

Company No.

731996	H
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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2012

Company No.

731996

H

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2012

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of family takaful including investment-linked business and all classes of general takaful business. There have been no significant changes in the nature of these activities during the financial year.

FINANCIAL RESULTS

	RM'000
Profit for the financial year	12,999

DIVIDENDS

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

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

RESERVES AND PROVISIONS

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

PROVISION FOR OUTSTANDING CLAIMS

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

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DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

ISSUE OF SHARES

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

CORPORATE GOVERNANCE

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

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

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

The composition of the Audit Committee is as follows:

		<u>No. of Attendance</u>
Dr. Zaha Rina Zahari (Chairman) (resigned w.e.f 1 July 2012)	Independent Director	2/2
Onn Kien Hoe (Chairman) (appointed w.e.f 13 July 2012)	Independent Director	2/2
Tan Sri Ahmad bin Mohd Don	Independent Director	4/4
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Independent Director	4/4
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	4/4

The duties and responsibilities of the AC are as follows:

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

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

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

1 To review: (continued)

- ix. quarterly results and year end financial statements prior to the Board of Directors' approval pertaining to:
- major accounting policy changes
 - significant and unusual events
 - compliance with accounting standards and other legal requirements and to monitor any related party transactions and conflict of interest situation that may arise within the Company and to report, if any, transactions between the Company and any related party outside the Company which are not based on arms-length terms and which are disadvantageous to the Company.

2. To recommend the appointment of the external auditors, and to discuss their audit fees and any questions of resignation or dismissal.
3. To oversee the independence and performance of the Company's independent auditors.
4. To perform any other functions as may be mutually agreed by the Committee and the Board of Directors.

Nomination Committee ("NC")

The composition of the NC is as follows:

		<u>No. of Attendance</u>
Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	5/5
Dr. Zaha Rina Zahari (resigned w.e.f 1 July 2012)	Independent Director	2/3
Muhamad Umar Swift	Non-Independent Non-Executive Director	4/5
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	5/5
Dr. Md Khalil bin Ruslan	Independent Director	5/5
Onn Kien Hoe (appointed w.e.f 13 July 2012)	Independent Director	2/2

MAA TAKAFUL BERHAD
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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE (CONTINUED)

Nomination Committee ("NC") (continued)

The duties and responsibilities of the Committee are as follows:

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

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

The composition of the RC is as follows:

		<u>No. of Attendance</u>
Datuk Seri Razman Md Hashim bin Che Din Md Hashim (Chairman)	Independent Director	1/1
Dr. Zaha Rina Zahari (resigned w.e.f 1 July 2012)	Independent Director	1/1
Muhamad Umar Swift	Non-Independent Non-Executive Director	1/1
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	1/1
Dr. Md Khalil bin Ruslan	Independent Director	1/1
Onn Kien Hoe (appointed w.e.f 13 July 2012)	Independent Director	0/0

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.

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

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

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

Risk Management Committee ("RMC")

The composition of the RMC is as follows:

		<u>No. of Attendance</u>
Dr. Zaha Rina Zahari (Chairman) (resigned w.e.f 1 July 2012)	Independent Director	3/3
Onn Kien Hoe (Chairman) (appointed w.e.f 13 July 2012)	Independent Director	3/3
Tan Sri Ahmad bin Mohd Don	Independent Director	6/6
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	Independent Director	6/6
Ashraf Adnan Nureddin Bseisu	Non-Independent Non-Executive Director	6/6
Muhamad Umar Swift	Non-Independent Non-Executive Director	6/6

MAA TAKAFUL BERHAD

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

The duties and responsibilities of the Committee are as follows:

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

Shariah Committee ("SC")

The composition of the SC is as follows:

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

The duties and responsibilities of the SC are as follows:

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

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

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

2. Advise the Board and The Company
The SC shall advise the board and provide input to the Company on any matters related to Shariah in order for the Company to comply with Shariah principles at all times.
3. Endorse Shariah policies and procedures
The SC is expected to endorse Shariah policies and procedures prepared by the Company and to ensure the contents do not contain any elements which are not in line with Shariah.
4. Endorse and validate relevant documentations
To ensure that the products of the Company comply with Shariah principles, the SC must approve:
 - i. The terms and conditions contained in the forms, contracts, agreements or other legal documentations used in executing the transactions; and
 - ii. The product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
5. Assess work carried out by Shariah review and Shariah audit
To assess the work carried out by Shariah review and Shariah audit in order to ensure compliance with Shariah principles forms part of their duties in providing their assessment of Shariah compliance and accurate information in the annual report.
6. Assist related parties on Shariah matters
The related parties of the Company such as its legal counsel, auditor or consultant may seek advice on Shariah matters from the SC and the SC is expected to provide the necessary assistance to the requesting party.
7. Advise on matters to be referred to the 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.

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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)	7/7
Datuk Seri Razman Md Hashim bin Che Din Md Hashim	7/7
Dr. Zaha Rina Zahari (resigned w.e.f 1 July 2012)	3/3
Dr. Md Khalil bin Ruslan	7/7
Muhamad Umar Swift	7/7
Ashraf Adnan Nureddin Bseisu	7/7
Onn Kien Hoe (appointed w.e.f 17 May 2012)	4/4

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

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.

Mr. Onn Kien Hoe retires in accordance with Article 80 of the Company's Articles of Association and being eligible, offers himself for election.

DIRECTORS' BENEFITS

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

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

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

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

	<u>Number of ordinary shares of RM1 each</u>			
	<u>At 1.1.2012</u>	<u>Acquired</u>	<u>Disposed</u>	<u>At 31.12.2012</u>
Tan Sri Ahmad bin Mohd Don				
- Direct	2,055,000	-	-	2,055,000
Datuk Seri Razman Md Hashim				
bin Che Din Md Hashim				
- Direct	150,000	-	-	150,000

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

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

ULTIMATE HOLDING COMPANY

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

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 24 April 2013.

TAN SRI AHMAD BIN MOHD DON
DIRECTOR

MUHAMAD UMAR SWIFT
DIRECTOR

Kuala Lumpur
24 April 2013

Company No.

731996

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

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

We, Tan Sri Ahmad bin Mohd Don and Muhamad Umar Swift, being two of the Directors of MAA Takaful Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 17 to 116 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2012 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 24 April 2013.

TAN SRI AHMAD BIN MOHD DON
DIRECTOR

MUHAMAD UMAR SWIFT
DIRECTOR

Kuala Lumpur
24 April 2013

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

I, Salim Majid Zain, the officer primarily responsible for the financial management of MAA Takaful Berhad, do solemnly and sincerely declare that the financial statements set out on pages 17 to 116 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

SALIM MAJID ZAIN

Subscribed and solemnly declared by the abovenamed Salim Majid Zain at Kuala Lumpur in Wilayah Persekutuan on 24 April 2013.

Before me,

COMMISSIONER FOR OATHS
24 April 2013

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

SHARIAH COMMITTEE'S REPORT



In the name of Allah, the Beneficent, the Merciful

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

We have reviewed the principles and the contracts relating to the transactions and applications introduced by MAA Takaful Berhad during the financial year ended 31 December 2012. We have also conducted our review to form an opinion as to whether MAA Takaful Berhad has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah decisions made by us.

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

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

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

In our opinion:

1. the contracts, transactions and dealings entered into by MAA Takaful Berhad during the financial year ended 31 December 2012 that we have reviewed are in compliance with the Shariah principles;
2. the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles;
3. all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes; and
4. the calculation of *zakat* is in compliance with Shariah principles.

We, the members of the Shariah Committee of MAA Takaful Berhad, do hereby confirm that the operations of MAA Takaful Berhad for the financial year ended 31 December 2012 have been conducted in conformity with the Shariah principles.

PROFESSOR DR. JONI TAMKIN BINI BORHAN
MEMBER

DR. YUSRI BIN MOHAMAD
MEMBER

24 April 2013

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of MAA Takaful Berhad, which comprise the statement of financial position as at 31 December 2012 of the Company, and statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 116.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and comply with the requirements of Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

- (i) As stated in Note 2 (a) to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.
- (ii) This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/14 (J))
Chartered Accountant

Kuala Lumpur
24 April 2013

Company No.

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MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

ASSETS

		31.12.2012				31.12.2011				1.1.2011			
	<u>Note</u>	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	<u>Company</u> RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	<u>Company</u> RM'000	Takaful Operator RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	<u>Company</u> RM'000
Property, plant and equipment	4	13,704	-	-	13,704	5,178	-	-	5,178	1,350	-	-	1,350
Intangible assets	5	3,067	-	-	3,067	3,360	-	-	3,360	2,676	-	-	2,676
Investments:													
Held-to-maturity	6(a)	-	15,000	20,044	35,044	-	10,000	10,000	20,000	-	5,000	5,000	10,000
Loans and receivables	6(b)	11,607	10,039	94,744	116,390	15,135	6,800	83,519	105,454	11,616	10,396	66,012	88,024
Available-for-sale	6(c)	69,778	46,171	37,521	153,470	59,026	45,026	40,538	144,590	90,850	28,028	23,760	142,638
Fair value through profit or loss	6(d)	4,230	-	171,341	175,571	9,209	-	122,813	132,022	5,240	-	82,188	87,428
Retakaful assets	7	-	132,140	13,792	145,932	-	107,692	10,049	117,741	-	62,182	11,389	73,571
Takaful receivables	8	-	21,942	24,918	46,860	-	43,996	18,760	62,756	-	37,226	6,409	43,635
Other receivables	9	36,450	1,185	2,281	9,443	34,425	423	1,493	4,431	23,742	8,463	9,877	3,482
Cash and bank balances		539	38	3,102	3,679	410	109	1,654	2,173	1,885	698	5,473	8,056
TOTAL ASSETS		139,375	226,515	367,743	703,160	126,743	214,046	288,826	597,705	137,359	151,993	210,108	460,860

LIABILITIES

Takaful contract liabilities	10	-	172,604	309,971	482,575	-	148,171	246,107	394,708	-	104,749	191,125	297,999
Takaful payables	11	-	36,388	18,798	55,186	-	51,935	13,918	65,853	-	41,611	4,950	46,561
Tax payable		1,973	2,388	1,454	5,815	1,237	698	1,249	3,184	-	-	348	348
Deferred tax liabilities	12	3,496	476	1,426	5,398	3,181	470	974	4,625	1,534	252	744	2,530
Other payables	13	16,164	16,284	36,094	38,069	9,122	21,175	26,578	24,965	28,131	19,900	12,941	22,372
TOTAL LIABILITIES		21,633	228,140	367,743	587,043	13,540	222,449	288,826	493,335	29,665	166,512	210,108	369,810

SHAREHOLDERS' EQUITY

Share capital	14	100,000	-	-	100,000	100,000	-	-	100,000	100,000	-	-	100,000
Retained earnings		13,588	(1,625)	-	11,963	7,797	(8,403)	-	(1,036)	3,091	(14,519)	-	(13,553)
Available-for-sale reserves		4,154	-	-	4,154	5,406	-	-	5,406	4,603	-	-	4,603
		117,742	(1,625)	-	116,117	113,203	(8,403)	-	104,370	107,694	(14,519)	-	91,050
TOTAL LIABILITIES, PARTICIPANTS' FUNDS AND SHAREHOLDERS' EQUITY		139,375	226,515	367,743	703,160	126,743	214,046	288,826	597,705	137,359	151,993	210,108	460,860

Company No.

