

Zurich Takaful Malaysia Berhad
(Formerly known as MAA Takaful Berhad)



Statutory Financial Statements For The Financial Year End 31 December 2016



DIRECTORS' REPORT AND FINANCIAL STATEMENTS**31 DECEMBER 2016**

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Company No.

731996

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as 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 2016.

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.

CHANGE OF COMPANY NAME

On 2 August 2016, the Company changed its name from MAA Takaful Berhad to Zurich Takaful Malaysia Berhad to reflect its identity as a member of the Zurich Insurance Group Ltd.

FINANCIAL RESULTS

	RM'000
Net loss for the financial year	(13,724)

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 the payment of 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.

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 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.

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DIRECTORS' REPORT (CONTINUED)

CURRENT ASSETS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets other than debts, 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.

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.

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ZURICH TAKAFUL MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

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

On 9 September 2016, the Company increased its authorised share capital from RM150,000,000 to RM500,000,000 with the creation of 350,000,000 new ordinary shares of RM1.00 each. On 22 September 2016, the Company issued 60,000,000 new ordinary shares for cash at par. The new ordinary shares issued during the financial year rank pari passu in all respect with the existing ordinary shares of the Company.

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles under the Islamic Financial Services Act, 2013, Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance (BNM/RH/PD 029-9) in particular issued by Bank Negara Malaysia ("BNM"), and the principles of Shariah.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC")

The composition of the Audit Committee is as follows:

		<u>No. of Attendance</u>
Onn Kien Hoe (Chairman)	Independent Director	(8/8)
Tan Sri Ahmad bin Mohd Don	Independent Director	(8/8)
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Independent Director	(8/8)
Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(3/4)
Choy Khai Choon (appointed w.e.f 30/6/2016)	Independent Director	(4/4)

The primary duties and responsibilities of the Committee in relation to the internal audit function and internal control, external auditors, financial reporting, compliance, governance and risk management and audit investigation are as follows:

(1) Internal Audit Function

1.1 Governance

- 1.1.1 The Committee should establish an internal audit function and identify a Head of Internal Audit who reports directly to the Committee. The Head of Internal Audit will be responsible for the regular review and/or appraisal of the effectiveness of the risk management, internal control and governance processes within the Company.
- 1.1.2 The Committee should:
- (a) ensure that the Internal Audit Department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.
 - (b) ensure the effective organisation of the internal audit function, with due regard to the professionalism, capacity and competence of the internal audit personnel.
 - (c) review the adequacy of the scope, functions and resources of the internal audit functions and procedures and that it has the necessary authority to carry out its work, in particular:
 - (i) any restrictions placed on access by the internal auditors to any of the insurer's records, assets, personnel or processes which are relevant to the conduct of audits;
 - (ii) appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits, having regard to the nature, size and complexity of the Company's operations;
 - (iii) compliance with internal auditing standards; and
 - (iv) coordination between internal and external auditors

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

- (d) review the internal audit programme, audit plan, audit charter, processes, results of the audit and whether or not appropriate action is taken on the recommendations of the internal audit functions.
- (e) ensure that reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, internal audit reports should not be subject to the clearance of the Chief Executive Officer or any Executive Director.
- (f) ensure that they are adequately informed of and understand the risks and implications of internal audit findings and recommendations. The Committee should pay particular attention to internal audit assessments of :
 - i) compliance with the Company's policies, relevant laws and regulatory requirements;
 - ii) effectiveness of internal controls in critical areas of operations such as accounting, underwriting, claims, investment, derivatives and information technology management; and
 - iii) management's responsiveness to, and corrective actions taken in respect of, internal audit findings and recommendations.
- (g) ensure that Senior Management is taking / will be taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- (h) note any significant disagreements between the internal auditor and management irrespective of whether they have been resolved in order to identify any impact that this may have on the audit process or findings.

1.2 Resources and Staffing

The Committee should ensure on an ongoing basis that the Internal Audit Department has adequate and competent resources, given the size and complexity of the Company's operations.

The Committee should:

- (a) approve any appointment, remuneration and removal/termination of senior staff members of the internal audit function;
- (b) review any appraisal or assessment of the performance of members of the internal audit functions;
- (c) take cognisance of resignations of the senior internal audit staff members and provide the resigning staff with an opportunity to submit reasons for their resignations;
- (d) ensure that internal audit staff receives necessary training to perform audit work. There should be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

(2) External Auditors

2.1 Appointment of External Auditors

The Committee should:

- (a) be responsible for the appointment of the external auditor, having particular regard to the external auditor's objectivity, performance and independence.
- (b) review and assess various relationships between the external auditor and the Company or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the insurer. This may include affiliations resulting from the Company's employment of former employees of the external auditor in senior positions within the Company;
- (c) review and assess fees structure paid to the external auditor, considering:
 - i) audit structure of Zurich Group;
 - ii) the economic importance of the Company (in terms of total fees paid) to the external auditor;
 - iii) fees paid for non-audit services as a proportion of total fees;
 - iv) whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fee paid.
- (d) review and independently verify through reasonable means all relevant information necessary to support its assessment of the auditor's compliance with the criteria specified as follows:
 - (1) The qualification criteria of an auditor are as follows:
 - i. he is registered as an auditor of a public interest entity with the Audit Oversight Board;
 - ii. he must not have been convicted of any offence under the FSA, the IFSA or the Companies Act, 2016, or of any offence under any written law involving fraud or dishonesty;
 - iii. he shall have the necessary skills, knowledge and appropriate experience to perform the audit of the financial institution with professional competence and due care in accordance with the approved auditing standards and applicable regulatory and legal requirements;
 - iv. he shall not have relationships with, or interests in, including an interest in shares of, the financial institution or any of its related entities that are likely to impair his objectivity or independence, and which cannot be reduced to an acceptable level through the application of appropriate safeguards;
 - v. he shall not have any record of disciplinary actions taken against him for unprofessional conduct by the MIA where the decision for such disciplinary action has not been reversed by the Disciplinary Appeal Board of the MIA; and
 - vi. he must not have served as an engagement partner for a continuous period of more than five years with the same financial institution. An auditor who has been rotated off the audit of a financial institution may resume the role as engagement partner only after a lapse of five years from the last audit engagement with that financial institution.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

- (2) The Board shall ensure that members of the audit engagement team involved in making key decisions on significant matters with respect to the audit of the financial statements meet the qualification criteria in items (1) (i) to (v) as mentioned above.
- (3) Where non-audit services are provided to the financial institution by an auditor, the board shall ensure that the provision of such service does not impair, either in fact or appearance, the auditor's objectivity, judgment or independence.

2.2 Provision of non-audit services by the external auditor

2.2.1 any provision of non-audit services by the Company's external auditor should be approved by the Committee before the commencement of the service, or whenever there is a significant change in the level of services provided.

2.2.2 the Committee should have regard to restrictions on outsourcing to external auditors set out in BNM/RH/GL/003-4: Guidelines on Outsourcing for Insurers.

2.2.3 The Committee's decisions with respect to the provision of non-audit services should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the external auditor is compatible with maintaining auditor independence.

2.3 Audit plan, findings and recommendations

2.3.1 The Committee should:

- (a) discuss with the external auditors the audit plan prior to the commencement of the annual audit, nature and scope of audit for the Company.
- (b) review with the external auditors their evaluation of the system of internal controls of the Company and their audit report.
- (c) review with the external auditors the quarterly results and year-end financial statements prior to approval by the Board of Directors on:
 - i) major changes on accounting policy and practices;
 - ii) significant and unusual events arising from the audit;
 - iii) the going concern assumption; and
 - iv) compliance with accounting standards and other legal requirements

(3) Other Responsibilities

- (i) The Committee should also review on the areas concerning the internal control, governance, risk management and compliance as follows:
 - ❖ the Chairman's statement, interim financial reports and preliminary announcements, where applicable;
 - ❖ corporate governance disclosures made in the Directors' Report pursuant to the requirement in Corporate Governance Policy Document and to ensure that the corporate governance disclosures are accurate, clear and presented in a manner that is easily understood by its shareholders, customers and other relevant stakeholders;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Audit Committee ("AC") (continued)

- ❖ the plans, activities, organisation and quality of the risk management and compliance functions of the Company and ensure compliance with Zurich Risk Policy and the Group's Ethical Standards Policy.
 - ❖ all representation letters signed by Management, and be satisfied that the information provided is complete and appropriate;
 - ❖ any related-party transactions and conflicts of interest situations that may arise within the Company including any transaction, procedure or conduct that raises questions of management integrity; and
 - ❖ review third-party opinion on the design and effectiveness of the Company's internal control framework.
- (ii) The Committee should also ensure that:
- ❖ the Company complies with Section 75 of the Islamic Financial Services Act, 2013 which requires an insurer to publish its accounts within fourteen calendar days of the laying of its accounts at its Annual General Meeting pursuant to Paragraph 15.1 of Part D – Publication Requirements contained in the Financial Reporting guideline issued by Bank Negara Malaysia (BNM/RH/GL 015-3);
 - ❖ the Company's accounts are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provisions made; and
 - ❖ supervisory issues raised by the Bank Negara Malaysia are resolved in a timely manner.
- (iii) The Committee shall also be responsible for any other functions as may be determined by the Board and reflected in its terms of reference.

Nomination Committee ("NC")

The composition of the NC is as follows:

		<u>No. of Attendance</u>
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	(3/3)
Datuk Muhamad Umar Swift (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(2/2)
Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(1/2)
Assoc. Prof. Dr. Md Khalil bin Ruslan	Independent Director	(3/3)
Onn Kien Hoe	Independent Director	(3/3)
Choy Khai Choon (Appointed w.e.f 30/6/2016)	Independent Director	(1/1)
Philip Wallace Smith (Appointed w.e.f 30/6/2016) (Resigned from NC w.e.f 22/11/2016)	Executive Director	(1/1)

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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 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>
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	(3/3)
Datuk Muhamad Umar Swift (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(2/2)
Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(1/2)
Assoc. Prof. Dr. Md Khalil bin Ruslan	Independent Director	(3/3)
Onn Kien Hoe	Independent Director	(3/3)
Hasnah Binti Omar (Appointed w.e.f 30/6/2016)	Independent Director	(1/1)

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Remuneration Committee ("RC") (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)

Nomination and Remuneration Committee ("NRC")

Nomination Committee and Remuneration Committee were combined into one committee now known as Nomination and Remuneration Committee on 22 November 2016. The composition is as follows:

Composition:

Tan Sri Datuk Seri Razman Md Hashim (Chairman)	Independent Director
Assoc. Prof. Dr Md Khalil bin Ruslan	Independent Director
Mr Onn Kien Hoe	Independent Director
Mr Choy Khai Choon	Independent Director
Cik Hasnah binti Omar	Independent Director

The primary duties and responsibilities of the Committee are to assist and support the Board in carrying out its functions on Nomination and Remuneration matters as follows:

- (A) Nomination matters concerning the Board, Senior Management (including Chief Executive Officer and Expatriates) and Company Secretary on areas pertaining to appointments and removals, composition, fit and proper assessments, performance evaluation and development

The Committee shall be responsible for:

- i) establishing minimum requirements with emphasis on criteria and skill sets required of its members, both individually and collectively as well as the scope of work for the Board and the Chief Executive Officer to perform their responsibilities effectively to be reviewed on a continuing basis.
- ii) 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/re-appointment, before an application for approval is submitted to Bank Negara Malaysia based on:
 - whether the candidate fulfills the fit and proper requirements based on Section 68(1) of the Islamic Financial Services Act, 2013 ("IFSA 2013") and must not be disqualified under Section 68(1) of the IFSA 2013.
 - their level of commitment so as not to impair their ability to discharge their duties effectively.
 - the candidate must not be an active politician.
 - where a firm has been appointed as the external auditor of a financial institution, any of its officers directly involved in the engagement and any partner of the firm must not serve or be appointed as a Director of the financial institution until at least two years after he ceases to be an officer or partner of that firm or the firm last served as an auditor of the financial institution
- iii) 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.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committee ("NRC") (continued)

- iv) to ensure that internal declarations are carried out by the Board of Directors and the Senior Management including the Chief Executive Officer to review their status and fulfillment of the minimum criteria of a "Fit and Proper Person" in compliance with the FSA 2013 and Bank Negara Malaysia's Guidelines on "Fit and Proper Criteria" and the "Policy Document on Corporate Governance" on an annual basis.
- v) overseeing the establishment and implementation of the internal policies to be approved by the Board on fit and proper procedures and assessment processes relating to Key Responsible Persons (Directors, members of Shariah Committee (if applicable), the Chief Executive Officer and Senior Officers) and the Company Secretary.
- vi) 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; and where required, to approve deviations from approved Board Assessment and Evaluation Questionnaire.
- vii) recommending to the Board on removal of a Director/Chief Executive Officer if he/she is ineffective, errant or negligent in discharging his/her responsibilities.
- viii) ensuring that all Directors undergo appropriate Orientation and Induction Programmes and/or In-House Directors' Training and receive continuous training.
- ix) 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.
- x) to recommend and regularly review succession plans for the Board to promote board renewal and address any vacancies.
- xi) when assessing an individual to be recommended to be appointed as an independent director, that the candidate must be independent in character and judgement, and free from associations or circumstances that may impair the exercise of his independent judgement. The Committee is to note that the individual must not be considered to be an independent director if he/she or any person linked to him/her:
 - (a) has been an executive in the last two years;
 - (b) is a substantial shareholder of the financial institution or any of its affiliates; or
 - (c) has had a significant business or other contractual relationship* with the Company or any of its affiliates within the last two years.

** Significant business or other contractual relationship shall be based on the definition provided under the Malaysian Companies Act.*
- xii) to recommend and review an individual who served as an independent director for a cumulative term of 9 years for which an individual can serve as an independent director.
- xiii) undertaking and performing such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board of Directors think fit.

(B) Remuneration Matters

- (i) To develop and recommend a formal, clear and transparent remuneration policy and framework for fixing the remuneration for Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of the Company. The remuneration policy and practices shall:
 - (a) be documented and approved by the Board of Directors of the Company and be subject to periodic Board review, including when material changes are made to the remuneration policy;

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination and Remuneration Committee ("NRC") (continued)

- (b) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and Key Senior Officers (including the Expatriates, if any);
 - (c) be sufficient to attract and retain Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of calibre needed to manage the Company successfully; and
 - (d) be balanced against the need to ensure that the funds of the Company are not used to subsidise excessive remuneration packages.
- (ii) To recommend specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) of the Company. The remuneration packages shall:
 - (a) be based on an objective consideration and approved by the Board of Directors;
 - (b) take due consideration of the assessment of the Regional / Group Remuneration Team on the effectiveness, level of contribution such as effort and time spent and responsibilities of the Directors, the Chief Executive Officer and Key Senior Officers (including the Expatriates, if any) in discharging their duties for the benefits of the Company and of the Group.
 - (c) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (d) be competitive and does not induce excessive risk-taking and is consistent with the Company's culture, objective, risk appetite and long term strategy.
- (iii) To ensure that the remuneration for individuals within the Company be aligned with prudent risk-taking and appropriately adjusted for risks. The remuneration outcomes must be symmetric with risk outcomes. This includes ensuring that:
 - (a) the remuneration is adjusted to account for all types of risk, and must be determined by both quantitative measures and qualitative judgement;
 - (b) the size of the bonus pool is linked to the overall performance of the Company;
 - (c) incentive payments are linked to the contribution of the individual and business unit to the overall performance of the Company;
 - (d) bonuses are not guaranteed, except in the context of sign-on bonuses;
 - (e) for members of senior management and other material risk takers:
 - (1) a portion of remuneration consists of variable remuneration to be paid on the basis of individual, business-unit and institution-wide measures that adequately assess performance; and
 - (2) the variable portion of remuneration increases along with the individual's level of accountability.
- (iv) To undertake and perform such other matters/activities according to the application requirements in the guidelines from Bank Negara Malaysia and/or as the Board of Directors think fit.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee ("RMC")

The composition of the RMC is as follows:

		<u>No. of Attendance</u>
Hasnah Binti Omar (Chairperson) (Appointed w.e.f 30/6/2016)	Independent Director	(3/3)
Onn Kien Hoe	Independent Director	(7/7)
Tan Sri Ahmad bin Mohd Don	Independent Director	(7/7)
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Resigned w.e.f 30/6/2016)	Independent Director	(4/4)
Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(3/4)
Datuk Muhamad Umar Swift (Resigned w.e.f 30/6/2016)	Non-Independent Non-Executive Director	(4/4)
Choy Khai Choon (Appointed w.e.f 30/6/2016)	Independent Director	(3/3)

The Committee is responsible for the following:

Risk Governance & Oversight

- To review the overall risk management philosophy and ensure long term financial soundness including to determine the Company's business, in line with the overall corporate and risk management strategy, policies and risk tolerance set to be approved by the Board as well as ensuring compliance and adherence with the Risk Governance Guideline set by Bank Negara Malaysia.
- To review and assess the adequacy of risk management policies, frameworks, strategies and resources that govern the process for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively.
- To provide constructive challenge to management on the credibility and robustness of the risk management framework to ensure that there are no material gaps or weaknesses.
- To review the adequacy of the risk management practices for material risks such as market, credit, liquidity, insurance, operational and compliance risks on a regular basis.
- To review and be guided by Zurich Risk Policy/frameworks, strategies and limits relating to the Company's risk management, investment management, asset-liability management and liability management activities for the Board's approval.
- To review and recommend risk tolerance levels including Risk Appetite Statement for the Board's approval which must address the major types of risk that the Company needs to manage and the tolerance levels around specific risks that are acceptable to the Company in executing its business strategy and to also consider all relevant risks including non-quantifiable risks.
- To review and recommend the Company's risk appetite regularly to ensure that it continues to be relevant and reflects any changes in the Company's capacity to take on risk, its inherent risk profile, as well as prevailing market conditions.

ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee ("RMC") (continued)

- (h) To ensure that appropriate mechanisms are in place for communicating risks across the organization and for reporting risk developments to the Senior Management, the Committee and the Board.
- (i) To ensure that the risk management function has adequate infrastructure, resources and systems; and that it is staffed by an appropriate number of experienced and qualified employees who are sufficiently independent to perform the duties objectively.
- (j) To oversee the establishment and implementation of approved frameworks, policies, strategies and limits; and where required, to approve deviations from approved frameworks and policies.
- (k) To establish an Independent Senior Risk Executive role (Chief Risk Officer or its equivalent) with distinct responsibility for the risk management function and the risk management framework across the entire organization.
- (l) To review the appointment, annual performance evaluation as well as the dismissal or resignation of the Chief Risk Officer / Head of Risk Management, before submission to the Board for consideration and approval.
- (m) To review the remuneration and benefits to be accorded to the Chief Risk Officer / Head of Risk Management, before submission to the Remuneration Committee for endorsement and the Board for approval.
- (n) To initiate any review and action as appropriate for prudent risk management.

Risk Management

- (a) To review the management's periodic reports to monitor and control the Company's risk exposure, risk portfolio composition and risk management activities.
- (b) To review and have an oversight over the stress test process/exercise which should be conducted twice yearly and ensure that the expectations set out in the stress testing guideline of Bank Negara Malaysia are met.

Shariah Committee ("SC")

The composition of the SC is as follows:

		<u>No. of Attendance</u>
Assoc. Prof. Dr. Md Khalil bin Ruslan	Chairman	8/8
Dr. Luqman bin Abdullah	Member	8/8
Prof. Dr. Joni Tamkin bin Borhan	Member	8/8
Dr. Yusri bin Mohamad	Member	8/8
Prof. Dr. Mohamad bin Abdul Hamid	Member	7/8
Assoc. Prof. Dr. Zulkifli bin Hasan	Member	7/8

ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Shariah Committee ("SC") (continued)

The duties and responsibilities of the SC are as follows:

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

ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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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)	(8/8)
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim	(8/8)
Assoc. Prof. Dr. Md Khalil bin Ruslan	(8/8)
Datuk Muhamad Umar Swift (Resigned w.e.f 30/6/2016)	(4/4)
Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)	(4/4)
Onn Kien Hoe	(8/8)
Philip Wallace Smith (Appointed w.e.f 30/6/2016)	(4/4)
Choy Khai Choon (Appointed w.e.f 30/6/2016)	(4/4)
Hasnah binti Omar (Appointed w.e.f 30/6/2016)	(4/4)

Assoc. Prof. Dr. Md Khalil bin Ruslan retires in accordance with Article 81 of the Company's Articles of Association and being eligible, offers himself for re-election.

Philip Wallace Smith retires in accordance with Article 80 of the Company's Articles of Association and being eligible, offers himself for re-election.

Choy Khai Choon retires in accordance with Article 80 of the Company's Articles of Association and being eligible, offers himself for re-election.

Hasnah binti Omar retires in accordance with Article 80 of the Company's Articles of Association and being eligible, offers herself 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 Note 21 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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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES

According to the Register of Directors' Shareholding required to be kept under Section 59 of the Companies Act, 2016, particulars of interests of Directors in office for the financial year as at 30 June 2016 in shares in the ultimate holding company, MAA Group Berhad, are as follows:

	At 1.1.2016	Number of ordinary shares of RM1 each		At 30.06.2016
		Acquired	Disposed	
Tan Sri Ahmad bin Mohd Don - Direct	2,055,000	-	-	2,055,000
Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim - Direct	150,000	-	-	150,000

According to the Register of Directors' Shareholding required to be kept under Section 59 of the Companies Act, 2016, particulars of interests of Directors in office at the end of the financial year in shares in the ultimate holding company, Zurich Insurance Company Ltd, are as follows:

	At 1.7.2016	Number of ordinary shares of RM1 each		At 31.12.2016
		Acquired	Disposed	
Philip Wallace Smith - Direct	4,997	-	-	4,997

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.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 21 to the financial statements. There is no indemnity given to or insurance effected for any auditor of the Company.

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ZURICH TAKAFUL MALAYSIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 4 May 2016, the holding company of the Company, MAA Group Berhad ("MAAG"), signed a Share Purchase Agreement with Zurich Insurance Company Ltd. ("Zurich") to dispose of its 75% equity interest in the Company for a total cash consideration of RM393.75 million to Zurich pursuant to Section 101 of the Islamic Financial Services Act 2013. The sale was completed on 30 June 2016. Consequently, MAAG ceased to be the Company's ultimate holding company.

ULTIMATE HOLDING COMPANY

The Directors regard MAA Group Berhad, a company incorporated in Malaysia, as the ultimate holding company of the Company until 30 June 2016. From 1 July 2016, the Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd. Both companies are incorporated in Switzerland.

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 27 March 2017.



TAN SRI AHMAD BIN MOHD DON
DIRECTOR



PHILIP WALLACE SMITH
DIRECTOR

Kuala Lumpur
27 March 2017

Company No.

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
(Incorporated in Malaysia)

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

We, Tan Sri Ahmad bin Mohd Don and Philip Wallace Smith, being two of the Directors of Zurich Takaful Malaysia Berhad (formerly known as MAA Takaful Berhad), do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 28 to 124 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 2016 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and the financial performance and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 27 March 2017.



TAN SRI AHMAD BIN MOHD DON
DIRECTOR



PHILIP WALLACE SMITH
DIRECTOR

Kuala Lumpur
27 March 2017

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

I, Salim Majid Zain, the Officer primarily responsible for the financial management of Zurich Takaful Malaysia (formerly known as MAA Takaful Berhad), Berhad, do solemnly and sincerely declare that the financial statements set out on pages 28 to 124 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.

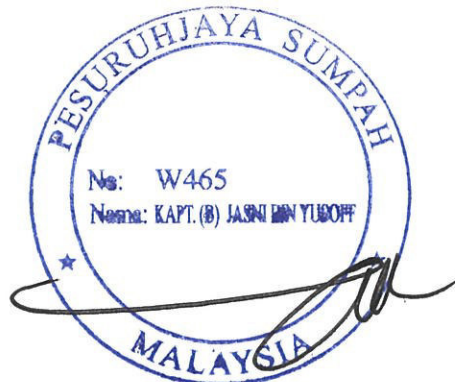


SALIM MAJID ZAIN

Subscribed and solemnly declared by the abovenamed Salim Majid Zain at Kuala Lumpur in Wilayah Persekutuan on 27 March 2017.

Before me,

COMMISSIONER FOR OATHS
27 March 2017



Lot 1.08, Tingkat 1,
Bangunan KWSP, Jln Raja Laut
50350 Kuala Lumpur.
Tel: 019-6680745



Shariah Committee's Report

In the name of Allah, the Beneficent, the Merciful

This shall be the first Shariah Committee's Report for Zurich Takaful Malaysia Berhad ("the Company") which known previously as MAA Takaful Berhad. We would like to take this opportunity to congratulate new owner of this progressive Takaful Operator and we are honored to continue our service as Shariah Committee to this new establishment.

In carrying out the roles and the responsibilities of the Zurich Takaful's Shariah Committee (SC) as prescribed in the Shariah Governance Framework for Islamic Financial Institutions issued by Bank Negara Malaysia and in compliance with our letter of appointment, we hereby submit our report for the financial year ended 31 December 2016.

The Management of the Company is accountable to ensure that its conduct of businesses, dealing and activities are in accordance with the Shariah rules, principles and resolution made by relevant Shariah authorities. Therefore, it is our responsibility to institute an independent opinion based on our review on the conduct and businesses entered by the Company to produce this report.

We had six (6) seating of scheduled meetings and two (2) special meetings during the financial year in which we reviewed among other things products, transactions, services, processes and documents of the Company.

In carrying out our roles and responsibilities, we had obtained all the relevant information and explanations which deemed necessary in order to provide us with fair evidences to give reasonable assurance that the Company has complied with the applicable Shariah rules and principles.

As part of the Shariah governance programme at the management level, the Head of Shariah who reports to us oversees the conduct and effectiveness of the internal Shariah compliance functions i.e. Shariah Research & Advisory, Shariah Review for both Family division as well as General division and Shariah Training which is further substantiated by Shariah Audit that resides in the Internal Audit Department and Shariah Risk which resides in the Risk Management Department.

The roles of these functions, generally, are facilitating new research & product development activities, refining existing products & procedures, providing Shariah training, managing Shariah non-compliance risks, conducting Shariah audit & review on departments and branches, coordinating with Shariah Committee and providing Shariah advisory services to internal and external parties.

The following are the major improvement that took place during the financial year which comes under our purview:

Shariah Training & Awareness

During the year, fourteen (14) Shariah trainings and briefing sessions were held covering not less than 140 participants among the Company's employees and agents nationwide. The Company also took the initiative to conduct a special Shariah training to Zurich Takaful new Board of Director members as well as Shariah Committee members.

Shariah Non-Compliance Reporting

We confirmed that all of the events together with the rectification plans were presented to us and the Board of Directors and reported to Bank Negara Malaysia in accordance to the Shariah non-compliance reporting requirement prescribed by the Islamic Financial Services Act 2013 and Shariah Governance Framework for Islamic Financial Institutions.

Shariah Review

The Shariah Review function which divided into 2 segments for Family and General divisions play a vital role in achieving the objective of ensuring Shariah compliance of the Company by regularly conducting review on the reviewable areas as instructed by us. The exercise as such is to validate the compliance of business activities with Shariah rules and principles in relation to such activities.

Shariah Committee's Report (continued)

Shariah Review plan for the financial year were reviewed and approved by us for their implementation. The reports were deliberated in our meetings to confirm that the Company has complied with the rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, Shariah Advisory Council of Securities Commission (for investment related matters) as well as our decisions. The reports were presented to us covering the following areas:

SHARIAH REVIEW

- 1) General Underwriting
- 2) General Banca
- 3) General Agency
- 4) Family People & Culture (Training)
- 5) Family Corporate Governance & Strategy

Business Zakat and Purification

In the financial year, the Company has done their responsibility to deal with zakat which was computed from the Company's profit before tax as guided by the Zakat Policy that was approved by us.

The purification of income due to Shariah non-compliance events was purified in accordance to our advice and the management has performed it accordingly.

Shariah Governance

We had also approved in our meetings, initiatives in strengthening the Shariah governance of the Company which has been bought over by Zurich Insurance Company Ltd ("Zurich Group") in the 3rd quarter of 2016 by providing a crucial consultation and advisory to the Company as well as to Zurich Group to ensure the Shariah and Takaful identity of the Company is preserve and upraise.

The Shariah Head has played essential role to monitor the integration process which is being carried out by the management and report to us for consultation and approval as and when needed. We are satisfied that during the first 100 days of integration the management and Zurich Group has observed the Shariah requirements accordingly which help maintaining the status of the Company as Shariah compliant company.

We had also reviewed the financial statements of the Company and confirmed that the financial statements are in compliance with the Shariah rules and principles.

Based on the above, in our opinion:

1. The contracts, transactions and dealings entered into by the Company during the financial year ended 31 December 2016 that were reviewed are in compliance with the Shariah rules and principles;
2. The allocation of profit and charging of losses relating to investment account conformed to the basis that has been approved by us in accordance with Shariah principles;
3. The computation, payment and distribution of business zakat are in compliance with the Shariah rules and principles;
4. All earnings that have been realised from sources or by means prohibited by the Shariah rules and principles have been considered for disposal to charitable causes.
5. The integration process with the aim to meet the Zurich Group standard of practice which has been carried out by the management comply with the Shariah requirement accordingly.

On that note, we, Assoc. Prof. Dr. Md Khalil Ruslan and Prof. Dr. Joni Tamkin Borhan, being two of the members of Shariah Committee of Zurich Takaful Malaysia Berhad, do hereby confirm that, in our level best, the operations of the Company for the year ended 31 December 2016 have been conducted in conformity with the Shariah rules and principles.

Allah knows best.

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Shariah Committee's Report (continued)

On behalf of the Committee:

Chairman of the Shariah Committee

:


 ASSOC. PROF. DR. MD KHALIL
 RUSLAN

Shariah Committee

:


 PROF. DR. JONI TAMKIN
 BORHAN

Kuala Lumpur
 27 March 2017



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD
(FORMERLY KNOWN AS MAA TAKAFUL BERHAD)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

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

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 28 to 124.

Basis for opinion

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

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

Independence and other ethical responsibilities

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD
(FORMERLY KNOWN AS MAA TAKAFUL BERHAD) (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD
(FORMERLY KNOWN AS MAA TAKAFUL BERHAD) (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ZURICH TAKAFUL MALAYSIA BERHAD
(FORMERLY KNOWN AS MAA TAKAFUL BERHAD) (CONTINUED)
(Incorporated in Malaysia)
(Company No. 731996-H)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Shirley Goh'.

SHIRLEY GOH
01778/08/2018 J
Chartered Accountant

Kuala Lumpur
27 March 2017

Company No.

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
(Incorporated in Malaysia)

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

		2016				2015			
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
ASSETS									
Property and equipment	4	8,796	-	-	8,796	10,838	-	-	10,838
Intangible assets	5	3,260	-	-	3,260	3,382	-	-	3,382
Investments:									
Held-to-maturity	6(a)	-	-	-	-	-	15,245	25,387	40,632
Loans and receivables	6(b)	161,856	119,357	27,948	309,161	98,196	58,159	41,233	197,112
Available-for-sale	6(c)	-	57,859	67,674	125,533	10,456	62,662	41,620	114,738
Fair value through profit or loss	6(d)	2,800	-	347,214	347,214	3,583	-	351,586	352,914
Takaful receivables	7	-	29,275	3,178	32,453	-	76,775	4,266	81,041
Qardhul Hassan receivable		8,734	-	-	-	16,043	-	-	-
Retakaful assets	8	-	267,684	14,949	282,633	-	258,009	12,399	270,408
Other receivables	9	26,046	1,032	12,898	7,720	24,638	2,975	14,719	12,015
Current tax assets		3,018	-	-	3,018	-	-	9	9
Deferred tax assets	13	-	2,178	687	3,026	-	2,334	-	1,137
Cash and bank balances		2,706	1,455	51,518	55,679	2,421	6,954	8,128	17,503
TOTAL ASSETS		217,216	478,840	526,066	1,178,493	169,557	483,113	499,347	1,101,729

Company No.

