,584	1,731
Advertising and promotions	1,101	1,346
Postage and telephone	850	350
Professional fees	659	584
Other expenses	12,086	12,720
	<u>37,349</u>	<u>30,554</u>

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 RM883,000 (2010: RM665,000).

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**24 TAXATION**

	<u>2011</u>		<u>2010</u>	
	<u>Takaful funds</u>	<u>Shareholders</u>	<u>Takaful funds</u>	<u>Shareholders</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax	1,956	1,236	457	-
Deferred tax (Note 12)	124	1,380	665	-
Tax expenses	<u>2,080</u>	<u>2,616</u>	<u>1,122</u>	<u>-</u>

The taxation charge of the Family Takaful fund, General Takaful fund and Investment-linked fund is based on the method prescribed under the Income Tax Act, 1967. The taxation charge in the income statement of the Company relates to income attributable to the Shareholders' fund.

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

	<u>2011</u>	<u>2010</u>
	<u>RM'000</u>	<u>RM'000</u>
Profit before zakat and taxation	<u>7,511</u>	<u>7,207</u>
Taxation at Malaysia statutory tax rate of 25%	1,878	1,802
Tax effect of expenses not deductible for the purposes	738	543
Utilisation of unabsorbed tax losses	-	(2,345)
	<u>2,616</u>	<u>-</u>



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**25 CASH FLOW**

	<u>2011</u> RM'000	<u>2010</u> RM'000
Net profit for the financial year	4,707	7,027
Adjustment for:		
Investment income	(13,253)	(9,422)
Realised gain	(8,577)	(5,337)
Fair value gain	(2,200)	(8,502)
Purchases of FVTPL financial investments	(95,386)	(102,047)
Proceeds from sale of FVTPL financial investments	57,600	68,699
Purchases of AFS investments	(56,404)	(99,327)
Proceeds from sale and maturity of AFS financial investment	61,436	32,410
Purchase of HTM financial investments	(10,000)	-
(Increase)/decrease in LAR	(16,405)	2,038
Non-cash items:		
Depreciation of property, plant and equipment	446	210
Loss on disposal of property, plant and equipment	335	-
Amortisation of intangible assets	1,322	1,070
Allowance for doubtful debts	168	109
Tax expenses	4,696	1,122
Changes in working capital:		
Increase in retakaful assets	(44,170)	(35,509)
Increase in takaful receivables	(19,289)	(930)
Decrease/(increase) in other receivables	6,987	(8,557)
Increase in takaful contract liabilities	94,832	128,695
Decrease in other financial liabilities	(140)	(69)
Increase in takaful payables	19,431	11,288
Increase in other payables	2,592	5,994
Cash utilised in operating activities	<u>(11,272)</u>	<u>(11,038)</u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**26 SIGNIFICANT RELATED PARTY DISCLOSURE**

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

Malaysian Assurance Alliance Berhad, Multioto Services Sdn Bhd, Maagnet Systems Sdn Bhd and Malaysian Alliance Property Services Sdn Bhd were subsidiary companies of MAAG up till 30 September 2011.

Trace Management Services Sdn Bhd and Mitra Malaysia Sdn Bhd are companies controlled by a person connected to the 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>2011</u> RM'000	<u>2010</u> RM'000
Transactions with MAA Group Berhad (formerly known as MAA Holdings Berhad):		
Internal audit fees	(22)	(96)
Management service fees	(127)	(205)
Transactions with Malaysian Assurance Alliance Berhad*:		
Office rental expenses	(758)	(772)
Outsourcing fees	(3,305)	(6,336)
Transactions with Maagnet Systems Sdn Bhd*:		
Purchase of computer equipments and hardware	(599)	(165)
Development of software programme	(1,018)	(368)
System support and maintenance fees	(822)	(627)
	<u>          </u>	<u>          </u>
Other transactions with related parties:		
Mitra Malaysia Sdn Bhd		
- Purchase of air tickets and travel packages	(883)	(1,465)
Trace Management Services Sdn Bhd		
- Company secretarial and professional fees	(136)	(125)
Menang Bernas Sdn Bhd		
- Purchase of food & beverage vouchers	(64)	(20)
Chelsea Parking Services Sdn Bhd		
- Parking charges	(62)	(44)
Malaysian Alliance Property Services Sdn Bhd*		
- Rental expenses, renovation supervision and repair fees	(38)	(25)
Multioto Services Sdn Bhd*		
- Motor vehicle breakdown services	(292)	(224)
	<u>          </u>	<u>          </u>