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		31.12.2012				31.12.2011			
	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
Operating revenue	16	3,748	155,800	218,362	377,910	4,252	126,879	170,344	301,475
Gross earned contributions	17	-	152,907	209,099	362,006	-	124,471	163,751	288,222
Contribution ceded to retakaful	17	-	(121,522)	(18,709)	(140,231)	-	(92,505)	(12,927)	(105,432)
Net earned contributions	17	-	31,385	190,390	221,775	-	31,966	150,824	182,790
Investment income	18	3,748	2,893	9,263	15,904	4,252	2,408	6,593	13,253
Realised gains and losses	19	5,056	565	8,345	13,966	2,559	50	5,633	8,242
Fair value gains and losses	20	126	-	5,884	6,010	771	-	1,429	2,200
Fee and commission income	21	-	31,330	-	31,330	-	23,539	1,938	25,477
Wakalah fee income		113,351	-	-	-	90,713	-	-	-
Other operating income – net		10,378	-	-	82	7,753	-	-	61
Other income		132,659	34,788	23,492	67,292	106,048	25,997	15,593	49,233
Gross benefits and claims paid	22(a)	-	(48,812)	(84,879)	(133,691)	-	(32,508)	(51,362)	(83,870)
Claims ceded to retakaful	22(b)	-	32,808	20,634	53,442	-	17,938	13,418	31,356
Gross change to contract liabilities	22(c)	-	(15,348)	(52,293)	(67,641)	-	(31,042)	(44,915)	(75,957)
Change in contract liabilities ceded to retakaful	22(d)	-	18,601	4,486	23,087	-	28,295	(2,645)	25,650
Net claims		-	(12,751)	(112,052)	(124,803)	-	(17,317)	(85,504)	(102,821)

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MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

		31.12.2012				31.12.2011			
	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
Fee and commission expenses		(80,292)	-	-	(80,292)	(67,347)	-	-	(67,347)
Management expenses	23	(51,900)	-	-	(51,900)	(37,349)	-	-	(37,349)
Allowance for doubtful debts		-	(3)	-	(3)	-	(168)	-	(168)
Wakalah fee expenses		-	(43,316)	(70,035)	-	-	(33,663)	(57,050)	-
Other operating expenses		-	-	(10,296)	-	-	-	(8,165)	(473)
Expense reserves		(818)	-	-	(818)	(241)	-	-	(241)
Other expenses		(133,010)	(43,319)	(80,331)	(133,013)	(104,937)	(33,831)	(65,215)	(105,578)
(Deficit)/surplus before taxation		(351)	10,103	21,499	31,251	1,111	6,815	15,698	23,624
Taxation on takaful funds	24	-	(3,327)	(2,477)	(5,804)	-	(699)	(1,381)	(2,080)
(Deficit)/surplus after taxation		(351)	6,776	19,022	25,447	1,111	6,116	14,317	21,544
Surplus attributable to participants		-	-	(9,190)	(9,190)	-	-	(6,223)	(6,223)
Surplus attributable to Takaful Operator		16,608	(6,776)	(9,832)	-	14,210	(6,116)	(8,094)	-
Profit before taxation		16,257	-	-	16,257	15,321	-	-	15,321
Zakat		(225)	-	-	(225)	(188)	-	-	(188)
Taxation	24	(3,033)	-	-	(3,033)	(2,616)	-	-	(2,616)
Net (loss)/profit for the financial year		12,999	-	-	12,999	12,517	-	-	12,517

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MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		31.12.2012				31.12.2011			
	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
Net profit/(net loss) for the financial year		12,999	-	-	12,999	12,517	-	-	12,517
Other comprehensive income:									
Net fair value gain during the financial year	6(e)	(1,669)	-	-	(1,669)	1,070	-	-	1,070
Tax effects thereon	12	417	-	-	417	(267)	-	-	(267)
		<u>(1,252)</u>	<u>-</u>	<u>-</u>	<u>(1,252)</u>	<u>803</u>	<u>-</u>	<u>-</u>	<u>803</u>
Total comprehensive income/(loss) for the financial year		<u>11,747</u>	<u>-</u>	<u>-</u>	<u>11,747</u>	<u>13,320</u>	<u>-</u>	<u>-</u>	<u>13,320</u>

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Share capital RM'000	Non- distributable Available-for- sale reserves RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 January 2011	100,000	4,603	3,091	107,694
MFRS transition adjustments (Note 32)	-	-	(16,644)	(16,644)
At 1 January 2011, restated	100,000	4,603	(13,553)	91,050
Total comprehensive income for the financial year	-	803	12,517	13,320
At 31 December 2011	100,000	5,406	(1,036)	104,370
Total comprehensive (loss)/ income for the financial year	-	(1,252)	12,999	11,747
At 31 December 2012	100,000	4,154	11,963	116,117

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	<u>Note</u>	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated / (utilised) in operating activities	25	2,932	(11,272)
Distribution income received		3,198	1,985
Profit income received		11,311	10,268
Income tax paid		(4,557)	(250)
Net cash flows from operating activities		<u>12,884</u>	<u>731</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		15	116
Purchase of property, plant and equipment		(10,281)	(4,724)
Purchase of intangibles		(1,112)	(2,006)
Net cash flows from investing activities		<u>(11,378)</u>	<u>(6,614)</u>
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		1,506	(5,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		2,173	8,056
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR		<u>3,679</u>	<u>2,173</u>
Cash and cash equivalents consist of:			
Cash and bank balances		<u>3,679</u>	<u>2,173</u>
		<u>3,679</u>	<u>2,173</u>

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

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is engaged principally in the underwriting of family takaful including investment-linked business and all classes of general takaful business. There have been no significant changes in the nature of these activities during the financial year.

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

Registered office

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

Principal place of business

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 24 April 2013.

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 in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

The financial statements of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1, 'First-time Adoption of Malaysian Financial Reporting Standards'. Except for certain transition changes as disclosed in Note 32, the Company has consistently applied the same accounting policies in its opening MFRS statements of financial position at 1 January 2011 (transition date) and throughout all years presented, as if these policies had always been in effect. Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Note 32 discloses the impact of the transition to MFRS on the Company's reported financial position, financial performance and cash flows. Subsequent to the transition in the financial reporting framework to MFRS on 1 January 2012, this restated comparative information has not been audited under MFRS. The restated comparative statements of financial position 31 December 2011, comparative income statement, comprehensive income, changes in equity and cash flows for the year then ended have been audited under the previous financial reporting framework, Financial Reporting Standards in Malaysia.

In the previous financial years, the financial statements of the Company were prepared in accordance with the Financial Reporting Standards, as modified by Bank Negara Malaysia ("BNM") guidelines on the treatment of Qardhul Hassan.

In accordance with the Takaful Act 1984, the Company is required to segregate the assets and liabilities of the Takaful funds from its own, a concept known as segregation of funds. These Takaful funds are however not considered as separate legal entities and are managed and operated by the Takaful Operator, i.e. the Company.

Following the transition to MFRS, the Company prepares a Company-level set of financial statements. In preparing the Company-level financial statements, 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 income statement, the statement of comprehensive income as well as certain relevant notes to the financial statements represents additional supplementary information presented in accordance with the requirements of BNM pursuant to the Takaful Act 1984 in Malaysia to segregate assets, liabilities, income and expenses of the Takaful funds from the Takaful Operator. The accounting policies adopted for the Takaful Operator and Takaful funds are uniform for like transactions and events in similar circumstances.

The financial statements have been prepared under the historical cost convention, as modified by the valuation of available-for-sale financial assets and financial assets at fair value through profit or loss.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)**

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

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

The preparation of financial statements in conformity of 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 when assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

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

(i) Financial years beginning on/after 1 January 2013:

- MFRS 10, 'Consolidated Financial Statements' (effective from 1 January 2013) changes the definition of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. It establishes control as the basis for determining which entities are consolidated in the consolidated financial statements and sets out the accounting requirements for the preparation of consolidated financial statements. It replaces all the guidance on control and consolidation in MFRS 127, 'Consolidated and Separate Financial Statements' and IC Interpretation 112, 'Consolidation – Special Purpose Entities.'
- MFRS 12, 'Disclosure of Interests in Other Entities' (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 127, 'Investments in Associates'. It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(a) Basis of preparation (continued)****(i) Financial years beginning on/after 1 January 2013: (continued)**

- MFRS 13, 'Fair Value Measurement' (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7, 'Financial Instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.
- The revised MFRS 127, 'Separate Financial Statements' (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.
- Amendment to MFRS 101, 'Presentation of Items of Other Comprehensive Income' (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ('OCI') in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.
- Amendment to MFRS 119, 'Employee Benefits' (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.
- Amendment to MFRS 7, 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities' (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognised financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Financial years beginning on/after 1 January 2014:

- Amendment to MFRS 132, 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

(iii) Financial years beginning on/after 1 January 2015:

- MFRS 9, 'Financial Instruments – Classification and Measurement of Financial Assets and Financial Liabilities' (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

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

MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

The Company is in the process of assessing the impact of adopting MFRS 9 on the Company's accounting policies.