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONTINUED)

		2016				2015			
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
LIABILITIES									
Takaful contract liabilities	10	-	415,899	493,391	906,490	-	380,799	468,705	846,792
Takaful payables	11	-	36,528	2,614	39,142	-	83,345	4,976	88,321
Qardhul Hassan payable		-	-	8,734	-	-	-	16,043	-
Other payables	12	44,371	23,465	28,533	64,113	34,936	18,969	25,027	48,615
Expense liabilities		7,575	-	-	7,575	3,493	-	-	3,493
Current tax liabilities		-	2,948	1,528	4,476	4,104	-	216	4,320
Deferred tax liabilities	13	1,935	-	-	-	4,762	-	423	-
TOTAL LIABILITIES		53,881	478,840	534,800	1,021,796	47,295	483,113	515,390	991,541
SHAREHOLDERS' EQUITY									
Share capital	14	160,000	-	-	160,000	100,000	-	-	100,000
Retained earnings/ (accumulated losses)	15(a)	3,335	-	(8,734)	(3,303)	22,495		(16,043)	10,421
Available-for-sale reserve	15(b)	-	-	-	-	(233)	-	-	(233)
		163,335	-	(8,734)	156,697	122,262		(16,043)	110,188
TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY		217,216	478,840	526,066	1,178,493	169,557	483,113	499,347	1,101,729

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

		2016				2015			
	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
Gross earned contributions	16	-	273,154	276,422	549,576	-	277,616	250,736	528,352
Contribution ceded to retakaful operators	16	-	(167,185)	(15,551)	(182,736)	-	(179,942)	(14,053)	(193,995)
Net earned contributions	16	-	105,969	260,871	366,840	-	97,674	236,683	334,357
Wakalah fee income		164,604	-	-	-	166,693	-	-	-
Surplus sharing from Family Takaful Fund		13,000	-	-	-	11,250	-	-	-
Surplus sharing from General Takaful Fund		2,480	-	-	-	1,518	-	-	-
Investment income	17	4,050	6,421	9,899	20,370	3,866	5,522	11,283	20,671
Realised gains/(losses)	18	(224)	43	1,512	1,331	(723)	(188)	5,331	4,420
Fair value gains/(losses)	19A	70	-	(14,351)	(14,281)	1,476	-	12,101	13,577
Fee and commission income		-	35,621	-	35,621	-	41,876	-	41,876
Other operating income – net	19B	17	6,586	1,360	7,963	1,593	-	-	1,401
Other income		183,997	48,671	(1,580)	51,004	185,673	47,210	28,715	81,945
Total revenue		183,997	154,640	259,291	417,844	185,673	144,884	265,398	416,302
Gross benefits and claims paid	20	-	(126,689)	(140,998)	(267,687)	-	(122,839)	(161,027)	(283,866)
Claims ceded to retakaful operators	20	-	73,929	14,345	88,274	-	84,155	11,307	95,462
Gross change to contract liabilities	20	-	(44,219)	(23,955)	(68,155)	-	(10,111)	(15,269)	(25,380)
Change in contract liabilities ceded to retakaful operators	20	-	20,878	2,506	23,384	-	(20,399)	(925)	(21,324)
Net claims		-	(76,101)	(148,102)	(224,184)	-	(69,194)	(165,914)	(235,108)

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ZURICH TAKAFUL MALAYSIA BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

		2016				2015			
	Note	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Surplus sharing with Takaful Operator		-	(2,480)	(13,000)	-	-	(1,518)	(11,250)	-
Wakalah fee expenses		-	(73,684)	(90,920)	-	-	(75,356)	(91,337)	-
Fee and commission expenses		(95,631)	-	-	(95,631)	(97,315)	-	-	(97,315)
Management expenses	21	(93,976)	-	-	(93,976)	(80,952)	-	-	(80,952)
Write-back of allowance for impairment loss		-	793	-	793	-	4,643	1,500	6,143
Other operating expenses		(2,844)	-	-	(2,844)	-	(1,938)	(1,058)	(2,804)
Expense liabilities		(4,082)	-	-	(4,082)	(377)	-	-	(377)
Other expenses		(196,533)	(75,371)	(103,920)	(195,740)	(178,644)	(74,169)	(102,145)	(175,305)
Zakat		-	-	-	-	(72)	-	-	(72)
Profit/(loss) before taxation		(12,536)	3,168	7,269	(2,080)	6,957	1,521	(2,661)	5,817
Tax (expense)/income attributable to participants		-	(3,168)	40	(3,128)	-	(970)	(2,034)	(3,004)
Profit/(loss) before taxation attributable to Takaful Operator		(12,536)	-	7,309	(5,208)	6,957	551	(4,695)	2,813
Taxation	22	(6,624)	(3,168)	40	(11,644)	(10,481)	(970)	(2,034)	(12,429)
Tax expense attributable to participants		-	3,168	(40)	3,128	-	970	2,034	3,004
Tax expense attributable to Takaful Operator		(6,624)	-	-	(8,516)	(10,481)	-	-	(9,425)
Net (loss)/profit for the financial year		(19,160)	-	7,309	(13,724)	(3,524)	551	(4,695)	(6,612)

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ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	2016				2015			
Note	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net (loss)/ profit for the financial year	(19,160)	-	7,309	(13,724)	(3,524)	551	(4,695)	(6,612)
Other comprehensive (loss)/income:								
<u>Items that may be subsequently reclassified to profit or loss:</u>								
Fair value changes on available-for-sale investment that may be reclassified to profit or loss:								
- Gross fair value changes	96	97	477	670	264	(167)	258	355
- Transferred to profit or loss upon disposal of available-for-sale investments	215	(43)	-	172	(325)	188	92	(45)
- Deferred tax	(78)	(16)	(38)	(132)	15	(5)	(28)	(18)
- Net fair value changes	233	38	439	710	(46)	16	322	292
Changes in Takaful contract liabilities arising from unrealised net fair value changes	-	(38)	(439)	(477)	-	(16)	(322)	(338)
Other comprehensive loss for the financial year, net of tax	233	-	-	233	(46)	-	-	(46)
Total comprehensive (loss)/ income for the financial year	(18,927)	-	7,309	(13,491)	(3,570)	551	(4,695)	(6,658)

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ZURICH TAKAFUL MALAYSIA BERHAD
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**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	Share capital	Non- distributable Available-for- sale reserve	Distributable Retained earnings	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2016	100,000	(233)	10,421	110,188
Issue of share capital during the financial year	60,000	-	-	60,000
Net loss for the financial year	-	-	(13,724)	(13,724)
Other comprehensive income for the financial year	-	233	-	233
At 31 December 2016	160,000	-	(3,303)	156,697
At 1 January 2015	100,000	(187)	17,033	116,846
Net loss for the financial year	-	-	(6,612)	(6,612)
Other comprehensive loss for the financial year	-	(46)	-	(46)
At 31 December 2015	100,000	(233)	10,421	110,188

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

ZURICH TAKAFUL MALAYSIA BERHAD
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**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016**

	<u>Note</u>	<u>2016</u> RM'000	<u>2015</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operating activities	23	(24,365)	(10,413)
Distribution income received		2,071	3,509
Profit income received		18,629	18,891
Income tax paid		(14,534)	(5,923)
Net cash flows (used in)/generated from operating activities		(18,199)	6,065
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(481)	(935)
Purchase of intangible assets		(3,144)	(1,448)
Net cash flows used in investing activities		(3,625)	(2,383)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		60,000	-
Net cash flows generated from financing activities		60,000	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		38,176	3,682
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		17,503	13,821
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		55,679	17,503
Cash and cash equivalents consist of:			
Cash and bank balances		55,679	17,503

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

ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are located at:

Registered office

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

Principal place of business

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

The immediate and ultimate holding company of the Company was MAA Group Berhad, which is a company incorporated and listed in Malaysia, and produces financial statements available for public use, until 30 June 2016. From 1 July 2016, the Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd. Both companies are incorporated in Switzerland.

Zurich Insurance Group Ltd is listed on the SIX Swiss Exchange and produces financial statements available for public use.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 27 March 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 2016 in Malaysia.

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

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

The preparation of financial statements in conformity with the MFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the financial year. It also requires Directors to exercise their

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

judgement in the process of applying the Company's accounting policies. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

Financial assets and financial liabilities are offset and the net amount is reported 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 realise the assets and settle the liability simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by an accounting standard or interpretation as specifically disclosed in the accounting policies of the Company.

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

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

(i) Standards, amendments to published standards and interpretations that are effective.

The Company has applied the following amendments for the first time for the financial year beginning on 1 January 2016:

- Annual Improvements to MFRSs 2012-2014 Cycle
- Amendments to MFRS 101 'Presentation of financial statements' – Disclosure initiative
- Amendments to MFRS 116 'Property, plant and equipment' and MFRS 138 'Intangible assets' – Clarification on Acceptable Methods of Depreciation and Amortisation

The adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods.

(ii) Standards and amendments that have been issued but not yet effective

A number of new standards and amendments to standard/ and interpretations are effective for financial year beginning after 1 January 2017. None of these is expected to have significant effect on the financial statements of the Company, except for the following set out below:

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

In addition, in evaluation withether the Company will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require the Company to compare the deductible temporary differences with future taxable profits that exclude tax deductions arising from the reversal of those temporary differences.

The amendments shall be applied retrospectively.

ZURICH TAKAFUL MALAYSIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards and amendments that have been issued but not yet effective (continued)

A number of new standards and amendments to standard/ and interpretations are effective for financial year beginning after 1 January 2018. None of these is expected to have significant effect on the financial statements of the Company, except for the following set out below: (continued)

- Amendments to MFRS 4 – Applying MFRS 9 “Financial Instruments” with MFRS 4 “Insurance Contracts”

The amendments allow entities to avoid temporary volatility in profit or loss that might result from adopting MFRS 9 “Financial Instruments” before the forthcoming new insurance contracts standard. This is because certain financial assets have to be measured at fair value through profit or loss under MFRS 9; whereas, under MFRS 4 “Insurance Contracts”, the related liabilities from insurance contracts are often measured on amortised cost basis.

The amendments provide two different approaches for entities:

- a temporary exemption from MFRS 9 for entities that meet specific requirements; and
 - the overlay approach.
- Both approaches are optional.

- MFRS 15 ‘Revenue from contracts with customers’ (effective from 1 January 2018 GN 2.1a) replaces MFRS 118 ‘Revenue’ and MFRS 111 ‘Construction contracts’ and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

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

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

Key provisions of the new standard are as follows:

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Standards and amendments that have been issued but not yet effective (continued)

A number of new standards and amendments to standard/ and interpretations are effective for financial year beginning after 1 January 2018. None of these is expected to have significant effect on the financial statements of the Company, except for the following set out below: (continued)

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

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

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

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

None of the standards listed above were expected to have a significant effect on the financial statements of the Company upon initial application, except for MFRS 9. The Company has yet to assess the full impact of MFRS 9 onto the Company's accounting policies. The Company will also consider the impact of the remaining phases of MFRS 9 when completed by the MASB.

(b) Functional and presentation currency

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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property and equipment

Property 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 profit or loss during the financial year in which they are incurred.

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

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

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

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

(d) Intangible asset

Computer software

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;
- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised using straight line method over their estimated useful lives. In the current financial year, the Company has aligned the estimated useful lives of its intangible assets to the policy of Zurich Insurance Group Ltd. Accordingly, the estimated useful lives were changed from not exceeding a period of 5 years to not exceeding a period of 3 years. The revision was accounted for as a change in accounting estimate and the additional amortization amounted to RM1,037,000 for the current financial year.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets

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

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

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

Financial assets classified as FVTPL are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value and any gain or loss arising from the change in fair values is recognised in profit or loss. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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

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

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

(iii) Loans and receivables ("LAR")

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

Gains and losses are recognised in the profit or loss 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 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

(iv) Available-for-sale ("AFS") financial assets

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments

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

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

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

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

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

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

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 inputs are market based inputs that are directly or indirectly observable, but not considered level 1 quoted prices. Level 2 inputs consist of (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets; (iii) inputs other than quoted prices that are observable and (iv) inputs derived from, or corroborated by, observable market data.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value of financial instruments (continued)

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

(g) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial assets

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of non-financial assets

The carrying values of assets are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to profit or loss 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 profit or loss immediately.

(i) Takaful receivables

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

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

(j) Employee benefits

Short term employee benefits

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

Post employment benefits

The Company has post-employment benefit schemes for eligible employees, which are defined contribution plans.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Product classification

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

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Retakaful

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

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

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

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

The Company also assumes retakaful risk in the normal course of business for Family Takaful and General Takaful contracts when applicable. Contribution and claims on assumed retakaful are recognised as revenue or expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the retakaful business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the related retakaful contract. Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant Takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicitly identified contribution or fees to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective yield method when accrued.

(m) General Takaful underwriting results

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

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

Contribution income

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) General Takaful underwriting results (continued)

Unearned contribution reserves

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

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

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

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

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 profit or loss of the General Takaful business as part of Wakalah fees payable to the Takaful Operator (see Note 2(r) to the financial statements) in the financial year in which they are incurred.

Deficits/accumulated deficits

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family Takaful underwriting results

The Family Takaful fund is maintained in accordance with the requirements of the Islamic Financial Services Act, 2013 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family Takaful fund and is attributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

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

Contribution income

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

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

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

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

Provision for outstanding claims

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

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

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

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

Deficits/accumulated deficits

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Takaful contract liabilities

Family Takaful contract liabilities

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

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

For Investment-linked products, the non-unit liabilities were valued on a cash flow basis by projecting tabarru' (risk charges) stream on a certificate basis, taking into account expected death and surrenders as decrements. The tabarru' streams were then compared against the corresponding projected mortality and other risk benefits. Future deficits were reserved on a present value basis, using the risk free spot rates of return, based on Sterling Discounted Cash Flow ("SDCF") method. The SDCF approach is adopted to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate. The higher of the UCR and total present value of deficits was taken as the actuarial liability. The value of Participant Investment Account ("PIA") is taken as the unit reserves.

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

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

Expense reserve in the Takaful Operator's fund is determined, such that a consistent method is used between family takaful liabilities and expense liabilities. For instance, for IL products, SDCF is used discounted at appropriate spot rates. For other plans in the non-IL fund, the prospective Gross Premium Valuation is used. For non-guaranteed plans, in particular the medical standalone plans, an unearned wakalah fee methodology is used.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Takaful contract liabilities (continued)

General Takaful contract liabilities

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

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

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

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

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking into account of the investment return expected to arise on assets relating to the relevant general technical provisions. If these estimates show that the carrying amount of the unearned contributions is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

(p) Takaful Operator's expense liabilities

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

(q) Measurement and impairment of Qardhul Hassan

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

Qardhul Hassan is accounted for as receivable and payable in the financial statements of the Takaful Operator and Takaful funds respectively, and is stated at cost. At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. As write down is made if the carrying amount exceeds the recoverable amount, as set out in Note 2(g) to the financial statements on impairment of assets.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Management expenses, commission expenses and Wakalah fee

The acquisition costs, commissions and management expenses are borne by the Takaful Operator. In accordance with principles of Wakalah approved by the Company's Shariah Committee and agreed between the participants and the Takaful Operator, an agreed percentage of the gross contribution will be charged as upfront wakalah fees by the Takaful Operator to the General Takaful and Family Takaful funds to cover the acquisition costs, commissions and management expenses, and recognised as income upon issuance of certificates. Non-upfront wakalah fees are charged by Takaful Operator to Family Takaful fund based on agreed amount or a certain percentage of an amount to cover other costs incurred by the Takaful operator.

(s) Other revenue recognition

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

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

Gains or losses arising on disposal of investments are credited or charged to profit or loss.

(t) Zakat

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

(u) Income taxes

Tax expense for the period comprises current and deferred income tax. The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Dividends

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

(w) Contingent liabilities and contingent assets

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

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

(x) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense

(y) Cash and cash equivalents

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (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

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

The Company engages an independent external actuary to compute the reserve required for incurred but not reported claims. The general approach taken in the actuarial estimation of outstanding claims is to analyse past experience of the Company with respect to the number of claims paid, number of claims open, the value of claims paid and value of claims outstanding. By using an appropriate set of methodologies and assumptions, the actuary will determine future payment and reserving patterns of the outstanding claims in estimating the expected Ultimate Claim Loss.

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(i) Valuation of General Takaful claims liabilities (continued)

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

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

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

(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 75 percentile confidence level and deferred acquisition costs over the unearned contribution at a fund level. If the estimated total unexpired risk reserve ("URR") is higher than the total UCR less related deferred acquisition costs, then the total deficiency will be recognised in profit or loss by setting up a provision for liability adequacy.

(iii) Actuarial liabilities for Family Takaful fund

The Company engages an independent external actuary to perform the actuarial liabilities computation for Family Takaful plans. All products are valued in such a manner that overall the Company holds reserves at 75 percentile confidence level, as prescribed by BNM's valuation guidelines on Family Takaful business. The liabilities are computed by product types, based on the following:

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

This is the risk fund for investment-linked certificates, including the attached riders. The Tabarru' rates are dripped from the Participant Investment Account ("PIA") into the risk fund on a monthly basis. The liabilities in this fund are calculated as the higher of Unearned Tabarru' Reserve ("UTR") or total present value of future deficits. The UTR is calculated by taking half of the monthly drip at the valuation date. The present value of future deficits is based on Sterling Discounted Cash Flow method, to ensure all future obligations can be met without recourse to further finance or capital support at any future time over the term of the certificate, discounted using the risk free spot rates and where claims assumptions are determined at 75 percentile confidence level. For medical riders, the reserves are calculated as the higher of the unexpired risk reserve or the UTR. In addition, IBNR claim is also reserved for Medical riders. From the experience study, 1 month average net claims is assumed in calculating IBNR for medical riders.