\* The transactions held with the Company's former related parties during the current financial year relates to that incurred up till 30 September 2011.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**26 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)**

Significant related party transactions (continued)

Related party balances

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

	2011 RM'000	2010 RM'000
Malaysian Assurance Alliance Berhad:		
Outsourcing fees payable	-	(1,075)
MAA Group Berhad (formerly known as MAA Holdings Berhad):		
Internal audit fees payable	-	(94)
Maagnet Systems Sdn Bhd:		
Development of software programme payable	-	(62)
Trace Management Services Sdn Bhd:		
Company secretarial and professional fees payable	(10)	(28)
Multioto Services Sdn Bhd:		
Motor vehicle breakdown service fee payable	-	(60)
	<u>          </u>	<u>          </u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**26 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)**

Key management personnel

Key management personnel received remuneration for services rendered during the financial year. The total compensation paid to the Company's key management personnel as well as fees paid to Directors were as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Salaries and other short-term employee benefits	1,279	1,328
Defined contribution retirements benefits	114	87
	<u>          </u>	<u>          </u>

There were no outstanding balances due from key management personnel.

**27 CAPITAL AND OTHER COMMITMENTS**

Capital expenditure not provided for in the financial statements is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Authorised and contracted for:		
- Office rental	4,928	2,616
- Office renovation	4,197	-
- System and technology	74	-
	<u>          </u>	<u>          </u>

**MAA TAKAFUL BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**28 TAKAFUL FUNDS**

The Company's activities are organised by funds and segregated into the Family takaful, General takaful and Shareholders' funds, in accordance with the Takaful Act, 1984. 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 2011**

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Total RM'000
<b>2011</b>					
<b>Assets:</b>					
Property, plant and equipment	5,178	-	-	-	5,178
Intangible assets	3,360	-	-	-	3,360
Investments	83,370	61,826	62,577	194,293	402,066
Retakaful assets	-	107,692	10,049	-	117,741
Takaful receivable	-	43,996	18,760	-	62,756
Other receivables	11,347	423	1,072	421	13,263
Cash and bank balances	410	109	1,572	82	2,173
	<u>103,665</u>	<u>214,046</u>	<u>94,030</u>	<u>194,796</u>	<u>606,537</u>
<b>Equity, participants' fund and liabilities:</b>					
Total equity	113,204	-	-	-	113,204
Takaful contract liabilities	-	148,171	54,979	191,558	394,708
Takaful payable	-	51,935	13,918	-	65,853
Deferred tax liabilities	3,182	470	225	749	4,626
Tax payable	1,236	698	200	1,049	3,183
Other liabilities	9,121	7,748	6,634	1,460	24,963
Total participants' fund and liabilities	<u>13,539</u>	<u>209,022</u>	<u>75,956</u>	<u>194,816</u>	<u>493,333</u>
	<u>126,743</u>	<u>209,022</u>	<u>75,956</u>	<u>194,816</u>	<u>606,537</u>
Interfund balances	<u>(23,078)</u>	<u>5,024</u>	<u>18,074</u>	<u>(20)</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**28 TAKAFUL FUNDS (CONTINUED)**

**STATEMENT OF FINANCIAL POSITION BY FUNDS  
AS AT 31 DECEMBER 2011 (CONTINUED)**

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Total RM'000
<b>2010</b>					
<b>Assets:</b>					
Property, plant and equipment	1,350	-	-	-	1,350
Intangible assets	2,676	-	-	-	2,676
Investments	107,706	43,424	37,860	139,100	328,090
Retakaful assets	-	62,182	11,389	-	73,571
Takaful receivable	-	37,226	6,409	-	43,635
Qardhul Hassan	16,644	-	-	-	16,644
Other receivables	1,949	325	776	430	3,480
Cash and bank balances	1,886	698	3,337	2,137	8,058
	<u>132,211</u>	<u>143,855</u>	<u>59,771</u>	<u>141,667</u>	<u>477,504</u>
<b>Equity, participants' fund and liabilities:</b>					
Total equity	107,694	-	-	-	107,694
Takaful contract liabilities	-	104,749	53,253	139,997	297,999
Takaful payable	-	41,611	4,950	-	46,561
Deferred tax liabilities	1,534	252	119	625	2,530
Tax payable	-	-	-	348	348
Other liabilities	11,323	5,381	4,623	1,045	22,372
Total participants' fund and liabilities	<u>12,857</u>	<u>151,993</u>	<u>62,945</u>	<u>142,015</u>	<u>369,810</u>
	<u>120,551</u>	<u>151,993</u>	<u>62,945</u>	<u>142,015</u>	<u>477,504</u>
Interfund balances	<u>11,660</u>	<u>(8,138)</u>	<u>(3,174)</u>	<u>(348)</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**28 TAKAFUL FUNDS (CONTINUED)**