Unless otherwise disclosed, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

(b) Functional and presentation currency

The financial information is presented in Ringgit Malaysia ("RM"), which is the Company's functional currency.

MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Property, plant and equipment**

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

Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

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

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

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

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

(d) Intangible asset**Computer software**

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

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

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

MAA TAKAFUL BERHAD

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (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 stated at fair value and any gain or loss arising from the change in fair values is recognised in the income statement. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

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

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

Financial assets classified as held-to-maturity are subsequently measured at amortised cost using the effective interest method. A gain or loss is recognised in the income statement when the asset is derecognised or impaired.

(iii) Loans and receivables ("LAR")

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Investments and other financial assets (continued)****(iv) Available-for-sale ("AFS") financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other assets categories. These assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement available-for-sale financial assets are remeasured at fair value.

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

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

(f) Fair value of financial instruments

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

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

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

MAA TAKAFUL BERHAD

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Fair value of financial instruments (continued)**

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

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

(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 loss is recorded in the income statement.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Impairment of financial assets (continued)****(ii) Available-for-sale financial assets**

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

(h) Impairment of non-financial assets

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

An impairment loss is charged to the income statement immediately.

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

(i) Takaful receivables

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(j) Employee benefits**Short term employee benefits

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

Post employment benefits

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

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

(k) Product classification

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(k) Product classification (continued)**

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

(l) Retakaful

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

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

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

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

The Company also assumes 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 insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicitly identified contribution or fees to be retained by the retakaful operator. Investment income on these contracts is accounted for using the effective yield method when accrued.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) General takaful underwriting results**

The General takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and consists of unearned contribution reserves and accumulated surplus attributable to participants which represents the participants' share in the net surplus of the General takaful revenue account, distributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. The General takaful underwriting results are determined for each class of general takaful business after taking into account retakaful, wakalah fee, unearned contributions and claims incurred.

Any deficit in the General takaful fund will be made good via a benevolent loan or Qardhul Hassan 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 incepted for which takaful certificates have not been raised as of the date of the statement of financial position are accrued at that date.

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

Unearned contribution reserves

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(m) General takaful underwriting results (continued)**Provision for outstanding claims

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

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

Commission and agency expenses

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

Deficits/accumulated deficits

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

(n) Family takaful underwriting results

The Family takaful fund is maintained in accordance with the requirements of the Takaful Act, 1984 and includes the amount attributable to participants. The amount attributable to participants represents the accumulated surplus attributable to the participants as determined by an annual actuarial valuation of the Family takaful fund and is attributable in accordance with the terms and conditions prescribed by the Shariah Committee of the Company.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Family takaful underwriting results (continued)

Contribution income (continued)

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

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

Provision for outstanding claims

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

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

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

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

Deficits/accumulated deficits

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Insurance contract liabilities****Family takaful contract liabilities**

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

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

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

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

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

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

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

General takaful contract liabilities

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(o) Insurance contract liabilities (continued)**General takaful contract liabilities (continued)

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty 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 account of the investment return expected to arise on assets relating to the relevant general technical provisions. If these estimates show that the carrying amount of the unearned contributions is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

Takaful Operator's expense liabilities

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

(p) Qardhul Hassan

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(q) Management expenses, commission expenses and Wakalah fee**

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

(r) Other revenue recognition

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

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

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

(s) 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.

(t) Income taxes

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

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

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

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

(u) Dividends

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(v) 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.

(w) Provisions

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

(x) Cash and cash equivalents

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Valuation of General takaful claims liabilities ("IBNR") reserves

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(a) Critical accounting estimates and assumptions (continued)****(i) Valuation of General takaful claims liabilities ("IBNR") reserves (continued)**

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

The actuary has incorporated appropriate market data to allow the use of Chain Ladder and Bornheutter Ferguson methods on claim counts and claim values. With the additional development data in 2012, the actuary has increasingly relied on internal data and experience rather than the use of industry benchmarks.

The Chain Ladder method involves developing each Accident Year's claim numbers to ultimate through the 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 2011 valuation results or some other prior estimates. The IBNR amount is derived by subtracting the claims reported to date from the projected ultimate loss.

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

The actual value of the future claims liability is dependent upon many factors such as changes in procedures for claims settlement, and social and economic inflation. This means there is an inherent uncertainty in the estimate of the ultimate claims liability. As such, any changes in the future claim environment may result in changes to the estimated claims 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 a 75% confidence level and deferred acquisition costs over the unearned contribution at a fund level. If the estimated total unexpired risk reserve ("URR") is larger than the total UCR less related deferred acquisition costs, then the total deficiency will be recognised in the income statement by a provision for liability adequacy.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions (continued)

(iii) Actuarial liabilities for Family takaful fund

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

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

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

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

The Company also included a provision for certificates currently under waiver of contributions. This is taken as the present value of future gross contributions.

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

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

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

SmartMedic is an individual Hospital and Surgical product with guaranteed renewability up to age 80. It also provides an additional benefit, funeral expense, which is payable upon death due to all causes. The contribution reserve is calculated as 100% of unearned medical tabarru'. Reserve for funeral expense benefit is calculated as 100% of unearned funeral expense tabarru' using 1/24th method. An additional provision of 2 months of average claims are set aside as IBNR for SmartMedic. An additional 60% of contribution reserve is set aside as deficiency reserve, to reflect the portfolio experience. Reserves for SmartMedic are adjusted to reflect the 65% retained portion after retakaful arrangement.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Critical accounting estimates and assumptions (continued)

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

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

The Takafulife series and Term 80 are, ordinary whole life and term plan, respectively. The Tabarru' rates are dripped from the Participant Investment Account ("PIA") to the risk fund on a monthly basis. The UCR is calculated by taking half of the monthly drip at the valuation date. The liabilities in this fund are calculated as the larger of UCR and total present value of future deficits. Future deficits were reserved on a present value basis using the risk free spot rates of return and claims assumptions were determined at a 75% sufficiency level. In addition, 4 months of average claims are set aside for IBNR.

- Group Fund Risk Investment Account ("GFRIA")

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

The net liability for Group Term Takaful has been calculated on URR basis using the 1/24th method, with the risk rates assumed to be 130% of LIAM risk rates.

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

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

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

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

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

Company No.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

4 PROPERTY, PLANT AND EQUIPMENT

<u>Takaful Operator</u>	<u>Computer equipment</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Total</u> RM'000
<u>Cost</u>						
At 1 January 2010	440	287	169	78	173	1,147
Additions	169	80	391	12	87	739
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2010/1 January 2011	609	367	560	90	260	1,886
Additions	1,590	2,384	-	251	499	4,724
Disposals	(14)	(258)	(165)	(36)	(260)	(733)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011/ 1 January 2012	2,185	2,493	395	305	499	5,877
Additions	2,481	3,618	6	2,696	1,480	10,281
Disposals	(6)	-	(4)	(8)	-	(18)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	<u>4,660</u>	<u>6,111</u>	<u>397</u>	<u>2,993</u>	<u>1,979</u>	<u>16,140</u>

Company No.

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MAA TAKAFUL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Takaful Operator</u>	<u>Computer equipment</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Motor vehicles</u> RM'000	<u>Office equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Total</u> RM'000
<u>Accumulated depreciation</u>						
At 1 January 2010	143	79	50	29	26	327
Depreciation charge for the financial year	111	35	27	11	25	209
At 31 December 2010/1 January 2011	254	114	77	40	51	536
Depreciation charge for the financial year	300	55	49	14	28	446
Disposals for the financial year	(7)	(107)	(76)	(18)	(75)	(283)
At 1 December 2011/1 January 2012	547	62	50	36	4	699
Depreciation charge for the financial year	892	447	40	221	141	1,741
Disposals for the financial year	(1)	-	(2)	(1)	-	(4)
At 31 December 2012	1,438	509	88	256	145	2,436
<u>Net carrying amount</u>						
At 1 January 2011	355	253	483	50	209	1,350
At 31 December 2011 / 1 January 2012	1,638	2,431	345	269	495	5,178
At 31 December 2012	3,222	5,602	309	2,737	1,834	13,704

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

5 INTANGIBLE ASSETS

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
<u>Takaful Operator</u>			
<u>Cost</u>			
At 1 January	7,710	5,704	4,974
Additions	1,112	2,006	730
At 31 December	<u>8,822</u>	<u>7,710</u>	<u>5,704</u>
<u>Accumulated amortisation</u>			
At 1 January	4,350	3,028	1,958
Amortisation for the financial year	1,405	1,322	1,070
At 31 December	<u>5,755</u>	<u>4,350</u>	<u>3,028</u>
<u>Net book value</u>			
At 31 December	<u>3,067</u>	<u>3,360</u>	<u>2,676</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS

	<u>Takaful Operator</u> RM'000	<u>General takaful fund</u> RM'000	<u>Family takaful fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2012</u>				
Malaysian Government Guaranteed financing	5,026	23,767	23,855	52,648
Islamic debt securities, unquoted	64,752	37,404	74,862	177,018
Shariah-approved quoted equities	4,230	-	130,189	134,419
Deposits with financial institutions	11,607	10,039	94,744	116,390
	<u>85,615</u>	<u>71,210</u>	<u>323,650</u>	<u>480,475</u>
<u>At 31 December 2011</u>				
Malaysian Government Guaranteed financing	-	10,000	10,000	20,000
Islamic debt securities, unquoted	59,026	45,026	69,672	173,724
Shariah-approved quoted equities	962	-	93,679	94,641
Investment-linked units	8,247	-	-	8,247
Deposits with financial institutions	15,135	6,800	83,519	105,454
	<u>83,370</u>	<u>61,826</u>	<u>256,870</u>	<u>402,066</u>
<u>At 1 January 2011</u>				
Malaysian Government Guaranteed Financing	-	5,000	5,000	10,000
Islamic debt securities, unquoted	90,850	28,028	45,755	164,633
Shariah-approved quoted equities	-	-	60,193	60,193
Investment-linked units	5,240	-	-	5,240
Deposits with financial institutions	11,616	10,396	66,012	88,024
	<u>107,706</u>	<u>43,424</u>	<u>176,960</u>	<u>328,090</u>

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General takaful fund</u> RM'000	<u>Family takaful fund</u> RM'000	<u>Company</u> RM'000
The Company's investments are summarised by categories as follows:				
<u>At 31 December 2012</u>				
Held-to-maturity ("HTM")	-	15,000	20,044	35,044
Loans and receivables ("LAR")	11,607	10,039	94,744	116,390
Available-for-sale ("AFS")	69,778	46,171	37,521	153,470
Fair value through profit or loss ("FVTPL")	4,230	-	171,341	175,571
	<u>85,615</u>	<u>71,210</u>	<u>323,650</u>	<u>480,475</u>
<u>At 31 December 2011</u>				
Held-to-maturity ("HTM")	-	10,000	10,000	20,000
Loans and receivables ("LAR")	15,135	6,800	83,519	105,454
Available-for-sale ("AFS")	59,026	45,026	40,538	144,590
Fair value through profit or loss ("FVTPL")	9,209	-	122,813	132,022
	<u>83,370</u>	<u>61,826</u>	<u>256,870</u>	<u>402,066</u>
<u>At 1 January 2011</u>				
Held-to-maturity ("HTM")	-	5,000	5,000	10,000
Loans and receivables ("LAR")	11,616	10,396	66,012	88,024
Available-for-sale ("AFS")	90,850	28,028	23,760	142,638
Fair value through profit or loss ("FVTPL")	5,240	-	82,188	87,428
	<u>107,706</u>	<u>43,424</u>	<u>176,960</u>	<u>328,090</u>

MAA TAKAFUL BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General takaful fund</u> RM'000	<u>Family takaful fund</u> RM'000	<u>Company</u> RM'000
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The following investments mature after 12 months:

At 31 December 2012

Held-to-maturity ("HTM")	-	15,000	20,044	35,044
Available-for-sale ("AFS")	69,778	46,171	37,521	153,470

At 31 December 2011

Held-to-maturity ("HTM")	-	10,000	10,000	20,000
Available-for-sale ("AFS")	59,026	45,026	40,538	144,590

At 1 January 2011

Held-to-maturity ("HTM")	-	5,000	5,000	10,000
Available-for-sale ("AFS")	90,850	28,028	23,760	142,638

(a) Held-to-maturity investment

At 31 December 2012

Amortised cost

Malaysian Government Guaranteed financing	-	15,000	20,044	35,044
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Fair value

Malaysian Government Guaranteed financing	-	15,604	21,034	36,638
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At 31 December 2011

Amortised cost

Malaysian Government Guaranteed financing	-	10,000	10,000	20,000
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Fair value

Malaysian Government Guaranteed financing	-	10,392	10,483	20,875
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At 1 January 2011

Amortised cost

Malaysian Government Guaranteed financing	-	5,000	5,000	10,000
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Fair value

Malaysian Government Guaranteed financing	-	5,240	5,391	10,631
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MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General takaful fund</u> RM'000	<u>Family takaful fund</u> RM'000	<u>Company</u> RM'000
(b) Loans and receivables ("LAR")				
<u>At 31 December 2012</u>				
<u>Amortised cost</u>				
Fixed and call deposits with:				
Licensed financial institutions	<u>11,607</u>	<u>10,039</u>	<u>94,744</u>	<u>116,390</u>
<u>At 31 December 2011</u>				
<u>Amortised cost</u>				
Fixed and call deposits with:				
Licensed financial institutions	<u>15,135</u>	<u>6,800</u>	<u>83,519</u>	<u>105,454</u>
<u>At 1 January 2011</u>				
<u>Amortised cost</u>				
Fixed and call deposits with:				
Licensed financial institutions	<u>11,616</u>	<u>10,396</u>	<u>66,012</u>	<u>88,024</u>
(c) Available-for-sale financial assets ("AFS")				
<u>At 31 December 2012</u>				
<u>Fair value</u>				
Malaysian Government Guaranteed financing	5,026	8,766	3,811	17,603
Islamic debt securities, unquoted	<u>64,752</u>	<u>37,405</u>	<u>33,710</u>	<u>135,867</u>
	<u>69,778</u>	<u>46,171</u>	<u>37,521</u>	<u>153,470</u>
<u>At 31 December 2011</u>				
<u>Fair value</u>				
Islamic debt securities, unquoted	<u>59,026</u>	<u>45,026</u>	<u>40,538</u>	<u>144,590</u>
<u>At 1 January 2011</u>				
<u>Fair value</u>				
Islamic debt securities, unquoted	<u>90,850</u>	<u>28,028</u>	<u>23,760</u>	<u>142,638</u>

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

	<u>Takaful Operator</u> RM'000	<u>General takaful fund</u> RM'000	<u>Family takaful fund</u> RM'000	<u>Company</u> RM'000
(d) Fair value through profit or loss ("FVTPL")				
<u>At 31 December 2012</u>				
<u>Fair value at designation</u>				
Shariah-approved quoted equities	4,230	-	130,189	134,419
Islamic debt securities, unquoted	-	-	41,152	41,152
	<u>4,230</u>	<u>-</u>	<u>171,341</u>	<u>175,571</u>
<u>At 31 December 2011</u>				
<u>Fair value at designation</u>				
Shariah-approved quoted equities	962	-	93,679	94,641
Islamic debt securities, unquoted	-	-	29,134	29,134
Investment-linked units	8,247	-	-	8,247
	<u>9,209</u>	<u>-</u>	<u>122,813</u>	<u>132,022</u>
<u>At 1 January 2011</u>				
<u>Fair value at designation</u>				
Shariah-approved quoted equities	-	-	60,193	60,193
Islamic debt securities, unquoted	-	-	21,995	21,995
Investment-linked units	5,240	-	-	5,240
	<u>5,240</u>	<u>-</u>	<u>82,188</u>	<u>87,428</u>

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying values of investments

(i) Takaful Operator

	Loans and receivables RM'000	Available- for-sale RM'000	Fair value through profit/loss RM'000	Total RM'000
At 1 January 2011	11,616	90,850	5,240	107,706
Purchases	3,519	14,958	8,561	27,038
Disposals including (maturities and redemptions)	-	(48,362)	(5,363)	(53,725)
Fair value gains recorded in:				
Income statement	-	-	771	771
Other comprehensive income	-	1,070	-	1,070
Amortisation adjustment	-	510	-	510
At 31 December 2011	15,135	59,026	9,209	83,370
Purchases	-	35,126	7,512	42,638
Disposals including (maturities and redemptions)	(3,528)	(21,669)	(12,617)	(37,814)
Fair value gains recorded in:				
Income statement	-	-	126	126
Other comprehensive income	-	(1,669)	-	(1,669)
Accretion adjustment	-	(1,036)	-	(1,036)
At 31 December 2012	11,607	69,778	4,230	85,615

(ii) General Takaful Fund

	Held-to maturity RM'000	Loans and receivables RM'000	Available- for-sale RM'000	Total RM'000
At 1 January 2011	5,000	10,396	28,028	43,424
Purchases	5,000	-	20,953	25,953
Disposals including (maturities and redemptions)	-	(3,596)	(5,000)	(8,596)
Fair value gains recorded in:				
Takaful contract liabilities	-	-	873	873
Amortisation adjustment	-	-	172	172
At 31 December 2011	10,000	6,800	45,026	61,826
Purchases	5,000	3,239	27,275	35,514
Disposals including (maturities and redemptions)	-	-	(25,986)	(25,986)
Fair value gains recorded in:				
Takaful contract liabilities	-	-	25	25
Accretion adjustment	-	-	(169)	(169)
At 31 December 2012	15,000	10,039	46,171	71,210

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(e) Carrying values of investments (continued)

(iii) Family Takaful Fund

	Held-to- maturity RM'000	Loans and receivables RM'000	Available- for-sale RM'000	Fair value through profit/loss RM'000	Total RM'000
At 1 January 2011	5,000	66,012	23,760	82,188	176,960
Purchases	5,000	17,507	20,437	86,825	129,769
Disposals including (maturities and redemptions)	-	-	(5,179)	(47,508)	(52,687)
Fair value gains recorded in:					
Income statement	-	-	-	1,429	1,429
Takaful contract liabilities	-	-	1,328	-	1,328
Amortisation/(accretion) adjustment	-	-	192	(121)	71
At 31 December 2011	10,000	83,519	40,538	122,813	256,870
Purchases	10,044	11,225	5,043	97,366	123,678
Disposals including (maturities and redemptions)	-	-	(7,662)	(54,675)	(62,337)
Fair value gains recorded in:					
Income statement	-	-	-	5,884	5,884
Takaful contract liabilities	-	-	(286)	-	(286)
Accretion adjustment	-	-	(112)	(47)	(159)
At 31 December 2012	20,044	94,744	37,521	171,341	323,650