The Company also set aside provision for certificates the contributions of which have been waived. This is taken as the present value of future gross contributions to be waived throughout the remaining term of the certificate, discounted using risk free spot rates of returns.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

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

- Ordinary Family Participant Risk Investment Account ("PRIA Ordinary Family") (continued)

This fund consists of six products, CancerCare, SmartMedic, Medica2015, Patina2016, Term 80 and Takafulife Series.

CancerCare is a guaranteed renewable medical Takaful product with additional death benefit. The contribution reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24th method. For the death benefit, the reserve is calculated by taking the higher of UTR or Gross Premium Valuation ("GPV"), where GPV is using M9903 mortality table discounted at risk-free spot rates of returns.

SmartMedic is an individual Hospitalisation and Surgical product with guaranteed renewability up to age 79. It also provides funeral expense benefit, which is payable upon death due to all causes. The reserve is calculated as the higher of Unearned Tabarru' Reserve ("UTR") or URR. The UTR is calculated by taking half of the monthly drip at the valuation date. The Contribution reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24th method. URR is a percentage of unearned medical tabarru' where the percentage is determined by analysing the product's loss ratio by certificate year. An additional provision of 1 month of average claims is set aside for IBNR claims.

Medica2015 is another individual Hospitalisation and Surgical product that comes with guaranteed renewability up to age 79. The product comes with additional benefits such as funeral expenses which is payable upon death due to all causes, no claim discount ("NCD") and second medical opinion. The reserve is set aside in similar manner to SmartMedic reserving.

Patina2016 product is a standalone Personal Accident product with guaranteed renewability up to age 75. The reserve is being calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is reserve is calculated as 100% of Unearned Tabarru' Reserve ("UTR") using 1/24th method and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

The reserves for Takafulife Series and Term 80 products are calculated as the higher of UTR or total present value of future deficits, determined at certificate level, where the UTR is equal to half month tabarru' and the present value of future deficits determined using the risk free spot rates and claims assumptions at 75 percentile confidence level.

- Group Fund Risk Investment Account ("GFRIA")

Currently there are 4 Group products namely Group Term Takaful (GTT), Group Comprehensive Takaful Scheme (GCTS), Group Mortgage Protection Plan and Group Decreasing Term.

The reserve for GTT and GCTS are calculated as 100% of UTR using the 1/24th method. The reserve for Group Mortgage Protection Plan and Group Decreasing Term are computed using GPV method, discounted at risk free spot rates of returns. Additional provisions of 4.5 months and 5.5 months of average claims are set aside for IBNR Death and Critical Illness claims respectively.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(iv) Valuation of Takaful Operator's fund expenses liabilities

- Expense liabilities from Family Takaful products

The expense liability calculate on vary by the types of product, with each is calculated at policy level. For Investment-linked or products with PIA, SDCF is used, whereas for non-PIA product, GPV method is used. Yearly renewable product is calculated using unearned wakalah approach. Income comprises future wakalah fees, certificate fees, fund management fees and risk fund surplus after Qardhul Hassan repayments. The outgo comprises future renewal expenses, commissions and agency related expenses.

- Expense liabilities from General Takaful products

The expense liability is determined by selecting the higher of the unearned wakalah fee ("UWF") or the unearned expense reserve ("UER") with provision for adverse deviation at 75 percentile confidence level. The UER contains three components, namely claims handling expenses for the outstanding claims and IBNR, claims handling expenses for the unexpired risks and policy servicing costs on unearned contribution.

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

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

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

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

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4 PROPERTY AND EQUIPMENT

Takaful Operator/Company

	Computer equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>Cost</u>						
At 1 January 2015	6,099	6,889	397	3,722	2,602	19,709
Additions	745	26	-	141	23	935
Write-offs	(21)	(1)	-	(66)	-	(88)
At 31 December 2015/1 January 2016	6,823	6,914	397	3,797	2,625	20,556
Additions	402	22	-	38	19	481
Write-offs	(3,671)	(77)	-	(22)	-	(3,770)
Disposals	-	(16)	-	-	-	(16)
At 31 December 2016	3,554	6,843	397	3,813	2,644	17,251

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

4 PROPERTY AND EQUIPMENT (CONTINUED)

Takaful Operator/Company

	Computer equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment RM'000	Renovation RM'000	Total RM'000
<u>Accumulated depreciation</u>						
At 1 January 2015	3,641	1,852	168	954	637	7,252
Charge for the financial year (Note 21)	1,120	717	40	365	246	2,488
Write-offs	(18)	-	-	(4)	-	(22)
At 31 December 2015/1 January 2016	4,743	2,569	208	1,315	883	9,718
Charge for the financial year (Note 21)	1,050	692	40	382	263	2,427
Write-offs	(3,618)	(51)	-	(14)	-	(3,683)
Disposals	-	(7)	-	-	-	(7)
At 31 December 2016	2,175	3,203	248	1,683	1,146	8,455
<u>Net carrying amount</u>						
At 31 December 2015	2,080	4,345	189	2,482	1,742	10,838
At 31 December 2016	1,379	3,640	149	2,130	1,498	8,796

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5 INTANGIBLE ASSETS

Takaful Operator/Company

	2016	2015
	RM'000	RM'000
<u>Cost</u>		
At 1 January	12,765	11,317
Additions	3,144	1,448
Write-offs	(11,105)	-
At 31 December	4,804	12,765
<u>Accumulated amortisation</u>		
At 1 January	9,383	8,019
Amortisation for the financial year (Note 21)	2,195	1,364
Write-offs	(10,034)	-
At 31 December	1,544	9,383
<u>Net carrying amount</u>		
At 31 December	3,260	3,382

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 2016 (CONTINUED)

6 INVESTMENTS

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>				
Malaysian Government Guaranteed financing	-	14,945	24,791	39,736
Islamic debt securities, unquoted	-	42,914	95,770	138,684
Shariah-approved quoted equities	-	-	79,968	79,968
Investment-linked units	2,800	-	-	-
Unit trusts	-	-	214,359	214,359
Deposits with financial institutions	161,856	119,357	27,948	309,161
	<u>164,656</u>	<u>177,216</u>	<u>442,836</u>	<u>781,908</u>

At 31 December 2015

Malaysian Government Guaranteed financing	-	15,245	25,387	40,632
Islamic debt securities, unquoted	10,456	62,662	95,620	168,738
Shariah-approved quoted equities	853	-	81,798	80,396
Investment-linked units	2,730	-	215,788	218,518
Deposits with financial institutions	98,196	58,159	41,233	197,112
	<u>112,235</u>	<u>136,066</u>	<u>459,826</u>	<u>705,396</u>

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

At 31 December 2016

Loans and receivables ("LAR")	161,856	119,357	27,948	309,161
Available-for-sale ("AFS")	-	57,859	67,674	125,533
Fair value through profit or loss ("FVTPL")	2,800	-	347,214	347,214
	<u>164,656</u>	<u>177,216</u>	<u>442,836</u>	<u>781,908</u>

At 31 December 2015

Held-to-maturity ("HTM")	-	15,245	25,387	40,632
Loans and receivables ("LAR")	98,196	58,159	41,233	197,112
Available-for-sale ("AFS")	10,456	62,662	41,620	114,738
Fair value through profit or loss ("FVTPL")	3,583	-	351,586	352,914
	<u>112,235</u>	<u>136,066</u>	<u>459,826</u>	<u>705,396</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

6 INVESTMENTS (CONTINUED)

Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
RM'000	RM'000	RM'000	RM'000

The following investments mature after 12 months:

At 31 December 2016

AFS	-	57,859	67,674	125,533
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At 31 December 2015

HTM	-	15,245	25,387	40,632
AFS	10,456	62,662	41,620	114,738

(a) HTM investments

At 31 December 2015

Amortised cost:

Malaysian Government Guaranteed financing	-	15,245	25,387	40,632
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Fair value:

Malaysian Government Guaranteed financing	-	14,688	24,554	39,242
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On 30 November 2016, the Company has reclassified all of its HTM investments as AFS investments. Due to the breach in the 'tainting' rule for the HTM investments, the Company is only allowed to resume its HTM portfolio after two financial years i.e. beginning 1 January 2019.

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6 INVESTMENTS (CONTINUED)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(b) LAR investments				
<u>At 31 December 2016</u>				
Amortised cost:				
Fixed and call deposits with licensed financial institutions	161,856	119,357	27,948	309,161
<u>At 31 December 2015</u>				
Amortised cost:				
Fixed and call deposits with licensed financial institutions	98,196	58,159	41,233	197,112
As at 31 December 2016, the cash and cash equivalents in the LAR of RM16,068,000 (2015: RM21,102,000) have a maturity period of three to twelve months.				
	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
(c) AFS investments				
<u>At 31 December 2016</u>				
Fair value:				
Malaysian Government Guaranteed financing	-	14,945	24,791	39,736
Islamic debt-securities, unquoted	-	42,914	42,883	85,797
	-	57,859	67,674	125,533
<u>At 31 December 2015</u>				
Fair value:				
Islamic debt securities, unquoted	10,456	62,662	41,620	114,738

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

6 INVESTMENTS (CONTINUED)

Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
RM'000	RM'000	RM'000	RM'000

(d) FVTPL investments

At 31 December 2016

Fair value at designation:

Shariah-approved quoted equities

Islamic debt securities, unquoted

Investment-linked units

Unit trusts

-	-	79,968	79,968
-	-	52,887	52,887
2,800	-	-	-
-	-	214,359	214,359
2,800	-	347,214	347,214

At 31 December 2015

Fair value at designation:

Shariah-approved quoted equities

Islamic debt securities, unquoted

Investment-linked units

853	-	81,798	80,396
-	-	54,000	54,000
2,730	-	215,788	218,518
3,583	-	351,586	352,914

(e) Carrying value of investments

The movement of financial assets are summarised in the table below by measurement category:

(i) Takaful Operator

	LAR RM'000	AFS RM'000	FVTPL RM'000	Total RM'000
At 1 January 2015	37,107	58,754	11,333	107,194
Purchases	60,945	-	1,500	62,445
Disposals including maturities and redemptions	-	(48,490)	(10,766)	(59,256)
Fair value loss recorded in:				
Profit or loss (Note 19)	-	-	1,476	1,476
Other comprehensive income	-	264	-	264
Movement in accrued profit	144	126	40	310
Amortisation adjustment (Note 17(a))	-	(198)	-	(198)
At 31 December 2015/1 January 2016	98,196	10,456	3,583	112,235
Purchases	63,535	-	-	63,535
Disposals including maturities and redemptions	-	(10,060)	(800)	(10,860)
Fair value gain recorded in:				
Profit or loss (Note 19)	-	-	70	70
Other comprehensive income	-	96	-	96
Movement in accrued profit	125	(490)	(53)	(418)
Amortisation adjustment (Note 17(a))	-	(2)	-	(2)
At 31 December 2016	161,856	-	2,800	164,656

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6 INVESTMENTS (CONTINUED)

(e) Carrying value of investments (continued)

(ii) General Takaful Fund

	HTM	LAR	AFS	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	15,366	47,882	49,122	112,370
Purchases	-	10,252	25,026	35,278
Disposals including maturities and redemptions	-	-	(11,062)	(11,062)
Fair value loss recorded in:				
Takaful contract liabilities (Note 10(b)(iii))	-	-	(167)	(167)
Movement in accrued profit	(121)	25	(71)	(167)
Amortisation adjustment (Note 17(b))	-	-	(186)	(186)
At 31 December 2015/1 January 2016	15,245	58,159	62,662	136,066
Purchases	-	61,030	-	61,030
Disposals including maturities and redemptions	-	-	(19,967)	(19,967)
Reclassification	(15,245)	-	15,245	-
Fair value gain recorded in:				
Takaful contract liabilities (Note 10(b)(iii))	-	-	97	97
Movement in accrued profit	-	168	(67)	101
Amortisation adjustment (Note 17(b))	-	-	(111)	(111)
At 31 December 2016	-	119,357	57,859	177,216

(iii) Family Takaful fund

	HTM	LAR	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	25,636	72,561	37,221	315,452	450,870
Purchases	-	-	10,978	408,269	419,247
Disposals including maturities and redemptions	-	(31,316)	(6,362)	(383,484)	(421,162)
Fair value gain recorded in:					
Profit and loss (Note 19)	-	-	-	12,101	12,101
Takaful contract liabilities (Note 10(a))	-	-	258	-	258
Movement in accrued profit (Amortisation)/accretion adjustment (Note 17(c))	(248)	(12)	(351)	(795)	(1,406)
At 31 December 2015/1 January 2016	25,387	41,233	41,620	351,586	459,826
Purchases	-	-	-	163,996	163,996
Disposal including maturities and redemptions	-	(13,281)	-	(153,930)	(167,211)
Reclassification	(25,387)	-	25,387	-	-
Fair value gain/(loss) recorded in:					
Profit or loss (Note 19)	-	-	-	(14,351)	(14,351)
Takaful contract liabilities (Note 10(a))	-	-	477	-	477
Movement in accrued profit	-	(4)	263	(48)	211
Amortisation adjustment (Note 17(c))	-	-	(73)	(39)	(112)
At 31 December 2016	-	27,948	67,674	347,214	442,836

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6 INVESTMENTS (CONTINUED)

(e) Carrying value of investments (continued)

(iv) Company

	HTM	LAR	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	41,002	155,789	145,097	319,059	660,947
Purchases	-	71,197	36,004	409,769	516,970
Disposals including maturities and redemptions	-	(30,031)	(65,914)	(388,779)	(484,724)
Fair value gain recorded in:					
Profit or loss (Note 19)	-	-	-	13,577	13,577
Takaful contract liabilities	-	-	91	-	91
Other comprehensive income	-	-	264	-	264
Movement in accrued profit (Amortisation)/accretion adjustment (Note 17(d))	(369)	157	(296)	(755)	(1,263)
At 31 December 2015/1 January 2016	(1)	-	(508)	43	(466)
	40,632	197,112	114,738	352,914	705,396
Purchases	-	124,565	-	163,996	288,561
Disposals including maturities and redemptions	-	(12,806)	(30,027)	(155,275)	(198,108)
Reclassification	(40,632)	-	40,632	-	-
Fair value gain/(loss) recorded in:					
Profit or loss (Note 19)	-	-	-	(14,281)	(14,281)
Takaful contract liabilities	-	-	574	-	574
Other comprehensive income	-	-	96	-	96
Movement in accrued profit	-	290	(294)	(101)	(105)
Amortisation adjustment (Note 17(d))	-	-	(186)	(39)	(225)
At 31 December 2016	-	309,161	125,533	347,214	781,908

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6 INVESTMENTS (CONTINUED)

(f) Fair values of investments

Recurring fair value measurements:

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

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
(i) <u>Takaful Operator</u>			
<u>At 31 December 2016</u>			
(a) FVTPL investments			
Investment-linked units	2,800	-	2,800
<u>At 31 December 2015</u>			
(a) FVTPL investments			
Shariah-approved quoted equities	853	-	853
Investment-linked units	2,730	-	2,730
	3,583	-	3,583
(b) AFS investments			
Islamic debt securities, unquoted	-	10,456	10,456

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6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

Recurring fair value measurements (continued):

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
(ii) <u>General Takaful fund</u>			
<u>At 31 December 2016</u>			
(a) AFS investments			
Malaysian Government Guaranteed financing	-	14,945	14,945
Islamic debt securities, unquoted	-	42,914	42,914
	-	57,859	57,859
<u>At 31 December 2015</u>			
(a) HTM investments			
Malaysian Government Guaranteed financing	-	14,688	14,688
(b) AFS investments			
Islamic debt securities, unquoted	-	62,662	62,662

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6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

Recurring fair value measurements: (continued)

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
(iii) <u>Family Takaful fund</u>			
<u>At 31 December 2016</u>			
(a) FVTPL investments			
Islamic debt securities, unquoted	-	52,887	52,887
Shariah-approved quoted equities	79,968	-	79,968
Investment-linked units	214,359	-	214,359
	<u>294,327</u>	<u>52,887</u>	<u>347,214</u>
(b) AFS investments			
Malaysian Government Guaranteed financing	-	24,791	24,791
Islamic debt securities, unquoted	-	42,883	42,883
	<u>-</u>	<u>67,674</u>	<u>67,674</u>
<u>At 31 December 2015</u>			
(a) HTM investments			
Malaysian Government Guaranteed financing	-	24,554	24,554
(b) FVTPL investments			
Islamic debt securities, unquoted	-	54,000	54,000
Shariah-approved quoted equities	81,798	-	81,798
Investment-linked units	215,788	-	215,788
	<u>297,586</u>	<u>54,000</u>	<u>351,586</u>
(c) AFS investments			
Islamic debt securities, unquoted	-	41,620	41,620