**INCOME STATEMENT BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011**

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Interfund elimination RM'000	Total RM'000
<u>2011</u>						
Operating revenue	4,252	126,879	166,036	4,308	-	301,475
Gross contribution	-	124,471	163,751	-	-	288,222
Contribution ceded to retakaful	-	(92,505)	(12,927)	-	-	(105,432)
Net contribution	-	31,966	150,824	-	-	182,790
Investment income	4,252	2,408	2,285	4,308	-	13,253
Realised gains and losses	2,559	50	-	5,633	-	8,242
Fair value gains and losses	771	-	-	1,429	-	2,200
Fees and commission income	-	23,539	1,938	-	-	25,477
Wakalah fee income	90,713	-	-	-	(90,713)	-
Other operating income	7,753	-	-	-	(7,692)	61
Other income	106,048	25,997	4,223	11,370	(98,405)	49,233
Gross benefits and claims paid	-	(32,508)	(51,362)	-	-	(83,870)
Claims ceded to retakaful	-	17,938	13,418	-	-	31,356
Gross change to contract liabilities	-	(31,042)	-	-	-	(31,042)
Change in contract liabilities to retakaful	-	28,295	-	-	-	28,295
Net claims	-	(17,317)	(37,944)	-	-	(55,261)
Fees and commission expenses	(67,347)	-	-	-	-	(67,347)
Management expenses	(37,349)	-	-	-	-	(37,349)
Allowance for doubtful debts	-	(168)	-	-	-	(168)
Wakalah fee expenses	-	(33,663)	(57,050)	-	90,713	-
Other operating expenses	-	-	(6,274)	(1,891)	7,692	(473)
Expense reserves	(241)	-	-	-	-	(241)
Other expenses	(104,937)	(33,831)	(63,324)	(1,891)	98,405	(105,578)
Surplus before taxation	1,111	6,815	53,779	9,479	-	71,184
Taxation on takaful funds	-	(699)	(472)	(909)	-	(2,080)
Surplus after taxation	1,111	6,116	53,307	8,570	-	69,104
Surplus retained within takaful funds	-	(6,116)	(46,907)	(8,570)	-	(61,593)
Profit before taxation	1,111	-	6,400	-	-	7,511
Zakat	(188)	-	-	-	-	(188)
Taxation	(2,616)	-	-	-	-	(2,616)
Net (loss)/profit after taxation	(1,693)	-	6,400	-	-	4,707

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**28 TAKAFUL FUNDS (CONTINUED)**

**INCOME STATEMENT BY FUNDS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)**

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Interfund elimination RM'000	Total RM'000
<u>2010</u>						
Operating revenue	4,372	100,762	158,658	2,585	-	266,377
Gross contribution	-	99,521	157,434	-	-	256,955
Contribution ceded to retakaful	-	(65,698)	(5,332)	-	-	(71,030)
Net contribution	-	33,823	152,102	-	-	185,925
Investment income	4,372	1,241	1,224	2,585	-	9,422
Realised gains and losses	2,159	-	-	3,178	-	5,337
Fair value gains and losses	240	-	-	8,262	-	8,502
Fees and commission income	-	15,187	773	-	-	15,960
Wakalah fee income	79,809	-	-	-	(79,809)	-
Other operating income	5,596	-	-	-	(5,504)	92
Other income	92,176	16,428	1,997	14,025	(85,313)	39,313
Gross benefits and claims paid	-	(15,498)	(49,484)	-	-	(64,982)
Claims ceded to retakaful	-	7,794	5,057	-	-	12,851
Gross change to contract liabilities	-	(37,257)	-	-	-	(37,257)
Change in contract liabilities to retakaful	-	17,795	-	-	-	17,795
Net claims	-	(27,166)	(44,427)	-	-	(71,593)
Fees and commission expenses	(57,815)	-	-	-	-	(57,815)
Management expenses	(30,554)	-	-	-	-	(30,554)
Allowance for doubtful debts	-	(109)	-	-	-	(109)
Wakalah fee expenses	-	(28,821)	(50,988)	-	79,809	-
Other operating expenses	-	-	(4,389)	(1,247)	5,504	(132)
Other expenses	(88,369)	(28,930)	(55,377)	(1,247)	85,313	(88,610)
Surplus/(deficit) before taxation	3,807	(5,845)	54,295	12,778	-	65,035
Taxation on takaful funds	-	-	-	(1,122)	-	(1,122)
Surplus/(deficit) after taxation	3,807	(5,845)	54,295	11,656	-	63,913
Surplus/(deficit) retained within takaful funds	-	5,845	(50,895)	(11,656)	-	(56,706)
Profit before taxation	3,807	-	3,400	-	-	7,207
Zakat	(180)	-	-	-	-	(180)
Taxation	-	-	-	-	-	-
Net profit after taxation	3,627	-	3,400	-	-	7,027