(iv) Company

At 1 January 2011	10,000	88,024	142,638	87,428	328,090
Purchases	10,000	21,026	56,348	95,386	182,760
Disposals including (maturities and redemptions)	-	(3,596)	(58,541)	(52,871)	(115,008)
Fair value gains recorded in:					
Income statement	-	-	-	2,200	2,200
Takaful contract liabilities	-	-	2,201	-	2,201
Other comprehensive income	-	-	1,070	-	1,070
Amortisation/(accretion) adjustment	-	-	874	(121)	753
At 31 December 2011	20,000	105,454	144,590	132,022	402,066
Purchases	15,044	14,464	67,444	104,878	201,830
Disposals including (maturities and redemptions)	-	(3,528)	(55,317)	(67,292)	(126,137)
Fair value gains recorded in:					
Income statement	-	-	-	6,010	6,010
Takaful contract liabilities	-	-	(260)	-	(260)
Other comprehensive income	-	-	(1,669)	-	(1,669)
Accretion adjustment	-	-	(1,318)	(47)	(1,365)
At 31 December 2012	35,044	116,390	153,470	175,571	480,475

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments

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

	Available- for sale RM'000	Fair value through profit/loss RM'000	Total RM'000
(i) <u>Takaful Operator</u>			
<u>31 December 2012</u>			
Quoted market price (level 1)	-	4,230	4,230
Valuation techniques - market observable inputs (level 2)	69,778	-	69,778
	<u>69,778</u>	<u>4,230</u>	<u>74,008</u>
<u>31 December 2011</u>			
Quoted market price (level 1)	-	9,209	9,209
Valuation techniques - market observable inputs (level 2)	59,026	-	59,026
	<u>59,026</u>	<u>9,209</u>	<u>68,235</u>
<u>1 January 2011</u>			
Quoted market price (level 1)	-	5,240	5,240
Valuation techniques - market observable inputs (level 2)	90,850	-	90,850
	<u>90,850</u>	<u>5,240</u>	<u>96,090</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

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

	Available- for sale RM'000	Fair value through profit/loss RM'000	Total RM'000
(ii) <u>General Takaful Fund</u>			
<u>31 December 2012</u>			
Valuation techniques - market observable inputs (level 2)	46,171	-	46,171
	<u>46,171</u>	<u>-</u>	<u>46,171</u>
<u>31 December 2011</u>			
Valuation techniques - market observable inputs (level 2)	45,026	-	45,026
	<u>45,026</u>	<u>-</u>	<u>45,026</u>
<u>1 January 2011</u>			
Valuation techniques - market observable inputs (level 2)	28,028	-	28,028
	<u>28,028</u>	<u>-</u>	<u>28,028</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

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

	Available- for sale RM'000	Fair value through profit/loss RM'000	Total RM'000
(iii) Family Takaful Fund			
<u>31 December 2012</u>			
Quoted market price (level 1)	-	130,189	130,189
Valuation techniques - market observable inputs (level 2)	37,521	41,152	78,673
	<u>37,521</u>	<u>171,341</u>	<u>208,862</u>
<u>31 December 2011</u>			
Quoted market price (level 1)	-	93,679	93,679
Valuation techniques - market observable inputs (level 2)	40,538	29,134	69,672
	<u>40,538</u>	<u>122,813</u>	<u>163,351</u>
<u>1 January 2011</u>			
Quoted market price (level 1)	-	60,193	60,193
Valuation techniques - market observable inputs (level 2)	23,760	21,995	45,755
	<u>23,760</u>	<u>82,188</u>	<u>105,948</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

6 INVESTMENTS (CONTINUED)

(f) Fair values of investments (continued)

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

	Available- for sale RM'000	Fair value through profit/loss RM'000	Total RM'000
(iv) <u>Company</u>			
<u>31 December 2012</u>			
Quoted market price (level 1)	-	134,419	134,419
Valuation techniques - market observable inputs (level 2)	153,470	41,152	194,622
	<u>153,470</u>	<u>175,571</u>	<u>329,041</u>
<u>31 December 2011</u>			
Quoted market price (level 1)	-	102,888	102,888
Valuation techniques - market observable inputs (level 2)	144,590	29,134	173,724
	<u>144,590</u>	<u>132,022</u>	<u>276,612</u>
<u>1 January 2011</u>			
Quoted market price (level 1)	-	65,433	65,433
Valuation techniques - market observable inputs (level 2)	142,638	21,995	164,633
	<u>142,638</u>	<u>87,428</u>	<u>230,066</u>

Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. This is considered as level 1 valuation basis.

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

Level 3 valuation basis refers to non-market observable inputs, ie. where fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. There are no level 3 valued financial investments held by the Company during the current financial year.

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

7 RETAKAFUL ASSETS

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
(a) <u>General takaful fund</u>			
Retakaful of takaful contracts (Note 10)	<u>132,140</u>	<u>107,692</u>	<u>62,182</u>
(b) <u>Family takaful fund</u>			
Retakaful of takaful contracts (Note 10)	<u>13,792</u>	<u>10,049</u>	<u>11,389</u>
(c) <u>Company</u>			
Retakaful of takaful contracts (Note 10)	<u>145,932</u>	<u>117,741</u>	<u>73,571</u>

8 TAKAFUL RECEIVABLES

(a) <u>General takaful fund</u>			
Due contributions including agents/brokers and co-insurers balances	18,032	43,684	32,808
Due from retakaful and cedants	<u>4,729</u>	<u>1,128</u>	<u>5,066</u>
	22,761	44,812	37,874
Allowance for impairment	<u>(819)</u>	<u>(816)</u>	<u>(648)</u>
	<u>21,942</u>	<u>43,996</u>	<u>37,226</u>
(b) <u>Family takaful fund</u>			
Due contributions including agents/brokers and co-insurers balances	970	888	600
Due from retakaful and cedants	<u>23,948</u>	<u>17,872</u>	<u>5,809</u>
	<u>24,918</u>	<u>18,760</u>	<u>6,409</u>
(c) <u>Company</u>			
Due contributions including agents/brokers and co-insurers balances	19,002	44,572	33,408
Due from retakaful and cedants	<u>28,677</u>	<u>19,000</u>	<u>10,875</u>
	47,679	63,572	44,283
Allowance for impairment	<u>(819)</u>	<u>(816)</u>	<u>(648)</u>
	<u>46,860</u>	<u>62,756</u>	<u>43,635</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

9 OTHER RECEIVABLES

	<u>Note</u>	<u>Takaful Operator RM'000</u>	<u>General Takaful Fund RM'000</u>	<u>Family Takaful Fund RM'000</u>	<u>Company RM'000</u>
<u>At 31 December 2012</u>					
Staff financing		166	-	-	166
Profit and dividend receivable		234	802	1,902	2,938
Qardhul Hassan receivable	13	1,625	-	-	-
Other receivables, deposits and prepayments		5,960	-	379	6,339
		<u>7,985</u>	<u>802</u>	<u>2,281</u>	<u>9,443</u>
<u>Interfund transactions</u>					
Amount due from General fund	13	2,258	-	-	-
Amount due from Family fund	13	15,807	383	-	-
Surplus receivable from Family fund	13	10,400	-	-	-
		<u>28,465</u>	<u>383</u>	<u>-</u>	<u>-</u>
Total other receivables		<u><u>36,450</u></u>	<u><u>1,185</u></u>	<u><u>2,281</u></u>	<u><u>9,443</u></u>
<u>At 31 December 2011</u>					
Staff financing		215	-	-	215
Profit and dividend receivable		226	423	980	1,629
Qardhul Hassan receivable	13	8,833	-	-	-
Other receivables, deposits and prepayments		2,074	-	513	2,587
		<u>11,348</u>	<u>423</u>	<u>1,493</u>	<u>4,431</u>
<u>Interfund transactions</u>					
Amount due from General fund	13	5,024	-	-	-
Amount due from Family fund	13	11,653	-	-	-
Surplus receivable from Family fund	13	6,400	-	-	-
		<u>23,077</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other receivables		<u><u>34,425</u></u>	<u><u>423</u></u>	<u><u>1,493</u></u>	<u><u>4,431</u></u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

9 OTHER RECEIVABLES (CONTINUED)

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 1 January 2011</u>					
Staff financing		261	-	-	261
Profit and dividend receivable		418	325	784	1,527
Qardhul Hassan receivable	13	16,644	-	-	-
Other receivables, deposits and prepayments		1,271	-	422	1,693
Tax recoverable		-	-	1	1
		<u>18,594</u>	<u>325</u>	<u>1,207</u>	<u>3,482</u>
<u>Interfund transactions</u>					
Amount due from Shareholders' fund	13	-	8,138	8,670	-
Amount due from Family fund	13	1,748	-	-	-
Surplus receivable from Family fund	13	3,400	-	-	-
		<u>5,148</u>	<u>8,138</u>	<u>8,670</u>	<u>-</u>
Total other receivables		<u>23,742</u>	<u>8,463</u>	<u>9,877</u>	<u>3,482</u>

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

10 TAKAFUL CONTRACT LIABILITIES

	<u>31.12.2012</u>			<u>31.12.2011</u>		
	<u>Gross</u> RM'000	<u>Re- takaful</u> RM'000	<u>Net</u> RM'000	<u>Gross</u> RM'000	<u>Re- takaful</u> RM'000	<u>Net</u> RM'000
Family takaful	309,971	(13,792)	296,179	246,107	(10,049)	236,058
General takaful	172,604	(132,140)	40,464	148,171	(107,692)	40,479
	<u>482,575</u>	<u>(145,932)</u>	<u>336,643</u>	<u>394,278</u>	<u>(117,741)</u>	<u>276,537</u>
	<u>1.1.2011</u>					
	<u>Gross</u> RM'000	<u>Re- takaful</u> RM'000	<u>Net</u> RM'000			
Family takaful	191,125	(11,389)	179,736			
General takaful	104,749	(62,182)	42,567			
	<u>295,874</u>	<u>(73,571)</u>	<u>222,303</u>			

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(a) Family takaful (continued)