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6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

Recurring fair value measurements: (continued)

	Level 1	Level 2	Total
	RM'000	RM'000	RM'000
(iv) <u>Company</u>			
<u>At 31 December 2016</u>			
(a) FVTPL investments			
Islamic debt securities, unquoted	-	52,887	52,887
Shariah-approved quoted equities	79,968	-	79,968
Unit trusts	214,359	-	214,359
	<u>294,327</u>	<u>52,887</u>	<u>347,214</u>
(b) AFS investments			
Malaysian Government Guaranteed financing	-	39,736	39,736
Islamic debt securities, unquoted	-	85,797	85,797
	<u>-</u>	<u>125,533</u>	<u>125,533</u>
<u>At 31 December 2015</u>			
(a) HTM investments			
Malaysian Government Guaranteed financing	-	39,242	39,242
(b) FVTPL investments			
Islamic debt securities, unquoted	-	54,000	54,000
Shariah-approved quoted equities	80,396	-	80,396
Investment-linked units	218,518	-	218,518
	<u>298,914</u>	<u>54,000</u>	<u>352,914</u>
(c) AFS investments			
Islamic debt securities, unquoted	-	114,738	114,738

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7 TAKAFUL RECEIVABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>			
Due contributions including agents/brokers and co-insurers	34,888	2,744	37,632
Due from retakaful and cedants	2,286	434	2,720
	37,174	3,178	40,352
Allowance for impairment loss	(7,899)	-	(7,899)
	29,275	3,178	32,453
Receivable within 12 months	29,275	3,178	32,453
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	42,582	9,494	52,076
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(5,408)	(6,316)	(11,724)
Net amounts of financial assets presented in the statement of financial position	37,174	3,178	40,352
<u>At 31 December 2015</u>			
Due contributions including agents/brokers and co-insurers	69,572	2,544	72,116
Due from retakaful and cedants	15,896	1,722	17,618
	85,468	4,266	89,734
Allowance for impairment loss	(8,693)	-	(8,693)
	76,775	4,266	81,041
Receivable within 12 months	76,775	4,266	81,041
<u>Offsetting financial assets and financial liabilities</u>			
Gross amounts of recognised financial assets	93,240	7,636	100,876
Less:			
Gross amounts of recognised financial liabilities set off in the statement of financial position	(7,772)	(3,370)	(11,142)
Net amounts of financial assets presented in the statement of financial position	85,468	4,266	89,734

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7 TAKAFUL RECEIVABLES (CONTINUED)

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

A reconciliation of the allowance for impairment loss for Takaful receivables is as follows:

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
At 1 January 2015	13,357	2,638	15,995
Reversal of impairment during the financial year	-	(1,138)	(1,138)
Write-back during the financial year	(4,664)	(1,500)	(6,164)
As at 31 December 2015/1 January 2016	8,693	-	8,693
Write-back during the financial year	(794)	-	(794)
At 31 December 2016	7,899	-	7,899

8 RETAKAFUL ASSETS

	2016 RM'000	2015 RM'000
(a) General Takaful Fund		
Retakaful of Takaful contracts (Note 10)	267,684	258,009
(b) Family Takaful Fund		
Retakaful of Takaful contracts (Note 10)	14,949	12,399
(c) Company		
Retakaful of Takaful contracts (Note 10)	282,633	270,408

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

9 OTHER RECEIVABLES

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>					
Staff financing		87	-	-	87
Knock-for-knock ("KFK")					
claims recoverable		-	161	-	161
KFK claims recoverable at gross		-	199	-	199
Less: Allowance for impairment loss		-	(38)	-	(38)
Other receivables, deposits and prepayments		5,387	871	1,214	7,472
		5,474	1,032	1,214	7,720
<u>Inter-fund balances</u>					
Amount due from General Takaful fund	12	1,784	-	125	-
Certificate fees receivable from Family Takaful fund	12	1,361	-	-	-
Tharawat fees receivable from Family Takaful fund	12	429	-	-	-
Amount due from Takaful Operator	12	-	-	11,559	-
Surplus receivable from General Takaful fund	12	3,998	-	-	-
Surplus receivable from Family Takaful fund	12	13,000	-	-	-
		20,572	-	11,684	-
Total other receivables		26,046	1,032	12,898	7,720
Receivable within 12 months		26,046	1,032	12,898	7,720

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9 OTHER RECEIVABLES (CONTINUED)

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2015</u>					
Staff financing		185	-	-	185
Knock-for-knock ("KFK") claims recoverable		-	161	-	161
KFK claims recoverable at gross		-	199	-	199
Less: Allowance for impairment		-	(38)	-	(38)
Other receivables, deposits and prepayments		7,644	2,940	1,085	11,669
		7,829	3,101	1,085	12,015
<u>Inter-fund balances</u>					
Amount due from General Takaful fund	12	1,651	-	-	-
Certificate fees receivable from Family Takaful fund	12	1,200	-	-	-
Tharawat fees receivable from Family Takaful fund	12	1,190	-	-	-
Amount due from Takaful Operator	12	-	-	13,634	-
Amount due to Family Takaful Fund	12	-	(126)	-	-
Surplus receivable from General Takaful fund	12	1,518	-	-	-
Surplus receivable from Family Takaful fund	12	11,250	-	-	-
		16,809	(126)	13,634	-
Total other receivables		24,638	2,975	14,719	12,015
Receivable within 12 months		24,638	2,975	14,719	12,015

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

(a) Movement in allowance for impairment

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2016</u>				
At 1 January	-	38	-	38
Allowance during the financial year	-	-	-	-
At 31 December	-	38	-	38
<u>2015</u>				
At 1 January	-	17	-	17
Allowance during the financial year	-	21	-	21
At 31 December	-	38	-	38

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES

	2016			2015		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Family Takaful (Note 10(a))	493,391	(14,949)	478,442	468,705	(12,399)	456,306
General Takaful (Note 10(b))	415,899	(267,684)	148,215	380,799	(258,009)	122,790
Total	909,290	(282,633)	626,657	849,504	(270,408)	579,096
Less: Net asset value of investment-linked units held by Takaful Operator	(2,800)	-	(2,800)	(2,712)	-	(2,712)
Company	906,490	(282,633)	623,857	846,792	(270,408)	576,384

(a) Family Takaful

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

	2016			2015		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Certificateholders' liabilities	85,287	(13,284)	72,003	86,907	(10,778)	76,129
Net asset value attributable to unitholders	386,543	-	386,543	368,808	-	368,808
Actuarial liabilities	471,830	(13,284)	458,546	455,715	(10,778)	444,937
Unallocated surplus attributable to unitholders	8,144	-	8,144	449	-	449
Accumulated deficits of non-investment-linked funds	(8,734)	-	(8,734)	(16,043)	-	(16,043)
Qardhul Hassan	8,734	-	8,734	16,043	-	16,043
Claims liabilities	12,721	(1,665)	11,056	12,284	(1,621)	10,663
Available-for-sale fair value adjustment						
- gross	756	-	756	279	-	279
- deferred tax	(60)	-	(60)	(22)	-	(22)
	696	-	696	257	-	257
	493,391	(14,949)	478,442	468,705	(12,399)	456,306

	Gross	Re-Takaful	Net
	RM'000	RM'000	RM'000
At 1 January 2015	455,467	(14,535)	440,932
Contributions received (Note 16(b))	250,736	(14,053)	236,683
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 20(b)(i),(ii))	(161,027)	11,307	(149,720)
Movement in claims liabilities	2,353	(1,211)	1,142
Experience variance on inforce Takaful certificates	6,920	(2,576)	4,344
Reserve on new policies	(9,737)	1,650	(8,087)
Miscellaneous	5,360	7,019	12,377
Fees deducted	(75,132)	-	(75,132)
Surplus distributed to Takaful Operator	(11,250)	-	(11,250)
Qardhul Hassan	4,695	-	4,695
Movement in AFS fair value adjustments			
- gross fair value changes (Note 6(e)(iii))	258	-	258
- transferred to profit or loss upon disposal of AFS investments (Note 18(c))	92	-	92
- deferred tax (Note 13)	(28)	-	(28)
	322	-	322
At 31 December 2015	468,705	(12,399)	456,306

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family Takaful (continued)

	Gross RM'000	Retakaful RM'000	Net RM'000
At 1 January 2016	468,705	(12,399)	456,306
Contributions received (Note 16(b))	276,422	(15,551)	260,871
Liabilities paid for death, maturities, surrenders, benefits and claims (Note 20(b)(i),(ii))	(140,998)	14,345	(126,653)
Movement in claims liabilities	(436)	44	(392)
Experience variance on inforce Takaful certificates	4,013	798	4,811
Reserve on new policies	(7,457)	1,708	(5,749)
Miscellaneous	(13,263)	(3,894)	(17,157)
Fees deducted	(73,725)	-	(73,725)
Surplus distributed to Takaful Operator	(13,000)	-	(13,000)
Qardhul Hassan	(7,309)	-	(7,309)
Movement in AFS fair value adjustments			
- gross fair value changes (Note 6(e)(iii))	477	-	477
- deferred tax	(38)	-	(38)
	439	-	439
At 31 December 2016	493,391	(14,949)	478,442

(b) General Takaful

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

	2016			2015		
	Gross RM'000	Retakaful RM'000	Net RM'000	Gross RM'000	Retakaful RM'000	Net RM'000
Provision for claims	206,592	(142,974)	63,618	152,585	(108,506)	44,079
Provision for IBNR	57,464	(38,640)	18,824	80,041	(54,805)	25,236
Provision for adverse deviation	27,604	(19,578)	8,026	23,008	(17,003)	6,005
Claim liabilities (i)	291,660	(201,192)	90,468	255,634	(180,314)	75,320
Unearned contribution reserves (ii)	116,983	(66,492)	50,491	123,661	(77,695)	45,966
Available-for-sale reserves (iii)	(173)	-	(173)	(211)	-	(211)
Unallocated surplus (iv)	7,429	-	7,429	1,715	-	1,715
	415,899	(267,684)	148,215	380,799	(258,009)	122,790

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

	2016			2015		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
(i) Claims liabilities						
At 1 January	255,634	(180,314)	75,320	247,239	(200,713)	46,526
Claims incurred in the current accident financial year	179,896	(107,399)	72,497	159,475	(94,831)	64,644
Other movements in claims incurred in prior accident years	(21,777)	15,167	(6,610)	(27,431)	28,028	597
Claims paid during the financial year						
(Note 20(a)(i),(ii))	(126,689)	73,929	(52,760)	(122,839)	84,155	(38,684)
Movements in provision for adverse deviation	4,596	(2,575)	2,021	(810)	3,047	2,237
At 31 December	291,660	(201,192)	90,468	255,634	(180,314)	75,320
(ii) Unearned contribution reserves						
At 1 January	123,661	(77,695)	45,966	119,279	(79,669)	39,610
Contributions written in the financial year						
(Note 16(a))	266,476	(155,982)	110,494	281,998	(177,968)	104,030
Contributions earned during the financial year	(273,154)	167,185	(105,969)	(277,616)	179,942	(97,674)
(Note 16(a))						
At 31 December	116,983	(66,492)	50,491	123,661	(77,695)	45,966
(iii) Available-for-sale reserve						
	Gross	Deferred Tax	Net			
	RM'000	RM'000	RM'000			
<u>2016</u>						
At 1 January	(282)	71	(211)			
Fair value movements arising from AFS investments	97	(26)	71			
Derecognition upon disposal of AFS investments (Note 18(b))	(43)	10	(33)			
	54	(16)	38			
At 31 December	(228)	55	(173)			
<u>2015</u>						
At 1 January	(303)	76	(227)			
Fair value movements arising from AFS investments	(167)	43	(124)			
Derecognition upon disposal of AFS investments (Note 18(b))	188	(48)	140			
	21	(5)	16			
At 31 December	(282)	71	(211)			

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General Takaful (continued)

(iv) Unallocated surplus	Gross RM'000	Retakaful RM'000	Net RM'000
<u>2016</u>			
At 1 January	1,715	-	1,715
Surplus distributed during the financial year	5,714	-	5,714
At 31 December	7,429	-	7,429
<u>2015</u>			
At 1 January	-	-	-
Surplus distributed during the financial year	1,715	-	1,715
At 31 December	1,715	-	1,715

11 TAKAFUL PAYABLES

	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>			
Due to agents and intermediaries	8,450	-	8,450
Due to retakaful operators and cedants	28,078	2,614	30,692
	36,528	2,614	39,142
Payable within 12 months	36,528	2,614	39,142
Offsetting financial assets and financial liabilities			
Gross amounts of recognised financial liabilities	41,936	8,930	50,866
Less:			
Gross amounts of recognised financial assets set off in the statement of financial position	(5,408)	(6,316)	(11,724)
Net amounts of financial liabilities presented in the statement of financial position	36,528	2,614	39,142

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

11 TAKAFUL PAYABLES (CONTINUED)

	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000
<u>At 31 December 2015</u>			
Due to agents and intermediaries	31,466	-	31,466
Due to retakaful operators and cedants	51,795	4,976	56,771
	83,261	4,976	88,237
Deposits retained from retakaful operators	84	-	84
	83,345	4,976	88,321
Payable within 12 months	83,345	4,976	88,321
Offsetting financial assets and financial liabilities			
Gross amounts of recognised financial liabilities	91,117	8,346	99,463
Less:			
Gross amounts of recognised financial assets set off in the statement of financial position	(7,772)	(3,370)	(11,142)
Net amounts of financial liabilities presented in the statement of financial position	83,345	4,976	88,321

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

12 OTHER PAYABLES

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>					
Amount due to a related company	24	2,400	-	-	2,400
Commission payable		10,300	-	-	10,300
Deposits contribution		-	-	8,920	8,920
Accruals for staff costs		1,892	-	-	1,892
Cash collaterals on performance bond		-	6,961	-	6,961
Other payables and accruals		18,220	10,597	4,823	33,640
		32,812	17,558	13,743	64,113
Inter-fund balances:					
Amount due to Takaful Operator	9	-	1,784	-	-
Certificates fees payable to Takaful Operator	9	-	-	1,361	-
Tharawat fees payable to Takaful Operator	9	-	-	429	-
Surplus payable to Takaful Operator	9	-	3,998	13,000	-
Amount due to Family Takaful Fund	9	11,559	125	-	-
Amount due from General Takaful Fund	9	-	-	-	-
		11,559	5,907	14,790	-
Total other payables		44,371	23,465	28,533	64,113
Payable within 12 months		44,371	23,465	28,533	64,113

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12 OTHER PAYABLES (CONTINUED)

	Note	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2015</u>					
Amount due to a related company	24	17	-	-	17
Commission payable		8,697	-	-	8,697
Deposits contribution		-	-	7,410	7,410
Accruals for staff costs		894	-	-	894
Cash collaterals on performance bond		-	6,530	-	6,530
Other payables and accruals		11,709	9,270	4,088	25,067
		<u>21,317</u>	<u>15,800</u>	<u>11,498</u>	<u>48,615</u>
Inter-fund balances:					
Amount due to Takaful Operator	9	-	1,651	15	-
Certificates fees payable to Takaful Operator	9	-	-	1,200	-
Tharawat fees payable to Takaful Operator	9	-	-	1,190	-
Surplus payable to Takaful Operator	9	-	1,518	11,250	-
Amount due to Family Takaful Fund	9	13,619	-	-	-
Amount due from General Takaful Fund	9	-	-	(126)	-
		<u>13,619</u>	<u>3,169</u>	<u>13,529</u>	<u>-</u>
Total other payables		<u>34,936</u>	<u>18,969</u>	<u>25,027</u>	<u>48,615</u>
Payable within 12 months		<u>34,936</u>	<u>18,969</u>	<u>25,027</u>	<u>48,615</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