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**29 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, Governance 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 Takaful Act, 1984, 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 certificateholders' 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 INSURANCE 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 2011</u>			
Family takaful contract liabilities			
Whole life	97	-	97
Endowment	203,527	-	203,527
Term	40,323	(10,049)	30,274
	<u>243,947</u>	<u>(10,049)</u>	<u>233,898</u>
Total Family takaful contract liabilities	<u>243,947</u>	<u>(10,049)</u>	<u>233,898</u>
<u>31 December 2010</u>			
Family takaful contract liabilities			
Whole life	13	-	13
Endowment	153,108	-	153,108
Term	38,761	(11,389)	27,372
	<u>191,882</u>	<u>(11,389)</u>	<u>180,493</u>
Total Family takaful contract liabilities	<u>191,882</u>	<u>(11,389)</u>	<u>180,493</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 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 (2010: M8388)
- b) **Morbidity Rates**  
Assumption is mainly based on reinsurer rates
- c) **Investment Return**  
8.4% p.a. for Participant Investment Account (PIA) and 4% p.a for Participant Risk Investment Account (PRIA)
- d) **Expenses**  
Assumption varies by product type as follows:-

<u>Product Type</u>	<u>RM per certificate</u>
Investment-linked	84
Ordinary Family	70
Group Family	4

- e) **Lapse and Surrender Rates**  
2% p.a. for Single Contribution certificates

For regular contribution policies, lapse rate varies by Certificate Year as follows:

<u>Certificate year</u>	<u>Lapse %</u>
1	25.0
2	20.0
3	10.0
4+	3.5

- f) **Discount Rate**  
GII Spot rate as at date of statement of financial position.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 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.

		Impact on Family Takaful contract liabilities		
	Change in assumptions	Gross	Net	Surplus before tax
	%	RM'000	RM'000	RM'000
<u>31 December 2011</u>				
Mortality/morbidity	+10	1,606	98	98
Lapse and surrender rates	+10	(164)	-	-
Discount rate	+10	(74)	(564)	(564)
Expenses	+1	573	573	573
<u>31 December 2010</u>				
Mortality/morbidity	+10	5,396	5,301	5,301
Lapse and surrender rates	+10	174	174	174
Discount rate	+1	(13)	(13)	(13)

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

**(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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 TAKAFUL RISK (CONTINUED)**

**(b) General takaful (continued)**

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

	2011			2010		
	Gross RM'000	Re- Takaful RM'000	Net RM'000	Gross RM'000	Re- Takaful RM'000	Net RM'000
Fire	17,190	(13,829)	3,361	17,763	(14,221)	3,542
Motor	28,396	(16,067)	12,329	14,283	(2,871)	11,412
MAT	5,018	(4,576)	442	6,829	(6,258)	571
Miscellaneous	42,649	(31,066)	11,583	23,336	(13,892)	9,444
At 31 December	93,253	(65,538)	27,715	62,211	(37,242)	24,969

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of development of claims paid and development of claims reported amount. The methods employed also require assumptions on a seed prior estimate (for Bornhuetter-Ferguson based methods) for each accident year. 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.