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
At 1 January 2010	110,705	(1,389)	109,316
Contribution received	157,434	(5,332)	152,102
Liabilities paid for death, maturities, surrender, benefit and claims	(47,359)	5,057	(42,302)
Movement in claims liabilities	(4,140)	(845)	(4,985)
Benefit and claims experience variation	33,887	(9,653)	24,234
Repayment of Qardhul Hassan to Takaful Operator	(2,125)	-	(2,125)
Fees deducted	(55,245)	773	(54,472)
Surplus distributed to Takaful Operator	(3,400)	-	(3,400)
Fair value movements from AFS investments	1,368	-	1,368
At 31 December 2010/1 January 2011	191,125	(11,389)	179,736
Contribution received (Note 17(b))	163,751	(12,927)	150,824
Liabilities paid for death, maturities, surrender, benefit and claims (Note 22(a),(b))	(51,362)	13,418	(37,944)
Movement in claims liabilities	2,883	1,305	4,188
Benefit and claims experience variation	9,434	(2,394)	7,040
Fees deducted	(62,852)	1,938	(60,914)
Repayment of Qardhul Hassan to Takaful Operator	(1,694)	-	(1,694)
Surplus distributed to Takaful Operator	(6,400)	-	(6,400)
Fair value movements from AFS investments	1,222	-	1,222
At 31 December 2011	246,107	(10,049)	236,058
Contribution received (Note 17(b))	209,099	(18,709)	190,390
Liabilities paid for death, maturities, surrender, benefit and claims (Note 22(a),(b))	(84,879)	20,634	(64,245)
Movement in claims liabilities	2,755	(743)	2,012
Benefit and claims experience variation	24,667	(4,925)	19,742
Fees deducted	(77,685)	-	(77,685)
Repayment of Qardhul Hassan to Takaful Operator	(430)	-	(430)
Surplus distributed to Takaful Operator	(9,400)	-	(9,400)
Fair value movements from AFS investments	(263)	-	(263)
At 31 December 2012	309,971	(13,792)	296,179

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General takaful

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

	31.12.2012			31.12.2011		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000	RM'000	takaful	RM'000
Provision for claims	72,520	(55,960)	16,560	62,268	(44,802)	17,466
Provision for incurred but not reported claims ("IBNR")	24,359	(18,672)	5,687	18,240	(11,698)	6,542
Provision for liability adequacy	11,721	(9,508)	2,213	12,745	(9,037)	3,708
Claim liabilities (i)	108,600	(84,140)	24,460	93,253	(65,537)	27,716
Unearned contribution reserves (ii)	62,575	(48,000)	14,575	53,508	(42,155)	11,353
General takaful fund (iii)	1,429	-	1,429	1,410	-	1,410
	<u>172,604</u>	<u>(132,140)</u>	<u>40,464</u>	<u>148,171</u>	<u>(107,692)</u>	<u>40,479</u>

	1.1.2011		
	<u>Gross</u>	<u>Re-</u>	<u>Net</u>
	RM'000	takaful	RM'000
Provision for claims	41,040	(25,228)	15,812
Provision for incurred but not reported claims ("IBNR")	14,708	(8,076)	6,632
Provision for liability adequacy	6,463	(3,938)	2,525
Claim liabilities (i)	62,211	(37,242)	24,969
Unearned contribution reserves (ii)	41,782	(24,940)	16,842
General takaful fund (iii)	756	-	756
	<u>104,749</u>	<u>(62,182)</u>	<u>42,567</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General takaful

(i) Claims liabilities

	31.12.2012			31.12.2011			1.1.2011		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
At 1 January	93,253	(65,537)	27,716	62,211	(37,242)	24,969	25,830	(20,324)	5,506
Claims incurred in the current accident year	75,801	(58,140)	17,661	57,359	(39,870)	17,489	54,138	(28,948)	25,190
Other movements in claims incurred in prior accident years	(10,618)	7,201	(3,417)	(91)	(1,264)	(1,355)	(4,835)	5,068	233
Claims paid during the financial year (Note 22(a),(b))	(48,812)	32,808	(16,004)	(32,508)	17,938	(14,570)	(15,498)	7,794	(7,704)
Movements in provision for adverse deviation	(1,024)	(472)	(1,496)	5,442	(5,099)	343	2,576	(832)	1,744
Claims handling expenses	-	-	-	840	-	840	-	-	-
At 31 December	108,600	(84,140)	24,460	93,253	(65,537)	27,716	62,211	(37,242)	24,969

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General takaful (continued)

(ii) Unearned contribution reserves

	31.12.2012			31.12.2011			1.1.2011		
	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000	Gross RM'000	Re- takaful RM'000	Net RM'000
At 1 January	53,508	(42,155)	11,353	41,782	(24,940)	16,842	30,190	(16,349)	13,841
Contribution written in the financial year (Note 17(a))	161,973	(127,368)	34,605	136,197	(109,720)	26,477	111,113	(74,289)	36,824
Contribution earned during the financial year	(152,906)	121,523	(31,383)	(124,471)	92,505	(31,966)	(99,521)	65,698	(33,823)
At 31 December	62,575	(48,000)	14,575	53,508	(42,155)	11,353	41,782	(24,940)	16,842

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

10 TAKAFUL CONTRACT LIABILITIES (CONTINUED)

(b) General takaful (continued)

(iii) General takaful fund

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	Gross/ Net	Gross/ Net	Gross/ Net
	RM'000	RM'000	RM'000
<u>Available-for-sale reserves</u>			
At 1 January	1,410	756	-
Fair value movements arising from AFS investments	19	654	756
	<u>1,429</u>	<u>1,410</u>	<u>756</u>

11 TAKAFUL PAYABLES

	<u>31.12.2012</u>	<u>31.12.2011</u>	<u>1.1.2011</u>
	RM'000	RM'000	RM'000
(a) <u>General takaful fund</u>			
Due to agents and intermediaries	6,699	9,401	4,268
Due to retakaful and cedants	29,234	42,530	37,200
	<u>35,933</u>	<u>51,931</u>	<u>41,468</u>
Deposits received from retakaful	455	4	143
	<u>36,388</u>	<u>51,935</u>	<u>41,611</u>
(b) <u>Family takaful fund</u>			
Due to retakaful and cedants	<u>18,798</u>	<u>13,918</u>	<u>4,950</u>
(c) <u>Company</u>			
Due to agents and intermediaries	6,699	9,401	4,268
Due to retakaful and cedants	48,032	56,448	42,150
	<u>54,731</u>	<u>65,849</u>	<u>46,418</u>
Deposits received from retakaful	455	4	143
	<u>55,186</u>	<u>65,853</u>	<u>46,561</u>

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

All amounts are payable within one year.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

12 DEFERRED TAXATION

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

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

	<u>Takaful Operator</u> RM'000	<u>General takaful</u> RM'000	<u>Family takaful</u> RM'000	<u>Investment linked</u> RM'000	<u>Company</u> RM'000
At 31 December 2012					
Deferred tax liabilities	<u>(3,496)</u>	<u>(476)</u>	<u>(202)</u>	<u>(1,224)</u>	<u>(5,398)</u>
At 31 December 2011					
Deferred tax liabilities	<u>(3,181)</u>	<u>(470)</u>	<u>(225)</u>	<u>(749)</u>	<u>(4,625)</u>
At 1 January 2011					
Deferred tax liabilities	<u>(1,534)</u>	<u>(252)</u>	<u>(119)</u>	<u>(625)</u>	<u>(2,530)</u>
At 1 January 2011	(1,534)	(252)	(119)	(625)	(2,530)
Charged to income statement:					
- FVTPL investments (Note 24)	-	-	-	(124)	(124)
- Property, plant and equipment	(1,380)	-	-	-	(1,380)
Charged to other comprehensive income:					
- AFS reserves	(267)	-	-	-	(267)
Charged to takaful contract liabilities:					
- AFS reserves	-	(218)	(106)	-	(324)
At 31 December 2011	<u>(3,181)</u>	<u>(470)</u>	<u>(225)</u>	<u>(749)</u>	<u>(4,625)</u>
Charged to income statement:					
- FVTPL investments (Note 24)	-	-	-	(475)	(475)
- Property, plant and equipment	(732)	-	-	-	(732)
Charged to other comprehensive income:					
- AFS reserves	417	-	-	-	417
Charged to takaful contract liabilities:					
- AFS reserves	-	(6)	23	-	17
At 31 December 2012	<u>(3,496)</u>	<u>(476)</u>	<u>(202)</u>	<u>(1,224)</u>	<u>(5,398)</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

12 DEFERRED TAXATION (CONTINUED)

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
<u>Company</u>			
Subject to income tax:			
Deferred tax assets (before offsetting)			
- investments	-	-	40
Offsetting	-	-	(40)
	<hr/>	<hr/>	<hr/>
Deferred tax assets after offsetting	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Deferred liabilities (before offsetting)			
- Investments	(2,608)	(2,590)	(2,199)
- Property, plant and equipment	(2,112)	(1,380)	-
- AFS reserves	(678)	(695)	(371)
	<hr/>	<hr/>	<hr/>
	(5,398)	(4,665)	(2,570)
Offsetting	-	40	40
	<hr/>	<hr/>	<hr/>
Deferred tax liabilities after offsetting	(5,398)	(4,625)	(2,530)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

13 OTHER PAYABLES

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 31 December 2012</u>					
Amount due to related company		15	-	-	15
Commission payable		9,225	-	-	9,225
Deposits contribution		-	-	6,048	6,048
Qardhul Hassan payable	9	-	1,625	-	-
Other payables and accruals		5,865	12,401	3,446	21,712
Expense reserves		1,059	-	-	1,059
Withholding tax		-	-	10	10
		<u>16,164</u>	<u>14,026</u>	<u>9,504</u>	<u>38,069</u>
<u>Interfund transactions</u>					
Amount due to Shareholders' fund	9	-	2,258	15,807	-
Surplus payable to Shareholders' fund	9	-	-	10,400	-
Amount due to General fund	9	-	-	383	-
		<u>-</u>	<u>2,258</u>	<u>26,590</u>	<u>-</u>
Total other payables		<u>16,164</u>	<u>16,284</u>	<u>36,094</u>	<u>38,069</u>
<u>At 31 December 2011</u>					
Amount due to related company		464	-	-	464
Commission payable		6,741	-	-	6,741
Deposits contribution		-	-	5,603	5,603
Qardhul Hassan payable	9	-	8,403	430	-
Other payables and accruals		1,676	7,748	2,086	11,510
Expense reserves		241	-	-	241
Withholding tax		-	-	406	406
		<u>9,122</u>	<u>16,151</u>	<u>8,525</u>	<u>24,965</u>
<u>Interfund transactions</u>					
Amount due to Shareholders' fund	9	-	5,024	11,653	-
Surplus payable to Shareholders' fund	9	-	-	6,400	-
		<u>-</u>	<u>5,024</u>	<u>18,053</u>	<u>-</u>
Total other payables		<u>9,122</u>	<u>21,175</u>	<u>26,578</u>	<u>24,965</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