13 DEFERRED TAXATION

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

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>At 31 December 2016</u>				
Deferred tax liabilities/(assets)	1,935	(2,178)	(687)	(3,026)
Settled/(recoverable) within 12 months	-	-	(747)	(747)
Settled/(recoverable) after 12 months	1,935	(2,178)	60	(2,279)
	1,935	(2,178)	(687)	(3,026)
<u>At 31 December 2015</u>				
Deferred tax liabilities/(assets)	4,762	(2,334)	423	(1,137)
Settled/(recoverable) within 12 months	-	-	401	401
Settled/(recoverable) after 12 months	4,762	(2,334)	22	(1,538)
	4,762	(2,334)	423	(1,137)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Company
	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	3,702	(3,213)	(573)	(2,997)
Charged/(credited) to profit or loss (Note 22):				
FVTPL investments	3	-	968	990
Property and equipment	(260)	-	-	(260)
Allowance for impairment loss	-	874	-	874
Expense liabilities	257	-	-	257
Qardhul Hassan	1,075	-	-	-
	1,075	874	968	1,861
Credited to other comprehensive income:				
AFS investments	(15)	-	-	(15)
Credited to Takaful contract liabilities:				
AFS investments (Note 10(a), (b)(iii))	-	5	28	14
At 31 December 2015/1 January 2016	4,762	(2,334)	423	(1,137)
Charged/(credited) to profit or loss (Note 22):				
FVTPL investments	-	-	(1,148)	(1,148)
Property and equipment	(1,036)	-	-	(1,036)
Allowance for impairment loss	-	140	-	140
Expense liabilities	(114)	-	-	(114)
Qardhul Hassan	(1,755)	-	-	137
	(2,905)	140	(1,148)	(2,021)
Credited to other comprehensive income:				
AFS investments	78	-	-	78
Credited to Takaful contract liabilities:				
AFS investments (Note 10(a), (b)(iii))	-	16	38	54
At 31 December 2016	1,935	(2,178)	(687)	(3,026)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

13 DEFERRED TAXATION (CONTINUED)

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
<u>2016</u>				
<u>Subject to income tax:</u>				
Deferred tax assets (before offsetting)				
- Allowance for impairment loss	-	(2,123)	-	(2,123)
- FVPTL investments	-	-	(747)	(747)
- AFS investments	(1)	(55)	-	(56)
- Expense liabilities	(952)	-	-	(952)
	(953)	(2,178)	(747)	(3,878)
Offsetting	953	-	60	852
Deferred tax assets (after offsetting)	-	(2,178)	(687)	(3,026)
Deferred tax liabilities (before offsetting)				
- Property and equipment	792	-	-	792
- Qardhul Hassan	2,096	-	-	-
- FVPTL investments	-	-	-	-
- AFS investments	-	-	60	60
	2,888	-	60	852
Offsetting	(953)	-	(60)	(852)
Deferred tax liabilities (after offsetting)	1,935	-	-	-
<u>2015</u>				
<u>Subject to income tax:</u>				
Deferred tax assets (before offsetting)				
- Allowance for impairment loss	-	(2,263)	-	(2,263)
- FVPTL investments	-	-	-	-
- AFS investments	(79)	(71)	-	(150)
- Expense liabilities	(838)	-	-	(838)
	(917)	(2,334)	-	(3,251)
Offsetting	917	-	-	2,114
Deferred tax assets after offsetting	-	(2,334)	-	(1,137)
Deferred tax liabilities (before offsetting)				
- Property and equipment	1,828	-	-	1,828
- Qardhul Hassan	3,851	-	-	(137)
- FVPTL investments	-	-	401	401
- AFS investments	-	-	22	22
	5,679	-	423	2,114
Offsetting	(917)	-	-	(2,114)
Deferred tax liabilities (after offsetting)	4,762	-	423	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

14 SHARE CAPITAL

	2016 RM'000	2015 RM'000
<u>Authorised ordinary shares of RM1 each:</u>		
At beginning of the financial year	150,000	150,000
Authorised during the financial year	350,000	-
At end of the financial year	<u>500,000</u>	<u>150,000</u>
<u>Issued and fully paid ordinary shares of RM1 each:</u>		
At beginning of the financial year	100,000	100,000
Issued during the financial year	60,000	-
At end of the financial year	<u>160,000</u>	<u>100,000</u>

On 9 September 2016, the Company increased its authorised share capital from RM150,000,000 to RM500,000,000 with the creation of 350,000,000 new ordinary shares of RM1 each. On 22 September 2016, the Company issued 60,000,000 new ordinary shares for cash at par. The new ordinary shares issued during the financial year rank pari passu in all respect with the existing ordinary shares of the Company.

15 RESERVES

(a) Retained earnings

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

Pursuant to the single tier system, any dividends by the Company from the distributable retained earnings will be exempted from tax in the hand of shareholders. The Company shall not be required to deduct tax on dividend paid, credited or distributed to shareholders.

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 60(1) of the Islamic Financial Services Act, 2013 ("IFSA"), the Company is required to obtain Bank Negara Malaysia's ("BNM") written approval prior to declaring or paying any dividend. Pursuant to the Risk- Based Capital Framework for Takaful Operators, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

(b) Available-for-sale reserve

The available-for-sale reserve in the Company-level financial statements represents the fair value gains or losses from available-for-sale investments, net of deferred tax, of the Takaful Operator.

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16 NET EARNED CONTRIBUTION

(a) General Takaful Fund

	2016 RM'000	2015 RM'000
(i) Gross earned contributions		
Takaful contracts (Note 10(b)(ii))	266,476	281,998
Change in unearned contribution reserves	6,678	(4,382)
	<u>273,154</u>	<u>277,616</u>
(ii) Contribution ceded to retakaful operators		
Takaful contracts (Note 10(b)(ii))	(155,982)	(177,968)
Change in unearned contribution reserves	(11,203)	(1,974)
	<u>(167,185)</u>	<u>(179,942)</u>
Net earned contributions	<u>105,969</u>	<u>97,674</u>

(b) Family Takaful Fund

(i) Gross earned contributions		
Takaful contracts (Note 10(a))	276,422	250,736
(ii) Contribution ceded to retakaful operators		
Takaful contracts (Note 10(a))	(15,551)	(14,053)
Net earned contributions	<u>260,871</u>	<u>236,683</u>

(c) Company

(i) Gross earned contributions		
Takaful contracts	542,898	532,734
Change in unearned contribution reserves	6,678	(4,382)
	<u>549,576</u>	<u>528,352</u>
(ii) Contribution ceded to retakaful operators		
Takaful contracts	(171,533)	(192,021)
Change in unearned contribution reserves	(11,203)	(1,974)
	<u>(182,736)</u>	<u>(193,995)</u>
Net earned contributions	<u>366,840</u>	<u>334,357</u>

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17 INVESTMENT INCOME

	2016 RM'000	2015 RM'000
(a) Takaful Operator		
FVTPL investments:		
- Dividend income	-	99
AFS investments:		
- Hibah/profit income	346	2,272
- Amortisation of premiums - net (Note 6(e)(i))	(2)	(198)
LAR:		
- Hibah/profit income	3,706	1,693
	<u>4,050</u>	<u>3,866</u>
(b) General Takaful Fund		
HTM investments:		
- Hibah/profit income	-	662
AFS investments:		
- Hibah/profit income	2,823	3,087
- Amortisation of premiums - net (Note 6(e)(ii))	(111)	(186)
LAR:		
- Hibah/profit income	3,709	1,959
	<u>6,421</u>	<u>5,522</u>
(c) Family Takaful Fund		
FVTPL investments:		
- Hibah/profit income	2,911	3,475
- Dividend income	2,017	2,839
- (Amortisation of premiums)/accretion of discounts - (Note 6(e)(iii))	(39)	43
HTM investments:		
- Hibah/profit income	-	1,161
- Amortisation of premiums - net	-	(1)
AFS investments:		
- Hibah/profit income	3,439	2,085
- Amortisation of premiums - net (Note 6(e)(iii))	(73)	(124)
LAR:		
- Hibah/profit income	1,644	1,805
	<u>9,899</u>	<u>11,283</u>

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17 INVESTMENT INCOME (CONTINUED)

	2016	2015
(d) Company	RM'000	RM'000
FVTPL investments:		
- Hibah/profit income	2,911	3,475
- Dividend income	2,017	2,938
- (Amortisation of premiums)/accretion of discounts - net	(39)	43
HTM investments:		
- Hibah/profit income	-	1,823
- Amortisation of premiums - net	-	(1)
AFS investments:		
- Hibah/profit income	6,608	7,444
- Amortisation of premiums - net	(186)	(508)
LAR:		
- Hibah/profit income	9,059	5,457
	<u>20,370</u>	<u>20,671</u>

18 REALISED GAINS/(LOSSES)

(a) Takaful Operator		
AFS investments:		
Islamic debt securities	(215)	325
FVTPL investments:		
Equity securities	-	(1,048)
Loss on disposal of property and equipment	(9)	-
	<u>(224)</u>	<u>(723)</u>
(b) General Takaful Fund		
AFS investments:		
Islamic debt securities	43	(188)
(c) Family Takaful Fund		
AFS investments:		
Islamic debt securities	-	(92)
FVPTL investments:		
Equity securities	1,512	5,423
	<u>1,512</u>	<u>5,331</u>

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18 REALISED GAINS/(LOSSES) (CONTINUED)

	2016	2015
	RM'000	RM'000
(d) Company		
AFS investments:		
Islamic debt securities	(172)	45
FVTPL investments:		
Equity securities	1,512	4,375
Loss on disposal of property and equipment	(9)	-
	<u>1,331</u>	<u>4,420</u>

19A FAIR VALUE GAINS/(LOSSES)

FVTPL investments:

Takaful Operator (Note 6(e)(i))	70	1,476
Family Takaful Fund (Note 6(e)(iii))	(14,351)	12,101
Company (Note 6(e)(iv))	<u>(14,281)</u>	<u>13,577</u>

19B OTHER OPERATING INCOME – NET

Included in the net other operating income of the General Takaful fund is the write-back of Takaful payables amounting to RM6,666,000 (2015: Nil).

20 NET CLAIMS

	2016	2015
	RM'000	RM'000
(a) General Takaful fund		
(i) Gross benefits and claims paid (Note 10(b)(i))	(126,689)	(122,839)
(ii) Claims ceded to retakaful operators (Note 10(b)(i))	73,929	84,155
(iii) Gross change in contract liabilities	(44,219)	(10,111)
(iv) Change in contract liabilities ceded to retakaful operators	20,878	(20,399)
Net claims	<u>(76,101)</u>	<u>(69,194)</u>
(b) Family Takaful fund		
(i) Gross benefits and claims paid (Note 10(a))	(140,998)	(161,027)
(ii) Claims ceded to retakaful operators (Note 10(a))	14,345	11,307
(iii) Gross change in contract liabilities	(23,955)	(15,269)
(iv) Change in contract liabilities ceded to retakaful operators	2,506	(925)
Net claims	<u>(148,102)</u>	<u>(165,914)</u>
(c) Company		
(i) Gross benefits and claims paid	(267,687)	(283,866)
(ii) Claims ceded to retakaful operators	88,274	95,462
(iii) Gross change in contract liabilities	(68,155)	(25,380)
(iv) Change in contract liabilities ceded to retakaful operators	23,384	(21,324)
Net claims	<u>(224,184)</u>	<u>(235,108)</u>

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21 MANAGEMENT EXPENSES

<u>Takaful Operator</u>	2016 RM'000	2015 RM'000
Staff salaries and bonus	35,466	31,297
Defined contribution plan	5,506	4,547
Other staff costs	1,255	1,731
	<u>42,227</u>	<u>37,575</u>
Auditors' remuneration:		
- Statutory audit	613	642
- Audit related services	37	17
Non-Executive Directors' remuneration:		
- fees	345	345
- other emoluments	129	283
Shariah Committee remuneration:		
- fees	144	144
- other emoluments	46	36
Depreciation charge on property and equipment	2,427	2,488
Amortisation of intangible assets	2,195	1,364
Office rental	2,810	3,052
Printing and stationery	2,334	1,810
Advertising and promotions	5,454	5,934
Postage and telephone	983	891
Professional fees	2,949	2,513
Agency training	3,165	2,983
Data processing	3,808	3,107
Repairs and maintenance	1,570	1,771
Motor vehicle expenses	1,053	992
Electricity charges	729	824
Bank and credit card charges	2,843	2,879
Other expenses	18,115	11,302
	<u>93,976</u>	<u>80,952</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 RM 1,212,000. (2015: RM980,000).

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

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21 MANAGEMENT EXPENSES (CONTINUED)

The number of Executive and Non-Executive Directors whose total remuneration received or receivable during the financial year are analysed by the following bands:

	Number of Directors	
	2016	2015
<u>Non-Executive Directors:</u>		
RM10,000 – RM100,000	7	5
RM100,001 – RM200,000	1	1

The Executive Director did not receive any remuneration for the current financial year.

The Directors of the Company in office during the financial year were as follows:

- i) Tan Sri Ahmad bin Mohd Don
- ii) Tan Sri Datuk Seri Razman Md Hashim bin Che Din Md Hashim
- iii) Assoc. Prof. Dr. Md Khalil bin Ruslan
- iv) Onn Kien Hoe
- v) Philip Wallace Smith (Appointed w.e.f 30/6/2016)
- vi) Choy Khai Choon (Appointed w.e.f 30/6/2016)
- vii) Hasnah binti Omar (Appointed w.e.f 30/6/2016)
- viii) Datuk Muhamad Umar Swift (Resigned w.e.f 30/6/2016)
- ix) Ashraf Adnan Nureddin Bseisu (Resigned w.e.f 30/6/2016)

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22 TAXATION

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Company RM'000
2016				
Current tax:				
Current financial year	5,846	2,947	1,296	10,089
Under/(over)-provision in prior financial year	3,683	81	(188)	3,576
	9,529	3,028	1,108	13,665
Deferred tax (Note 13)	(2,905)	140	(1,148)	(2,021)
Tax expense/(income)	6,624	3,168	(40)	11,644

2015

Current tax:				
Current financial year	2,694	96	1,310	4,100
Under/(over)-provision in prior financial year	6,712	-	(244)	6,468
	9,406	96	1,066	10,568
Deferred tax (Note 13)	1,075	874	968	1,861
Tax expense	10,481	970	2,034	12,429

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

	2016 RM'000	2015 RM'000
(Loss)/profit before taxation attributable to Takaful Operator	(5,208)	2,813
Taxation at Malaysia statutory tax rate of 24% (2015: 25%)	(1,250)	703
Expenses not deductible for tax purposes	6,083	3,069
Tax expense attributable to participants	3,128	3,004
Previously unrecognised deductible temporary differences	-	(1,059)
Under/(over)-provision in prior financial year	3,683	6,712
Total tax expenses	11,644	12,429

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

23 CASH FLOWS

	2016	2015
	RM'000	RM'000
Net loss for the financial year	(13,724)	(6,612)
Adjustment for:		
Investment income	(20,370)	(20,671)
Realised gains from disposal of FVTPL and AFS investments	(1,340)	(4,420)
Fair value losses/(gains)	14,281	(13,577)
Purchase of FVTPL investments	(163,996)	(409,769)
Proceeds from sale of FVTPL investments	156,787	388,779
Purchase of AFS investments	-	(36,004)
Proceeds from sale and maturity of AFS investments	30,027	65,914
Non-cash items:		
Depreciation of property and equipment	2,427	2,488
Write-offs of property and equipment	87	66
Loss on disposal of property and equipment	9	-
Amortisation of intangible assets	2,195	1,364
Write-offs of intangible assets	1,071	-
(Write-back)/allowance for impairment loss	(793)	(6,143)
Tax expense attributable to Takaful Operator	8,516	9,425
Tax expense attributable to participants	3,128	3,004
Changes in working capital:		
Increase in loans and receivables	(111,759)	(39,881)
(Increase)/decrease in retakaful assets	(12,225)	24,510
Decrease in Takaful receivables	49,381	29,755
Decrease in other receivables	2,311	2,508
Increase in Takaful contract liabilities	59,221	22,411
Decrease in Takaful payables	(49,179)	(36,722)
Increase in other payables	15,498	14,047
Increase/(decrease) in expense liabilities	4,082	(885)
Cash used in operating activities	(24,365)	(10,413)

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24 SIGNIFICANT RELATED PARTY DISCLOSURE

Related parties and relationship

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

<u>Related Companies</u>	<u>Relationship</u>
Zurich Insurance Group Ltd. ("ZIGL")	Ultimate holding company
Zurich Insurance Malaysia Berhad ("ZIMB")	Subsidiary of ultimate holding company
MAA Group Berhad*	Former ultimate holding company
MAA Corporation Sdn Bhd*	Former subsidiary of ultimate holding company
Trace Management Services Sdn Bhd*	Former company controlled by a person connected to a Director of MAA Group Berhad

*ceased to be related parties on 30 June 2016

Significant related party transactions

The significant related party transactions during the financial year with former related parties, are as follows:

	2016 RM'000	2015 RM'000
Transactions with MAA Group Berhad:		
Management service fees	(54)	(92)
Infrastructure costs recovery	145	383
Transactions with MAA Corporation Sdn Bhd:		
Office rental expenses	(27)	(93)
Property maintenance service	(48)	(103)
Internal security service	(60)	(111)
Transactions with Trace Management Services Sdn Bhd		
- Company secretarial and professional fees	(106)	(114)
- Office rental income	55	116
- Office cleaning services	1	3
- Electricity charges	14	-

The transactions held with the Company's former related parties during the current financial year relate to that incurred up to 30 June 2016.