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 statement of financial position date, 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 TAKAFUL RISK (CONTINUED)**

**(b) General takaful (continued)**

Gross General takaful contract liabilities for 2011:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
	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	
One year later	78	4,592	20,219	58,203	-	
Two years later	50	3,714	16,567	-	-	
Three years later	42	3,214	-	-	-	
Four years later	39	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Current estimate of cumulative claims incurred	39	3,214	16,567	58,203	57,359	
At end of accident year	-	1,100	4,021	10,114	12,429	
One year later	39	2,807	9,177	29,052	-	
Two years later	39	3,035	10,273	-	-	
Three years later	39	3,076	-	-	-	
Four years later	39	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Cumulative payments to-date	39	3,076	10,278	29,052	12,429	
Gross General takaful contract liabilities	-	138	6,289	29,151	44,930	80,508
Claims handling expenses						840
Provision for liability adequacy						11,905
Gross General takaful contract liabilities						93,253

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 TAKAFUL RISK (CONTINUED)**

**(b) General takaful (continued)**

Net General takaful contract liabilities for 2011:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
	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	
One year later	48	1,642	6,165	24,835	-	
Two years later	32	1,370	5,340	-	-	
Three years later	26	1,198	-	-	-	
Four years later	24	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Current estimate of cumulative claims incurred	24	1,198	5,340	24,835	17,488	
At end of accident year	-	339	1,548	5,284	4,927	
One year later	23	1,032	3,831	14,461	-	
Two years later	23	1,169	4,285	-	-	
Three years later	23	1,182	-	-	-	
Four years later	23	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Cumulative payments to-date	23	1,182	4,285	14,461	4,927	
Gross General Takaful contract liabilities	1	16	1,055	10,374	12,561	24,007
Claims handling expenses						840
Provision for liability adequacy						2,868
Net General Takaful contract liabilities						27,715

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 TAKAFUL RISK (CONTINUED)**

**(b) General takaful (continued)**

Gross General takaful contract liabilities for 2010:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
	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	
One year later	78	4,592	20,219	-	
Two years later	50	3,714	-	-	
Three years later	42	-	-	-	
Four years later	-	-	-	-	
Five years later	-	-	-	-	
Six years later	-	-	-	-	
Seven years later	-	-	-	-	
	<hr/>	<hr/>	<hr/>	<hr/>	
Current estimate of cumulative claims incurred	42	3,714	20,219	54,138	
	<hr/>	<hr/>	<hr/>	<hr/>	
At end of accident year	-	1,100	4,021	10,114	
One year later	39	2,807	9,177	-	
Two years later	39	3,035	-	-	
Three years later	39	-	-	-	
Four years later	-	-	-	-	
Five years later	-	-	-	-	
Six years later	-	-	-	-	
Seven years later	-	-	-	-	
	<hr/>	<hr/>	<hr/>	<hr/>	
Cumulative payments to-date	39	3,035	9,177	10,114	
	<hr/>	<hr/>	<hr/>	<hr/>	
Gross General Takaful contract liabilities	3	679	11,042	44,024	55,748
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Provision for liability adequacy					6,463
					<hr/>
Gross General Takaful contract liabilities					62,211
					<hr/> <hr/>



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 TAKAFUL RISK (CONTINUED)**

**(b) General takaful (continued)**

Net General takaful contract liabilities for 2010:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
	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	
One year later	48	1,642	6,165	-	
Two years later	32	1,370	-	-	
Three years later	26	-	-	-	
Four years later	-	-	-	-	
Five years later	-	-	-	-	
Six years later	-	-	-	-	
Seven years later	-	-	-	-	
Current estimate of cumulative claims incurred	26	1,370	6,165	25,190	
At end of accident year-	-	339	1,548	5,284	
One year later	23	1,032	3,831	-	
Two years later	23	1,169	-	-	
Three years later	23	-	-	-	
Four years later	-	-	-	-	
Five years later	-	-	-	-	
Six years later	-	-	-	-	
Seven years later	-	-	-	-	
Cumulative payments to-date	23	1,169	3,831	5,284	
Net General Takaful contract liabilities	3	201	2,334	19,906	22,444
Provision for liability adequacy					2,525
Net General Takaful contract liabilities					24,969

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

30 **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, surplus before tax and surplus 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.

		Impact on General takaful claims liabilities			
	<u>Change in assumptions</u>	<u>Gross</u>	<u>Net</u>	<u>Surplus before tax</u>	<u>Surplus after tax</u>
	%	RM'000	RM'000	RM'000	RM'000
<u>31 December 2011</u>					
Average open claims	+10	9,325	2,771	2,771	2,079
Number of claims open	+10	9,325	2,771	2,771	2,079
Loss ratio	+10	12,447	3,212	3,212	2,409
Claims handling expenses	+10	96	94	94	70
Provision for liability adequacy	+1	651	199	199	149
<u>31 December 2010</u>					
Average open claims	+10	6,221	2,497	2,497	1,873
Number of claims open	+10	6,221	2,497	2,497	1,873
Loss ratio	+10	9,952	4,034	4,034	3,026
Claims handling expenses	-	-	-	-	-
Provision for liability adequacy	+1	446	180	180	135

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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 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 and the liabilities for future certificateholders benefits in relation to the Family takaful funds 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 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.