13 OTHER PAYABLES (CONTINUED)

	<u>Note</u>	<u>Takaful Operator</u> RM'000	<u>General Takaful Fund</u> RM'000	<u>Family Takaful Fund</u> RM'000	<u>Company</u> RM'000
<u>At 1 January 2011</u>					
Amount due to related company		1,143	-	-	1,143
Commission payable		5,438	-	-	5,438
Deposits contribution		-	-	3,655	3,655
Qardhul Hassan payable	9	-	14,519	2,125	-
Other payables and accruals		4,742	5,381	1,881	12,004
Withholding tax		-	-	132	132
		<u>11,323</u>	<u>19,900</u>	<u>7,793</u>	<u>22,372</u>
<u>Interfund transactions</u>					
Amount due to Shareholders' fund	9	-	-	1,748	-
Surplus payable to Shareholders' fund	9	-	-	3,400	-
Amount due to General fund	9	8,138	-	-	-
Amount due to Family fund	9	8,670	-	-	-
		<u>16,808</u>	<u>-</u>	<u>5,148</u>	<u>-</u>
Total other payables		<u>28,131</u>	<u>19,900</u>	<u>12,941</u>	<u>22,372</u>

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

All amounts are payable within one year.

14 SHARE CAPITAL

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
Authorised ordinary shares of RM1 each:			
At beginning and end of financial year	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid ordinary shares of RM1 each:			
At beginning and end of financial year	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

15 RESERVES

(a) Retained earnings

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

Under the single tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of the shareholders. Companies with Section 108 tax credits as at 31 December 2007 may continue to frank dividends until the Section 108 tax credits are exhausted or on 31 December 2013, whichever is earlier unless they opt to disregard the Section 108 tax credits to pay single tier dividends under the special transitional provision of the Finance Act, 2007.

(b) Available-for-sale

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

16 OPERATING REVENUE

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
(a) <u>Takaful Operator</u>		
Investment income (Note 18)	3,748	4,252
	<u> </u>	<u> </u>
(b) <u>General takaful fund</u>		
Gross earned contribution (Note 17(a)(i))	152,907	124,471
Investment income (Note 18)	2,893	2,408
	<u>155,800</u>	<u>126,879</u>
(c) <u>Family takaful fund</u>		
Gross earned contribution (Note 17(b)(i))	209,099	163,751
Investment income (Note 18)	9,263	6,593
	<u>218,362</u>	<u>170,344</u>
(d) <u>Company</u>		
Gross earned contribution (Note 17(c)(i))	362,006	288,222
Investment income (Note 18)	15,904	13,253
	<u>377,910</u>	<u>301,475</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

17 NET EARNED CONTRIBUTION

(a) General takaful fund

	<u>31.12.2012</u>	<u>31.12.2011</u>
	RM'000	RM'000
(i) Gross contributions		
Takaful contract (Note 10(b)(ii))	161,973	136,197
Change in unearned contribution reserves	(9,066)	(11,726)
	<u>152,907</u>	<u>124,471</u>
(ii) Contribution ceded		
Takaful contract (Note 10(b)(ii))	(127,368)	(109,720)
Change in unearned contribution reserves	5,846	17,215
	<u>(121,522)</u>	<u>(92,505)</u>
Net earned contribution	<u><u>31,385</u></u>	<u><u>31,966</u></u>

(b) Family takaful fund

(i) Gross contributions		
Takaful contract (Note 10(a))	<u>209,099</u>	<u>163,751</u>
(ii) Contribution ceded		
Takaful contract (Note 10(a))	<u>(18,709)</u>	<u>(12,927)</u>
Net earned contribution	<u><u>190,390</u></u>	<u><u>150,824</u></u>

(c) Company

(i) Gross contributions		
Takaful contract (Note 10(b)(ii))	371,072	299,948
Change in unearned contribution reserves	(9,066)	(11,726)
	<u>362,006</u>	<u>288,222</u>
(ii) Contribution ceded		
Takaful contract (Note 10(b)(ii))	(146,077)	(122,647)
Change in unearned contribution reserves	5,846	17,215
	<u>(140,231)</u>	<u>(105,432)</u>
Net earned contribution	<u><u>221,775</u></u>	<u><u>182,790</u></u>

MAA TAKAFUL BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

18 INVESTMENT INCOME

(a) Takaful Operator

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Investments at AFS:		
- Hibah/profit income	3,595	3,605
- Dividend	99	10
- Accretion of discount	(9)	511
Investments at LAR:		
- Hibah/profit income	63	126
	<u>3,748</u>	<u>4,252</u>

(b) General takaful fund

Investments as HTM:		
- Hibah/profit income	2,481	1,851
Investments at AFS:		
- Accretion of discount	37	171
Investments at LAR:		
- Hibah/profit income	375	386
	<u>2,893</u>	<u>2,408</u>

(c) Family takaful fund

Investments at FVTPL:		
Hibah/profit income	1,854	1,471
Dividend:		
- Equity securities quoted in Malaysia	3,648	1,910
Investments as HTM:		
- Hibah/profit income	2,509	1,808
Investments at AFS:		
- Accretion of discount	77	192
Investments at LAR:		
- Hibah/profit income	1,175	1,212
	<u>9,263</u>	<u>6,593</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

18 INVESTMENT INCOME (CONTINUED)

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
(d) <u>Company</u>		
Investments at FVTPL:		
Hibah/profit income	1,854	1,471
Dividend:		
- Equity securities quoted in Malaysia	3,648	1,910
Investments as HTM:		
- Hibah/profit income	4,990	3,659
Investments at AFS:		
- Hibah/profit income	3,595	3,605
- Dividend	99	10
- Accretion of discount	105	874
Investments at LAR:		
- Hibah/profit income	1,613	1,724
	<u>15,904</u>	<u>13,253</u>

19 REALISED GAINS AND LOSSES

(a) <u>Takaful Operator</u>		
AFS investments:		
Islamic debt securities		
- Quoted in Malaysia	5,056	2,894
Property, plant and equipment - disposal	-	(335)
	<u>5,056</u>	<u>2,559</u>
(b) <u>General takaful fund</u>		
AFS investments:		
Islamic debt securities		
- Quoted in Malaysia	565	50
	<u>565</u>	<u>50</u>
(c) <u>Family takaful fund</u>		
FVTPL investments:		
Equity securities		
- Quoted in Malaysia	8,345	5,633
	<u>8,345</u>	<u>5,633</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

19 REALISED GAINS AND LOSSES (CONTINUED)

(a) Company

	<u>31.12.2012</u>	<u>31.12.2011</u>
	RM'000	RM'000
AFS investments:		
Islamic debt securities		
- Quoted in Malaysia	5,621	2,944
Property, plant and equipment - disposal	-	(335)
FVTPL investments:		
Equity securities		
- Quoted in Malaysia	8,345	5,633
	<u>13,966</u>	<u>8,242</u>

20 FAIR VALUE GAINS AND LOSSES

FVTPL investment:

Takaful Operator	126	771
Family takaful fund	5,884	1,429
	<u>6,010</u>	<u>2,200</u>

21 FEE AND COMMISSION INCOME

General takaful fund	31,330	23,539
Family takaful fund	-	1,938
	<u>31,330</u>	<u>25,477</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

22 NET BENEFITS AND CLAIMS

		<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
(a)	Gross benefits and claims paid		
	Takaful contracts: General takaful fund (Note 10(b)(i))	(48,812)	(32,508)
	Family takaful fund (Note 10(a))	(84,879)	(51,362)
		<u>(133,691)</u>	<u>(83,870)</u>
(b)	Claims ceded to retakaful		
	Takaful contracts: General takaful fund (Note 10(b)(i))	32,808	17,938
	Family takaful fund (Note 10(a))	20,634	13,418
		<u>53,442</u>	<u>31,356</u>
(c)	Gross change in contract liabilities		
	Takaful contracts: General takaful fund	(15,348)	(31,042)
	Family takaful fund	(52,293)	(44,915)
		<u>(67,641)</u>	<u>(75,957)</u>
(d)	Change in contract liabilities ceded to retakaful		
	Takaful contracts: General takaful fund	18,601	28,295
	Family takaful fund	4,486	(2,645)
		<u>23,087</u>	<u>25,650</u>
	<u>Net claims</u>		
	Takaful contracts: General takaful fund	(12,751)	(17,317)
	Family takaful fund	(112,052)	(85,504)
		<u>(124,803)</u>	<u>(102,821)</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

23 MANAGEMENT EXPENSES

Takaful Operator

	<u>31.12.2012</u>	<u>31.12.2011</u>
	RM'000	RM'000
Staff salaries and bonus	19,707	13,872
Defined contribution plan	2,981	2,080
Other staff costs	1,249	1,068
	<u>23,937</u>	<u>17,020</u>
Auditors' remuneration		
- Statutory audit	228	196
- Under accrual in prior financial year	-	105
Directors' remuneration:		
- fees	350	345
- other emoluments	173	165
Shariah committee remuneration:		
- fees	120	120
- other emoluments	28	31
Depreciation charge on		
property, plant and equipment	1,741	446
Amortisation of intangible assets	1,405	1,322
Office rental	2,336	1,319
Printing and stationery	1,983	1,584
Advertising and promotions	2,731	1,101
Postage and telephone	1,274	850
Professional fees	1,038	659
Agency training	2,365	1,426
Other expenses	12,191	10,660
	<u>51,900</u>	<u>37,349</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 RM994,000 (2011: RM883,000).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