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24 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

Related party balances

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

	2016	2015
	RM'000	RM'000
Amount due to Zurich Insurance Malaysia Berhad		
Payroll service fees	15	-
Property maintenance service	12	-
Integration cost	2,373	-
	<u>2,400</u>	<u>-</u>

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

Key management personnel

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

	2016	2015
	RM'000	RM'000
Salaries and bonus	1,054	827
Defined contribution plan	122	132
Benefits-in-kind	36	21
	<u>1,212</u>	<u>980</u>

There were no outstanding balances due from key management personnel.

25 CAPITAL AND OTHER COMMITMENTS

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

	2016	2015
	RM'000	RM'000
Authorised and contracted for:		
- Office rental	2,207	4,582
- Office renovation	20	114
	<u>2,227</u>	<u>4,696</u>

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26 TAKAFUL FUNDS

The Company's activities are organised by funds and segregated into the Family Takaful, General Takaful and Takaful Operator, in accordance with the Islamic Financial Services Act, 2013. The Company's statement of financial position and profit or loss 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 2016

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment- linked Fund RM'000	Company RM'000
Assets:					
Property and equipment	8,796	-	-	-	8,796
Intangible assets	3,260	-	-	-	3,260
Investments	164,656	177,216	95,622	347,214	781,908
Takaful receivables	-	29,275	3,178	-	32,453
Qardhul Hassan receivable	8,734	-	-	-	-
Retakaful assets	-	267,684	14,949	-	282,633
Other receivables	5,474	1,032	1,154	60	7,720
Current tax assets	3,018	-	-	-	3,018
Deferred tax assets	-	2,178	(60)	747	3,026
Cash and bank balances	2,706	1,455	32,546	18,972	55,679
Total assets	196,644	478,840	147,389	366,993	1,178,493
Equity, participants' fund and liabilities:					
Total equity	163,335	-	(8,734)	-	156,697
Takaful contract liabilities	-	415,899	106,848	386,543	906,490
Takaful payables	-	36,528	2,614	-	39,142
Qardhul Hassan payable	-	-	8,734	-	-
Other payables	32,812	17,558	12,935	808	64,113
Expense liabilities	7,575	-	-	-	7,575
Current tax liabilities	-	2,948	506	1,022	4,476
Deferred tax liabilities	1,935	-	-	-	-
Total liabilities	42,322	472,933	131,637	388,373	1,021,796
Total equity, participants' fund and liabilities	205,657	472,933	122,903	392,061	1,178,493
Inter-fund balances	(9,013)	5,907	24,486	(21,380)	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2015

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Investment- linked Fund	Company
	RM'000	RM'000	RM'000	RM'000	RM'000
Assets:					
Property and equipment	10,838	-	-	-	10,838
Intangible assets	3,382	-	-	-	3,382
Investments	112,235	136,066	92,565	367,261	705,396
Takaful receivables	-	76,775	4,266	-	81,041
Qardhul Hassan receivable	16,043	-	-	-	-
Retakaful assets	-	258,009	12,399	-	270,408
Other receivables	7,829	3,101	98	987	12,015
Current tax assets	-	-	-	9	9
Deferred tax assets	-	2,334	-	-	1,137
Cash and bank balances	2,421	6,954	6,669	1,459	17,503
Total assets	152,748	483,239	115,997	369,716	1,101,729
Equity, participants' fund and liabilities:					
Total equity	122,262	-	(16,043)	-	110,188
Takaful contract liabilities	-	380,799	99,897	368,808	846,792
Takaful payables	-	83,345	4,976	-	88,321
Qardhul Hassan payable	-	-	16,043	-	-
Other payables	21,317	15,800	11,191	307	48,615
Expense liabilities	3,493	-	-	-	3,493
Current tax liabilities	4,104	-	216	-	4,320
Deferred tax liabilities	4,762	-	22	401	-
Total liabilities	33,676	479,944	132,345	369,516	991,541
Total equity, participants' fund and liabilities	155,938	479,944	116,302	369,516	1,101,729
Inter-fund balances	(3,190)	3,295	(305)	200	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

26 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment- linked Fund RM'000	Elimination RM'000	Company RM'000
Gross earned contributions	-	273,154	276,422	-	-	549,576
Contributions ceded to retakaful operators	-	(167,185)	(15,551)	-	-	(182,736)
Net earned contributions	-	105,969	260,871	-	-	366,840
Wakalah fee income	164,604	-	-	-	(164,604)	-
Surplus sharing from Family Takaful fund	13,000	-	-	-	(13,000)	-
Surplus sharing from General Takaful fund	2,480	-	-	-	(2,480)	-
Investment income	4,050	6,421	4,256	5,643	-	20,370
Realised gains/(losses)	(224)	43	-	1,512	-	1,331
Fair value gains/(losses)	70	-	-	(14,351)	-	(14,281)
Fee and commission income	-	35,621	-	-	-	35,621
Other operating income-net	17	6,586	542	818	-	7,963
Other income	183,997	48,671	4,798	(6,378)	(180,084)	51,004
Total revenue	183,997	154,640	265,669	(6,378)	(180,084)	417,844
Gross benefits and claims paid	-	(126,689)	(140,998)	-	-	(267,687)
Claims ceded to retakaful operators	-	73,929	14,345	-	-	88,274
Gross change to contract liabilities	-	(44,219)	(34,918)	10,963	19	(68,155)
Change in contract liabilities ceded to retakaful operators	-	20,878	2,506	-	-	23,384
Net claims	-	(76,101)	(159,065)	10,963	19	(224,184)
Surplus sharing with Takaful Operator	-	(2,480)	(13,000)	-	15,480	-
Wakalah fee expenses	-	(73,684)	(86,006)	(4,914)	164,604	-
Fee and commission expenses	(95,631)	-	-	-	-	(95,631)
Management expenses	(93,976)	-	-	-	-	(93,976)
Write-back of allowance for impairment	-	793	-	-	-	793
Other operating expenses	(2,844)	-	-	-	-	(2,844)
Expense liabilities	(4,082)	-	-	-	-	(4,082)
Other expenses	(196,533)	(75,371)	(99,006)	(4,914)	180,084	(195,740)
Zakat	-	-	-	-	-	-
Profit/(loss) before taxation	(12,536)	3,168	7,598	(329)	19	(2,080)
Tax (expense)/income attributable to participants	-	(3,168)	(289)	329	-	(3,128)
Profit/(loss) before taxation attributable to Takaful Operator	(12,536)	-	7,309	-	19	(5,208)
Taxation	(6,624)	(3,168)	(289)	329	(1,892)	(11,644)
Tax expense/(income) attributable to participants	-	3,168	289	(329)	-	3,128
Tax expense attributable to Takaful Operators	(6,624)	-	-	-	(1,892)	(8,516)
Net (loss)/profit for the financial year	(19,160)	-	7,309	-	(1,873)	(13,724)

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26 TAKAFUL FUNDS (CONTINUED)

STATEMENT OF PROFIT OR LOSS BY FUNDS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Takaful Operator	General Takaful Fund	Family Takaful Fund	Investment- linked Fund	Elimination	Company
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned contributions	-	277,616	250,736	-	-	528,352
Contributions ceded to retakaful operators	-	(179,942)	(14,053)	-	-	(193,995)
Net earned contributions	-	97,674	236,683	-	-	334,357
Wakalah fee income	166,693	-	-	-	(166,693)	-
Surplus sharing from Family Takaful Fund	11,250	-	-	-	(11,250)	-
Surplus sharing from General Takaful Fund	1,518	-	-	-	(1,518)	-
Investment income	3,866	5,522	3,932	7,351	-	20,671
Realised gains/(losses)	(723)	(188)	(92)	5,423	-	4,420
Fair value losses	1,476	-	-	12,101	-	13,577
Fee and commission income	-	41,876	-	-	-	41,876
Other operating income-net	1,593	-	-	-	(192)	1,401
Other income	185,673	47,210	3,840	24,875	(179,653)	81,945
Total revenue	185,673	144,884	240,523	24,875	(179,653)	416,302
Gross benefits and claims paid	-	(122,839)	(161,027)	-	-	(283,866)
Claims ceded to retakaful operators	-	84,155	11,307	-	-	95,462
Gross change to contract liabilities	-	(10,111)	2,775	(18,044)	-	(25,380)
Change in contract liabilities ceded to retakaful operators	-	(20,399)	(925)	-	-	(21,324)
Net claims	-	(69,194)	(147,870)	(18,044)	-	(235,108)
Surplus sharing with Takaful Operator	-	(1,518)	(11,250)	-	12,768	-
Wakalah fee expenses	-	(75,356)	(86,214)	(5,123)	166,693	-
Fee and commission expenses	(97,315)	-	-	-	-	(97,315)
Management expenses	(80,952)	-	-	-	-	(80,952)
Allowance for impairment loss	-	4,643	1,500	-	-	6,143
Other operating expenses	-	(1,938)	(1,058)	-	192	(2,804)
Expense liabilities	(377)	-	-	-	-	(377)
Other expenses	(178,644)	(74,169)	(97,022)	(5,123)	179,653	(175,305)
Zakat	(72)	-	-	-	-	(72)
Profit/(loss) before taxation	6,957	1,521	(4,369)	1,708	-	5,817
Tax expense attributable to participants	-	(970)	(326)	(1,708)	-	(3,004)
Profit/(loss) before taxation attributable to Takaful Operator	6,957	551	(4,695)	-	-	2,813
Taxation	(10,481)	(970)	(326)	(1,708)	1,056	(12,429)
Tax expense attributable to participants	-	970	326	1,708	-	3,004
Tax expense attributable to Takaful Operators	(10,481)	-	-	-	1,056	(9,425)
Net (loss)/profit for the financial year	(3,524)	551	(4,695)	-	1,056	(6,612)

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27 RISK MANAGEMENT FRAMEWORK

(a) Risk Governance

The risk governance structure within the Company aims to ensure effective management of the different types 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 Risk and Control Committee, Investment Committee, IT Steering Committee, Asset-Liability Management Committee, Executive Committee and Management Committee. These committees are chaired by the Chief Executive Officer and are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

(b) Regulatory Framework

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

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

(c) Capital Management

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

The minimum Capital Adequacy Ratio ("CAR") under the RBC Framework regulated by BNM is 130% for each takaful operator. The Company complied with the minimum CAR as at 31 December 2016. The regulated capital of the Company as at 31 December 2016 comprises Total Available Capital of RM161,859,000.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

27 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Capital Management (continued)

	2016	2015
	RM'000	RM'000
<u>Tier 1 Capital</u>		
Paid-up capital	160,000	100,000
Reserves, including retained earnings	3,515	9,398
	<u>163,515</u>	<u>109,398</u>
<u>Tier 2 Capital</u>		
Available-for-sale reserve	522	(183)
Less:		
Deferred tax assets	(2,178)	(2,334)
Total Capital Available	<u>161,859</u>	<u>106,881</u>

28 TAKAFUL RISK

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

(a) Family Takaful

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

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28 TAKAFUL RISK

(a) Family Takaful (continued)

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

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
<u>31 December 2016</u>			
Family Takaful contract liabilities:			
Endowment	430,234	(2,592)	427,642
Term	62,461	(12,357)	50,104
Total Family Takaful contract liabilities	<u>492,695</u>	<u>(14,949)</u>	<u>477,746</u>

31 December 2015

Family Takaful contract liabilities:			
Endowment	403,806	(1,858)	401,948
Term	64,642	(10,541)	54,101
Total Family Takaful contract liabilities	<u>468,448</u>	<u>(12,399)</u>	<u>456,049</u>

Key assumptions

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

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

a) Mortality rates

Assumption is based on industry standard table – M9903.

b) Morbidity rates

Assumption is mainly based on reinsurer rates.

c) Investment return

Assumptions at 75% confidence level are 5.5% per annum for Participant Investment Account ("PIA") on Investment-linked, 4.5% per annum for PIA on Non Investment-linked and 3.5% per annum for Participant Risk Investment Account ("PRIA").

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28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Key assumptions (continued)

d) Expenses

Assumption varies by product type is as follows:-

<u>Product Type</u>	<u>RM per certificate</u>
Investment-linked	65
Ordinary Family	64
Group Family	13

e) Lapse and surrender rates

2% per annum is assumed for single contribution certificate.

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

Plan	Certificate Year (%)						
	1	2	3	4	5	6	7+
Takafulink	20	15	13	10	10	10	8
Takafulink Education	15	15	10	9	9	8	8
Takafulife Series	15	15	10	10	10	8	8
CancerCare	20	45	30	5	5	5	5
SmartMedic 200	15	45	25	25	25	25	25
Term80	15	20	10	3.5	3.5	3.5	3.5

f) Contribution holiday

Plan	Certificate Year (%)					
	1	2	3	4	5	6+
Investment-Linked	3	12	11	10	7	5
Ordinary Life Series	5	8	7	5	5	5

g) Discount rate

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(a) Family Takaful (continued)

Sensitivities

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

	Change in assumptions	Impact on Family Takaful contract liabilities		
		Gross	Net	(Loss)/profit before taxation
	%	RM'000	RM'000	RM'000
<u>31 December 2016</u>				
Mortality/ morbidity	10%	6,382	2,999	(2,999)
Lapse and surrender rates	10%	85	320	(320)
Discount rate	10%	(3,435)	(2,642)	2,642
<u>31 December 2015</u>				
Mortality/ morbidity	10%	5,175	2,267	(2,267)
Lapse and surrender rates	10%	(74)	127	(127)
Discount rate	1%	(3,247)	(2,511)	2,511

* The profits are before surplus sharing or Qardhul Hassan repayment.

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.

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

	2016			2015		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	41,123	(35,732)	5,391	36,088	(32,102)	3,986
Motor	144,503	(81,594)	62,909	127,351	(77,766)	49,585
MAT	14,617	(13,709)	908	10,790	(10,125)	665
Miscellaneous	91,417	(70,157)	21,260	81,405	(60,321)	21,084
	291,660	(201,192)	90,468	255,634	(180,314)	75,320

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

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 the development of claims paid and the development of the value of claims reported. The methods employed also require assumptions of a prior estimate (the seed for Bornhuetter-Ferguson based methods) for each accident year. For Frequency / Severity analysis, the assumption is that the number of Claims Reported is unlikely to have been affected by any changes in the claims handling process, and thus, the link ratio techniques are appropriate in determining the ultimate number of claims. Assumptions are then required relating to the average size of claims and how they change over time. Any changes in reporting, reserving or settlement process can affect the reliability of all of the assumptions.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, an isolated occurrence, changes in market factors such as the public's attitude to claiming, economic conditions, as well as internal factors, such as changes in the 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 date of the statement of financial position, together with cumulative payments to-date.