	Takaful and Shareholders' funds RM'000	Investment- linked fund RM'000	Total RM'000
<b>31 December 2011</b>			
HTM financial investment:			
Malaysian Government securities	20,000	-	20,000
AFS financial investment:			
Islamic debt securities	144,590	-	144,590
Financial investment at FVTPL:			
Islamic debt securities	-	29,134	29,134
LAR:			
Fixed and call deposits	33,975	71,480	105,455
Retakaful assets	66,870	-	66,870
Takaful receivables	62,756	-	62,756
Other receivables	4,009	421	4,430
Cash and bank balances	2,091	82	2,173
	<u>334,291</u>	<u>101,117</u>	<u>435,408</u>
<b>31 December 2010</b>			
HTM financial investment:			
Malaysian Government securities	10,000	-	10,000
AFS financial investment:			
Islamic debt securities	142,638	-	142,638
Financial investment at FVTPL:			
Islamic debt securities	-	21,995	21,995
LAR:			
Fixed and call deposits	31,112	56,912	88,024
Retakaful assets	37,270	-	37,270
Takaful receivables	43,635	-	43,635
Other receivables	3,050	430	3,480
Cash and bank balances	5,921	2,137	8,058
	<u>273,626</u>	<u>81,474</u>	<u>355,100</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 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 Company's credit rating of counterparties.

	Neither past-due nor impaired				
	Investment grade	Non- investment grade	Not rated	Investment- linked	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011					
HTM financial investment:					
Islamic debt securities	-	-	20,000*	-	20,000
AFS financial investment:					
Islamic debt securities	137,328	-	7,262*	-	144,590
Financial Investment at FVTPL:					
Islamic debt securities	-	-	-	29,134	29,134
LAR:					
Fixed and call deposits	32,944	-	1,031^	71,480	105,455
Retakaful assets	51,885	-	14,985	-	66,870
Takaful receivables	17,882	-	44,874	-	62,756
Other receivables	-	-	4,009	421	4,430
Cash and bank balances	2,026	-	65	82	2,173
	<u>242,065</u>	<u>-</u>	<u>92,226</u>	<u>101,117</u>	<u>435,408</u>
31 December 2010					
HTM financial investment:					
Islamic debt securities	-	-	10,000*	-	10,000
AFS financial investment:					
Islamic debt securities	135,907	-	6,731*	-	142,638
Financial Investment at FVTPL:					
Islamic debt securities	-	-	-	21,995	21,995
LAR:					
Fixed and call deposits	30,112	-	1,000^	56,912	88,024
Retakaful assets	22,953	-	14,317	-	37,270
Takaful receivables	10,617	-	33,018	-	43,635
Other receivables	-	-	3,050	430	3,480
Cash and bank balances	5,704	-	217	2,137	8,058
	<u>205,293</u>	<u>-</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

\* Fully guaranteed by the Government

^ Issued by a Government-Linked-Company (GLC) institution

The Company does not have any financial assets that fall within the "past due but not impaired" category as at 31 December 2011 and 31 December 2010.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

**Credit Risk (continued)**

**Credit Exposure by Credit Rating (continued)**

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 RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- linked RM'000	Total RM'000
<b>31 December 2011</b>							
HTM financial investment:							
Malaysian Government securities	-	-	-	-	20,000*	-	20,000
AFS financial investments:							
Islamic debt securities	52,777	84,551	-	-	7,262*	-	144,590
Financial investment at FVTPL:							
Islamic debt securities	-	-	-	-	-	29,134	29,134
LAR:							
Fixed and call deposits	27,674	5,270	-	-	1,031^	71,480	105,455
Retakaful assets	3,355	586	27,245	20,699	14,985	-	66,870
Takaful receivables	-	251	4,835	12,796	44,874	-	62,756
Other receivables	-	-	-	-	4,009	421	4,430
Cash and bank balances	1,409	516	101	-	65	82	2,173
	<u>85,215</u>	<u>91,174</u>	<u>32,181</u>	<u>33,495</u>	<u>92,226</u>	<u>101,117</u>	<u>435,408</u>
<b>31 December 2010</b>							
HTM financial investment:							
Malaysian Government securities	-	-	-	-	10,000*	-	10,000
AFS financial investments:							
Islamic debt securities	41,030	90,765	4,112	-	6,731*	-	142,638
Financial investment at FVTPL:							
Islamic debt securities	-	-	-	-	-	21,995	21,995
LAR:							
Fixed and call deposits	21,307	8,805	-	-	1,000^	56,912	88,024
Retakaful assets	3,607	-	13,816	5,530	14,317	-	37,270
Takaful receivables	-	150	3,741	6,726	33,018	-	43,635
Other receivables	-	-	-	-	3,050	430	3,480
Cash and bank balances	2,185	3,430	89	-	217	2,137	8,058
	<u>68,129</u>	<u>103,150</u>	<u>21,758</u>	<u>12,256</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

\* Fully guaranteed by the Government

^ Issued by a Government-Linked-Company (GLC) institution

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by RAM and/or MARC.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- linked RM'000	Total RM'000
31 December 2011							
Investment grade	85,215	91,174	32,181	33,495	-	100,614	342,679
Non-investment grade:							
Satisfactory	-	-	-	-	92,226	503	92,729
Unsatisfactory	-	-	-	-	-	-	-
	<u>85,215</u>	<u>91,174</u>	<u>32,181</u>	<u>33,495</u>	<u>92,226</u>	<u>101,117</u>	<u>435,408</u>
31 December 2010							
Investment grade	68,129	103,150	21,758	12,256	-	78,907	284,200
Non-investment grade:							
Satisfactory	-	-	-	-	68,333	2,567	70,900
Unsatisfactory	-	-	-	-	-	-	-
	<u>68,129</u>	<u>103,150</u>	<u>21,758</u>	<u>12,256</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

**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.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

Liquidity risk (continued)

Exposure to liquidity risk

An analysis of the contractual maturities of the Company's financial instruments is presented below.

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
<b>31 December 2011</b>								
HTM financial investments:								
Malysian Government securities	20,000	-	-	-	16,415	17,826	-	34,241
AFS financial investment:								
Islamic debt securities	144,590	-	-	6,048	162,479	49,623	-	218,150
Financial investment at FVTPL:								
Shariah approved equity securities	94,641	-	-	-	-	-	94,641	94,641
Islamic debt securities	29,134	-	7,070	12,320	13,483	6,284	-	39,157
Investment-linked funds	8,246	-	-	-	-	-	8,246	8,246
LAR:								
Fixed and call deposits	105,455	64,532	45,256	-	-	-	-	109,788
Retakaful assets	66,870	52,596	13,779	495	-	-	-	66,870
Takaful receivables	62,756	62,756	-	-	-	-	-	62,756
Other receivables	4,430	4,430	-	-	-	-	-	4,430
Cash and bank balances	2,173	2,173	-	-	-	-	-	2,173
<b>Total assets</b>	<b>538,295</b>	<b>186,487</b>	<b>66,105</b>	<b>18,863</b>	<b>192,377</b>	<b>73,733</b>	<b>102,887</b>	<b>640,452</b>
Takaful contract liabilities	390,707	331,844	21,153	870	330	36,080	430	390,707
Other Financial liabilities	3	3	-	-	-	-	-	3
Takaful payables	65,850	65,850	-	-	-	-	-	65,850
Other liabilities	24,963	24,963	-	-	-	-	-	24,963
<b>Total liabilities</b>	<b>481,523</b>	<b>422,660</b>	<b>21,153</b>	<b>870</b>	<b>330</b>	<b>36,080</b>	<b>430</b>	<b>481,523</b>
<b>31 December 2010</b>								
HTM financial investments:								
Malysian Government securities	10,000	-	-	-	8,395	9,817	-	18,212
AFS financial investment:								
Islamic debt securities	142,638	-	-	6,310	203,040	10,000	-	219,350
Financial investment at FVTPL:								
Shariah approved equity securities	60,193	-	-	-	-	-	60,193	60,193
Islamic debt securities	21,995	3,068	7,864	14,134	-	-	-	25,066
Investment-linked funds	5,240	-	-	-	-	-	5,240	5,240
LAR:								
Fixed and call deposits	88,024	47,495	44,892	-	-	-	-	92,387
Retakaful assets	37,270	30,205	6,514	399	152	-	-	37,270
Takaful receivables	43,635	43,635	-	-	-	-	-	43,635
Other receivables	3,480	3,480	-	-	-	-	-	3,480
Cash and bank balances	8,058	8,058	-	-	-	-	-	8,058
<b>Total assets</b>	<b>420,533</b>	<b>135,941</b>	<b>59,270</b>	<b>20,843</b>	<b>211,587</b>	<b>19,817</b>	<b>65,433</b>	<b>512,891</b>
Takaful contract liabilities	295,875	246,826	11,367	1,480	998	33,079	2,125	295,875
Other Financial liabilities	143	143	-	-	-	-	-	143
Takaful payables	46,418	46,418	-	-	-	-	-	46,418
Other liabilities	22,372	22,372	-	-	-	-	-	22,372
<b>Total liabilities</b>	<b>364,808</b>	<b>315,759</b>	<b>11,367</b>	<b>1,480</b>	<b>998</b>	<b>33,079</b>	<b>2,125</b>	<b>364,808</b>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