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

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2016:

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	Total
<u>Accident year</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	31,080	54,138	57,359	75,801	122,510	173,322	153,400	186,898	
One year later	24,890	58,202	55,296	73,172	113,516	150,108	140,108		
Two years later	20,331	52,314	52,335	71,157	108,045	136,885			
Three years later	17,121	49,989	49,023	72,160	109,963				
Four years later	16,640	49,702	49,894	77,392					
Five years later	16,602	49,515	50,554						
Six years later	16,195	46,910							
Seven years later	15,728								
Current estimate of cumulative claims incurred	15,728	46,910	50,554	77,392	109,963	136,885	140,108	186,898	764,438

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2016 (continued):

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	5,121	10,114	12,429	18,204	33,270	40,160	43,447	53,291	
One year later	12,023	29,052	34,709	45,537	67,240	93,627	90,643		
Two years later	13,352	35,595	39,689	51,451	85,084	106,477			
Three years later	15,164	37,091	43,152	56,490	91,757				
Four years later	15,235	39,485	44,206	62,033					
Five years later	15,470	39,916	44,868						
Six years later	15,508	40,270							
Seven years later	15,627								
Cumulative payments to-date	15,627	40,270	44,868	62,033	91,757	106,477	90,643	53,291	504,966
Gross General Takaful contract liabilities	101	6,640	5,686	15,359	18,206	30,408	49,465	133,607	259,472
Provision for adverse deviation									27,147
Pipeline business									5,041
Gross General Takaful contract liabilities									<u>291,660</u>

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2016:

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	7,334	25,190	17,488	17,662	28,156	35,176	60,770	75,207	
One year later	7,855	24,835	15,510	17,635	25,865	35,319	57,828		
Two years later	6,742	23,500	14,818	16,905	26,826	33,785			
Three years later	6,428	22,573	14,495	16,821	26,211				
Four years later	6,294	22,407	14,467	16,515					
Five years later	6,226	22,233	14,109						
Six years later	6,000	21,433							
Seven years later	5,946								
Current estimate of cumulative claims incurred	5,946	21,433	14,109	16,515	26,211	33,785	57,828	75,207	251,034

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

28 TAKAFUL RISK (CONTINUED)

(c) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2016 (continued):

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	1,887	5,284	4,927	5,573	9,537	10,445	19,313	27,600	
One year later	4,886	14,461	11,259	12,654	18,208	23,279	39,635		
Two years later	5,477	18,328	12,480	14,142	22,095	26,790			
Three years later	5,716	19,342	12,846	14,936	22,878				
Four years later	5,796	19,571	13,116	15,196					
Five years later	5,809	19,637	13,178						
Six years later	5,810	19,738							
Seven years later	5,931								
Cumulative payments to-date	5,931	19,738	13,178	15,196	22,878	26,790	39,635	27,600	170,946
Net General Takaful Contract Liabilities	15	1,695	931	1,319	3,333	6,995	18,193	47,607	80,088
Provision for adverse deviation									7,786
Pipeline business									2,594
Net General Takaful Contract Liabilities									90,468

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2015:

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	Total
<u>Accident year</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At end of accident year	6,912	24,168	54,138	57,359	75,801	122,510	173,322	153,400	
One year later	4,670	20,220	58,202	55,296	73,172	113,516	150,108		
Two years later	3,764	16,567	52,314	52,335	71,157	108,045			
Three years later	3,256	13,865	49,989	49,023	72,160				
Four years later	3,288	13,352	49,702	49,894					
Five years later	3,242	13,360	49,515						
Six years later	3,218	12,977							
Seven years later	3,168								
Current estimate of cumulative claims incurred	3,168	12,977	49,515	49,894	72,160	108,045	150,108	153,400	599,267

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Gross General Takaful contract liabilities for 2015 (continued):

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	2,846	4,021	10,114	12,429	18,204	33,270	40,160	43,447	
One year later	3,074	9,177	29,052	34,709	45,537	67,240	93,627		
Two years later	3,115	10,278	35,595	39,689	51,451	85,084			
Three years later	3,128	12,049	37,091	43,152	56,490				
Four years later	3,131	12,107	39,485	44,206					
Five years later	3,131	12,339	39,916						
Six years later	3,130	12,377							
Seven years later									
Cumulative payments to-date	3,130	12,377	39,916	44,206	56,490	85,084	93,627	43,447	378,277
Gross General Takaful contract liabilities	38	600	9,599	5,688	15,670	22,961	56,481	109,953	220,990
Provision for adverse deviation									23,008
Pipeline business									11,636
Gross General Takaful contract liabilities									255,634

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2015:

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	1,679	5,655	25,190	17,488	17,662	28,156	35,176	60,770	
One year later	1,690	6,165	24,835	15,150	17,635	25,865	35,319		
Two years later	1,402	5,340	23,500	14,818	16,905	26,826			
Three years later	1,224	5,204	22,573	14,495	16,821				
Four years later	1,254	5,040	22,407	14,467					
Five years later	1,237	4,989	22,233						
Six years later	1,225	4,775							
Seven years later	1,218								
Current estimate of cumulative claims incurred	1,218	4,775	22,233	14,467	16,821	26,826	35,319	60,770	182,429

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Claims development table (continued)

Net General Takaful contract liabilities for 2015 (continued):

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>									
At end of accident year	339	1,548	5,284	4,927	5,573	9,537	10,443	19,313	
One year later	1,055	3,831	14,461	11,259	12,654	18,208	23,279		
Two years later	1,192	4,285	18,328	12,480	14,142	22,095			
Three years later	1,205	4,511	19,342	12,846	14,936				
Four years later	1,209	4,587	19,571	13,116					
Five years later	1,210	4,599	19,637						
Six years later	1,210	4,600							
Seven years later	1,210								
Cumulative payments to-date	1,210	4,600	19,637	13,116	14,936	22,095	23,279	19,313	118,186
Net General Takaful Contract Liabilities	8	175	2,596	1,351	1,885	4,731	12,040	41,457	64,243
Provision for adverse deviation									6,005
Pipeline business									5,072
Net General Takaful Contract Liabilities									75,320

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28 TAKAFUL RISK (CONTINUED)

(b) General Takaful (continued)

Sensitivities

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

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

	Change in assumptions	Impact on General Takaful claims liabilities			
		Gross	Net	Profit before tax	Profit after tax*
		%	RM'000	RM'000	RM'000
<u>2016</u>					
Average open claims	+10	29,166	9,047	(9,047)	(6,785)
Loss ratio	+10	30,251	11,656	(8,899)	(6,674)
Provision for adverse deviation	+10	2,760	803	(803)	(602)
<u>2015</u>					
Average open claims	+10	25,563	7,532	(7,532)	(5,649)
Loss ratio	+10	30,527	10,690	(10,690)	(8,017)
Provision for adverse deviation	+10	2,414	650	(650)	(487)

* The profits are before surplus sharing.

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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29 FINANCIAL RISK

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

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

Credit risk

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

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

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

The Company issues Investment-linked investment contracts. In the Investment-linked funds, the holders of these contracts 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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29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk

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

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment- linked fund RM'000	Company RM'000
<u>2016</u>					
AFS investments:					
Malaysian Government					
Guaranteed financing	-	14,945	24,791	-	39,736
Islamic debt securities, unquoted	-	42,914	42,883	-	85,797
FVTPL investments:					
Shariah-approved quoted equities*				79,968	79,968
Islamic debt securities, unquoted	-	-	-	52,887	52,887
Investment-linked units*	2,800	-	-	-	-
Unit trusts*				214,359	214,359
LAR:					
Fixed and call deposits with:					
Licensed financial institutions	161,856	119,357	27,948	-	309,161
Retakaful assets#	-	201,192	14,949	-	216,141
Takaful receivables	-	29,275	3,178	-	32,453
Other receivables**	1,887	1,032	1,154	60	4,133
Cash and bank balances	2,706	1,455	32,546	18,972	55,679
	<u>169,249</u>	<u>410,170</u>	<u>147,449</u>	<u>366,246</u>	<u>1,090,314</u>

* Not subject to credit risk

Retakaful assets exclude unearned contribution reserve

** Exclude prepayments of RM3,587,000 in the Takaful Operator's Fund and Company level

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29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Exposure to credit risk (continued)

	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Investment -linked fund RM'000	Company RM'000
<u>2015</u>					
HTM investments:					
Malaysian Government Guaranteed financing	-	15,245	25,387	-	40,632
AFS investments:					
Islamic debt securities, unquoted	10,456	62,662	41,620	-	114,738
FVTPL investments:					
Shariah-approved quoted equities*	853	-	-	81,798	80,396
Islamic debt securities, unquoted	-	-	-	54,000	54,000
Investment-linked units*	2,730	-	-	215,788	218,518
LAR:					
Fixed and call deposits with:					
Licensed financial institutions	98,196	58,159	25,558	15,675	197,112
Retakaful assets#	-	180,314	12,399	-	192,713
Takaful receivables	-	76,775	4,266	-	81,041
Other receivables**	2,682	3,101	98	987	6,868
Cash and bank balances	2,421	6,954	6,669	1,459	17,503
	<u>117,338</u>	<u>403,210</u>	<u>115,997</u>	<u>369,707</u>	<u>1,003,521</u>

* Not subject to credit risk

Retakaful assets exclude unearned contribution reserve

** Exclude prepayments of RM5,147,000 in the Takaful Operator's Fund and Company level

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29 FINANCIAL RISK (CONTINUED)

Credit risk (continued)

Credit exposure by credit rating

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

	Neither past due nor impaired					Not subject to credit risk	Investment -linked fund	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>										
AFS investments:										
Malaysian Government										
Guaranteed financing	-	-	-	-	39,736	-	-	-	-	39,736
Islamic debt securities, unquoted	20,248	59,972	-	-	5,577	-	-	-	-	85,797
FVTPL investments:										
Shariah-approved quoted equities	-	-	-	-	-	-	79,968	-	-	79,968
Islamic debt securities, unquoted	-	-	-	-	-	-	52,887	-	-	52,887
Unit trusts	-	-	-	-	-	-	214,359	-	-	214,359
LAR:										
Fixed and call deposits with:										
Licensed financial institutions	144,705	152,945	11,511	-	-	-	-	-	-	309,161
Retakaful assets	-	74,797	98,600	13,999	28,745	-	-	-	-	216,141
Takaful receivables	67	273	1,125	314	23,430	-	-	7,244	7,899	40,352
Other receivables	-	-	-	-	4,073	-	60	-	38	4,171
Cash and bank balances	34,436	1,330	(455)	-	1,396	-	18,972	-	-	55,679
Allowance for impairment losses	-	-	-	-	-	-	-	-	(7,937)	(7,937)
	199,456	289,317	110,781	14,313	102,957	-	366,246	7,244	-	1,090,314

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29 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	Neither past due nor impaired					Not subject to credit risk	Investment -linked fund	Past due but not impaired	Past due and impaired	Total
	AAA	AA	A	BBB	Not rated					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2015</u>										
HTM investments:										
Malaysian Government										
Guaranteed financing	-	-	-	-	40,632	-	-	-	-	40,632
AFS investments:										
Islamic debt securities, unquoted	34,889	74,852	-	-	4,997	-	-	-	-	114,738
FVTPL investments:										
Shariah-approved quoted equities	-	-	-	-	-	853	79,543	-	-	80,396
Islamic debt securities, unquoted	-	-	-	-	-	-	54,000	-	-	54,000
Investment-linked units	-	-	-	-	-	2,730	215,788	-	-	218,518
LAR:										
Fixed and call deposits with:										
Licensed financial institutions	110,747	60,080	11,085	-	-	-	15,200	-	-	197,112
Retakaful assets	-	54,755	76,832	18,576	42,550	-	-	-	-	192,713
Takaful receivables	488	3,281	5,524	291	45,849	-	-	25,608	8,693	89,734
Other receivables	-	-	-	-	5,881	-	987	-	38	6,906
Cash and bank balances	15,792	(2,243)	2,475	-	20	-	1,459	-	-	17,503
Allowance for impairment losses	-	-	-	-	-	-	-	-	(8,731)	(8,731)
	161,916	190,725	95,916	18,867	139,929	3,583	366,977	25,608	-	1,003,521

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29 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Aged analysis of financial assets past due but not impaired

<u>Company</u>	> 60 days and <180 days RM'000	> 180 days RM'000	<u>Total</u> RM'000
<u>2016</u>			
Takaful receivables	5,694	1,550	7,244
<u>2015</u>			
Takaful receivables	17,417	8,191	25,608

Liquidity risk

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

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

Maturity profiles

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

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

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

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29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk

	Carrying value	Up to a year	1 – 3 years	3 – 5 years	5 – 15 years	Over 15 years	No maturity date	Investment- linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2016</u>									
AFS investments:									
Malaysian Government Guaranteed financing	39,736	-	-	-	44,556	18,834	-	-	63,390
Islamic debt securities, unquoted	85,797	3,188	33,289	-	63,888	19,040	-	-	119,405
FVTPL investments:									
Shariah-approved quoted equities	79,968	-	-	-	-	-	-	79,968	79,968
Islamic debt securities, unquoted	52,887	-	-	-	-	-	-	52,887	52,887
Unit trusts	214,359	-	-	-	-	-	-	214,359	214,359
LAR:									
Fixed and call deposits with:									
Licensed financial institutions	309,161	317,852	-	-	-	-	-	-	317,852
Retakaful assets	216,141	140,468	57,925	8,077	2,820	6,851	-	-	216,141
Takaful receivables	32,453	32,453	-	-	-	-	-	-	32,453
Other receivables	4,133	4,073	-	-	-	-	-	60	4,133
Cash and bank balances	55,679	36,707	-	-	-	-	-	18,972	55,679
	<u>1,090,314</u>	<u>534,741</u>	<u>91,214</u>	<u>8,077</u>	<u>111,264</u>	<u>44,725</u>	<u>-</u>	<u>366,246</u>	<u>1,156,267</u>
Takaful contract liabilities	788,984	649,950	92,623	10,239	6,752	29,420	-	-	788,984
Takaful payables	39,142	39,142	-	-	-	-	-	-	39,142
Expense liabilities	7,575	7,575	-	-	-	-	-	-	7,575
Other payables	64,113	63,305	-	-	-	-	-	808	64,113
	<u>899,814</u>	<u>759,972</u>	<u>92,623</u>	<u>10,239</u>	<u>6,752</u>	<u>29,420</u>	<u>-</u>	<u>808</u>	<u>899,814</u>

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29 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

Exposure to liquidity risk (continued)

	Carrying value	Up to a year	1 – 3 years	3 – 5 years	5 – 15 years	Over 15 years	No maturity date	Investment- linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>2015</u>									
HTM investments:									
Malaysian Government Guaranteed financing	40,632	-	-	-	45,918	19,295	-	-	65,213
AFS investments:									
Islamic debt securities, unquoted	114,738	-	14,691	23,305	80,537	47,566	-	-	166,099
FVTPL investments:									
Shariah-approved quoted equities	80,396	-	-	-	-	-	-	80,396	80,396
Islamic debt securities, unquoted	54,000	-	-	-	-	-	-	54,000	54,000
Investment-linked units	218,518	-	-	-	-	-	2,730	215,788	218,518
LAR:									
Fixed and call deposits with:									
Licensed financial institutions	197,112	181,913	-	-	-	-	-	15,675	197,588
Retakaful assets	192,713	127,523	49,428	6,443	2,798	6,521	-	-	192,713
Takaful receivables	81,041	81,041	-	-	-	-	-	-	81,041
Other receivables	6,868	5,881	-	-	-	-	-	987	6,868
Cash and bank balances	17,503	16,044	-	-	-	-	-	1,459	17,503
	<u>1,003,521</u>	<u>412,402</u>	<u>64,119</u>	<u>29,746</u>	<u>129,253</u>	<u>73,382</u>	<u>2,730</u>	<u>368,305</u>	<u>1,079,939</u>
Takaful contract liabilities	723,085	590,124	69,790	7,826	5,874	33,458	16,043	-	723,085
Takaful payables	88,321	88,321	-	-	-	-	-	-	88,321
Expense liabilities	3,493	3,493	-	-	-	-	-	-	3,493
Other payables	48,615	48,308	-	-	-	-	-	307	48,615
	<u>863,514</u>	<u>730,246</u>	<u>69,790</u>	<u>7,826</u>	<u>5,874</u>	<u>33,458</u>	<u>16,043</u>	<u>307</u>	<u>863,514</u>

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29 FINANCIAL RISK (CONTINUED)

Market risks

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

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

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

Profit rate risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Profit rate risk (continued)

	Changes in variables	Impact on profit before tax [^]		Impact on equity [*]		Impact on Takaful contract liabilities [*]	
		2016	2015	2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Takaful Operator</u>							
RM	+100 basis points	1,615	980	1,228	90	-	-
RM	-100 basis points	(1,615)	(980)	(1,228)	(186)	-	-
<u>General Takaful Fund</u>							
RM	+100 basis points	1,191	582	(1,315)	-	(986)	(1,622)
RM	-100 basis points	(1,191)	(582)	1,465	-	1,099	1,737
<u>Family Takaful Fund</u>							
RM	+100 basis points	279	256	(5,770)	-	(4,327)	(2,255)
RM	-100 basis points	(279)	(256)	6,587	-	4,940	2,583

[^] Impact on Islamic money market instruments only.

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

Currency risk

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

The Company has no significant exposure to currency risk.

Operational risks

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

ZURICH TAKAFUL MALAYSIA BERHAD
(Formerly known as MAA Takaful Berhad)
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2016 (CONTINUED)

29 FINANCIAL RISK (CONTINUED)

Market risks (continued)

Price risk

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

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in profit or loss) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

<u>Market Indices</u> <u>Takaful Operator</u>	<u>Changes in</u> <u>variables</u>	<u>Impact on profit before tax</u>		<u>Impact on equity*</u>	
		2016	2015	2016	2015
		RM'000	RM'000	RM'000	RM'000
Bursa Malaysia	15%	-	120	-	90
Bursa Malaysia	-15%	-	(120)	-	(90)

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

There is no impact to the Company's profit before taxation as the impact of changes in price risk to the equities securities of the Family Takaful fund and Investment-linked funds is retained in the Takaful contract liabilities.

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

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