Liquidity risk (continued)

The table below summarises the current/non-current classification of assets:

	<u>Current*</u> RM'000	<u>Non-current</u> RM'000	<u>Investment- linked</u> RM'000	<u>Total</u> RM'000
<b>31 December 2011</b>				
Property, plant and equipment	-	5,178	-	5,178
Intangible assets	-	3,360	-	3,360
HTM financial investment:				
Malaysian Government securities	-	20,000	-	20,000
AFS financial investment:				
Islamic debt securities	-	144,590	-	144,590
Financial investment at FVTPL:				
Shariah approved equity securities	-	962	93,679	94,641
Islamic debt securities	-	-	29,134	29,134
Investment-linked funds	-	8,246	-	8,246
LAR:				
Fixed and call deposits	33,975	-	71,480	105,455
Retakaful assets	94,751	22,990	-	117,741
Takaful receivables	62,756	-	-	62,756
Qardhul Hassan	-	8,833	-	8,833
Other receivables	4,009	-	421	4,430
Cash and bank balances	2,091	-	82	2,173
	<u>197,582</u>	<u>214,159</u>	<u>194,796</u>	<u>606,537</u>
<b>31 December 2010</b>				
Property, plant and equipment	-	1,350	-	1,350
Intangible assets	-	2,676	-	2,676
HTM financial investment:				
Malaysian Government securities	-	10,000	-	10,000
AFS financial investment:				
Islamic debt securities	-	142,638	-	142,638
Financial investment at FVTPL:				
Shariah approved equity securities	-	-	60,193	60,193
Islamic debt securities	-	-	21,995	21,995
Investment-linked funds	-	5,240	-	5,240
LAR:				
Fixed and call deposits	31,112	-	56,912	88,024
Retakaful assets	55,145	18,426	-	73,571
Takaful receivables	43,635	-	-	43,635
Qardhul Hassan	-	16,644	-	16,644
Other receivables	3,050	-	430	3,480
Cash and bank balances	5,921	-	2,137	8,058
	<u>138,863</u>	<u>196,974</u>	<u>141,667</u>	<u>477,504</u>

\* Expected recovery or settlement within 12 months from the date of the statement of financial position

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 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 surplus before tax (due to changes in fair value of fixed and floating rate/yield financial instruments) and equity (that reflects adjustments to surplus before tax and re-valuing fixed rate/yield AFS financial assets).

		<u>Impact on surplus before tax<sup>^</sup></u>		<u>Impact on equity<sup>*</sup></u>	
	<u>Changes in variables</u>	<u>31 Dec 2011</u>	<u>31 Dec 2010</u>	<u>31 Dec 2011</u>	<u>31 Dec 2010</u>
		RM'000	RM'000	RM'000	RM'000
RM	+100 basis point	340	311	(13,127)	(12,580)
RM	-100 basis point	(340)	(311)	10,490	10,160

<sup>^</sup> Impact on Islamic money market instruments only.

<sup>\*</sup> Impact on equity 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.

**MAA TAKAFUL BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**31 FINANCIAL RISK (CONTINUED)**

Market risks (continued)

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.

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 surplus 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 surplus 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>Changes in variables</u>	<u>Impact on surplus before tax</u>		<u>Impact on equity*</u>	
	<u>31 Dec 2011</u> RM'000	<u>31 Dec 2010</u> RM'000	<u>31 Dec 2011</u> RM'000	<u>31 Dec 2010</u> RM'000
<u>Market indices</u>				
Bursa Malaysia +15%	1,381	786	1,036	590
Bursa Malaysia -15%	(1,381)	(786)	(1,036)	(590)

\* 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.