24 TAXATION

	<u>31.12.2012</u>			
	<u>Takaful Operator</u>	<u>General Takaful Fund</u>	<u>Family Takaful Fund</u>	<u>Company</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax	1,972	2,388	2,002	6,362
Under provision in prior financial year	329	939	-	1,268
Deferred tax (Note 12)	732	-	475	1,207
	<u>3,033</u>	<u>3,327</u>	<u>2,477</u>	<u>8,837</u>
	<u>31.12.2011</u>			
	<u>Takaful Operator</u>	<u>General Takaful Fund</u>	<u>Family Takaful Fund</u>	<u>Company</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current tax	1,236	699	1,257	3,192
Deferred tax (Note 12)	1,380	-	124	1,504
	<u>2,616</u>	<u>699</u>	<u>1,381</u>	<u>4,696</u>

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

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

	<u>31.12.2012</u>	<u>31.12.2011</u>
	<u>RM'000</u>	<u>RM'000</u>
Profit before zakat and taxation	<u>16,257</u>	<u>15,321</u>
Taxation at Malaysia statutory tax rate of 25%	4,064	3,830
Tax effect of expenses not deductible for the purposes	442	738
Income not taxable	(1,802)	(1,952)
Under-provision in prior financial year	329	-
	<u>3,033</u>	<u>2,616</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

25 CASH FLOW

	<u>31.12.2012</u>	<u>31.12.2011</u>
	RM'000	RM'000
Net profit for the financial year	12,999	12,517
Adjustment for:		
Investment income	(15,905)	(13,253)
Realised gain	(13,966)	(8,577)
Fair value gain	(6,010)	(2,200)
Write-back of impairment of Qardhul Hassan	(7,208)	(7,810)
Purchases of FVTPL financial investments	(104,877)	(95,386)
Proceeds from sale of FVTPL financial investments	56,183	57,600
Purchases of AFS investments	(66,126)	(56,404)
Proceeds from sale and maturity of AFS financial investment	62,394	61,436
Purchase of HTM financial investments	(15,044)	(10,000)
Maturity of HTM financial investments	15,378	-
Increase in LAR	(8,165)	(16,405)
Non-cash items:		
Depreciation of property, plant and equipment	1,739	446
Loss on disposal of property, plant and equipment	-	335
Amortisation of intangible assets	1,405	1,322
Allowance for doubtful debts	3	168
Tax expenses	8,837	4,696
Changes in working capital:		
Increase in retakaful assets	(28,191)	(44,170)
(Decrease)/increase in takaful receivables	15,896	(19,292)
Decrease in other receivables	3,972	3,752
Increase in takaful contract liabilities	87,867	96,709
(Decrease)/increase in takaful payables	(10,667)	19,292
Increase in other payables	12,418	4,469
Cash generated from/(utilised in) operating activities	<u>2,932</u>	<u>(11,272)</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

26 SIGNIFICANT RELATED PARTY DISCLOSURE

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

Zurich Insurance Malaysia Berhad, Zurich Roadside Assistance Malaysia, Zurich Technology Services Malaysia Sdn Bhd and Zurich Property Services Malaysia Sdn Bhd were subsidiary companies of MAAG until 30 September 2011.

Trace Management Services Sdn Bhd and Mitra Malaysia Sdn Bhd are companies controlled by a person connected to a Director of MAAG.

Significant related party transactions

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

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Transactions with MAA Group Berhad		
Internal audit fees	-	(22)
Management service fees	(51)	(127)
Infrastructure costs recovery	292	-
Transactions with Zurich Insurance Malaysia Berhad#		
Office rental expenses	-	(758)
Outsourcing fees	-	(3,305)
Transaction with Zurich Technology Services Malaysia Sdn Bhd#		
Purchase of computer equipments and hardware	-	(599)
Development of software programme	-	(1,018)
System support and maintenance fees	-	(822)
Transactions with MAA Corporation Sdn Bhd		
Office rental expenses	(126)	-
Electricity charges	(96)	-
Transactions with MAAKL Mutual Bhd		
Infrastructure costs recovery	289	-
Training room costs recovery	31	-
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

26 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Other transactions with related parties:		
Mitra Malaysia Sdn Bhd		
- Purchase of air tickets and travel packages	(1,303)	(883)
Trace Management Services Sdn Bhd		
- Company secretarial and professional fees	(97)	(136)
Wira Security Sdn Bhd *		
- Office security services	(267)	-
Menang Bernas Sdn Bhd		
- Purchase of food and beverage vouchers	-	(64)
Chelsea Parking Services Sdn Bhd		
- Parking charges	-	(62)
Zurich Property Services Malaysia Sdn Bhd#		
- Rental expenses, renovation supervision and repair fees	-	(38)
Zurich Roadside Assistance Malaysia Sdn Bhd#		
- Motor vehicle breakdown services	-	(292)
	<u> </u>	<u> </u>

* The transactions with the Company's former related parties during the current financial year relate to that entered into until 28 June 2012.

The transactions held with the Company's former related parties during the previous financial year relate to that entered into until 30 September 2011.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

26 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

Significant related party transactions (continued)

Related party balances

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

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000	<u>1.1.2011</u> RM'000
MAA Group Bhd			
Other receivables	292	-	-
MAA Corporation Sdn Bhd:			
Other payables	(222)	-	-
MAAKL Mutual Bhd			
Other receivables	320	-	-
Trace Management Services Sdn Bhd:			
Other payables	(10)	(10)	(28)
Zurich Insurance Malaysia Berhad			
Other payables	-	-	(1,075)
Zurich Technology Services Malaysia Sdn Bhd			
Other payables	-	-	(62)
Zurich Roadside Assistance Malaysia Sdn Bhd			
Other payables	-	-	(60)
	<u> </u>	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

26 SIGNIFICANT RELATED PARTY DISCLOSURE (CONTINUED)

Key management personnel

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

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Salaries and other short-term employee benefits	1,389	1,279
Defined contribution retirements benefits	128	114
	<u> </u>	<u> </u>

There were no outstanding balances due from key management personnel.

27 CAPITAL AND OTHER COMMITMENTS

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

	<u>31.12.2012</u> RM'000	<u>31.12.2011</u> RM'000
Authorised and contracted for:		
- Office rental	4,042	4,928
- Office renovation	1,948	4,197
- System and technology	-	74
	<u> </u>	<u> </u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 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 Takaful Act, 1984. The Company's statement of financial position and income statement have been further analysed by funds.

The Family takaful business offers primary investment-linked products as well as Group Medical Covers. The General takaful business offers all general takaful products, which include Motor, Fire, Marine, Aviation and Transit ("MAT"), and Miscellaneous products.

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2012**

	<u>Takaful Operator</u> RM'000	<u>General Takaful fund</u> RM'000	<u>Family Takaful fund</u> RM'000	<u>Investment- linked fund</u> RM'000	<u>Company</u> RM'000
31.12.2012					
Assets:					
Property, plant and equipment	13,704	-	-	-	13,704
Intangible assets	3,067	-	-	-	3,067
Investments	85,615	71,210	71,764	251,886	480,475
Retakaful assets	-	132,140	13,792	-	145,932
Takaful receivable	-	21,942	24,918	-	46,860
Other receivables *	7,985	802	1,313	968	9,443
Cash and bank balances	539	38	2,632	470	3,679
	<u>110,910</u>	<u>226,132</u>	<u>114,419</u>	<u>253,324</u>	<u>703,160</u>
Equity, participants' fund and liabilities:					
Total equity	<u>117,742</u>	<u>(1,625)</u>	<u>-</u>	<u>-</u>	<u>116,117</u>
Takaful contract liabilities	-	172,604	63,489	246,482	482,575
Takaful payable	-	36,388	18,798	-	55,186
Tax payable	1,973	2,388	355	1,099	5,815
Deferred tax liabilities	3,496	476	202	1,224	5,398
Other payables *	16,164	14,026	7,961	1,543	38,069
Total participants' fund and liabilities	<u>21,633</u>	<u>225,882</u>	<u>90,805</u>	<u>250,348</u>	<u>587,043</u>
	<u>139,375</u>	<u>224,257</u>	<u>90,805</u>	<u>250,348</u>	<u>703,160</u>
Interfund balances	<u>(28,465)</u>	<u>1,875</u>	<u>23,614</u>	<u>2,976</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 TAKAFUL FUNDS (CONTINUED)

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2012 (CONTINUED)**

	<u>Takaful Operator</u> RM'000	<u>General Takaful fund</u> RM'000	<u>Family Takaful fund</u> RM'000	<u>Investment- linked fund</u> RM'000	<u>Company</u> RM'000
31.12.2011					
Assets:					
Property, plant and equipment	5,178	-	-	-	5,178
Intangible assets	3,360	-	-	-	3,360
Investments	83,370	61,826	62,577	194,293	402,066
Retakaful assets	-	107,692	10,049	-	117,741
Takaful receivable	-	43,996	18,760	-	62,756
Other receivables *	11,348	423	1,072	421	4,431
Cash and bank balances	410	109	1,572	82	2,173
	<u>103,666</u>	<u>214,046</u>	<u>94,030</u>	<u>194,796</u>	<u>597,705</u>
Equity, participants' fund and liabilities:					
Total equity	<u>113,203</u>	<u>(8,403)</u>	<u>-</u>	<u>-</u>	<u>104,370</u>
Takaful contract liabilities	-	148,171	54,549	191,558	394,708
Takaful payable	-	51,935	13,918	-	65,853
Tax payable	1,237	698	200	1,049	3,184
Deferred tax liabilities	3,181	470	225	749	4,625
Other payables *	9,122	16,151	7,065	1,460	24,965
Total participants' fund and liabilities	<u>13,540</u>	<u>217,425</u>	<u>75,957</u>	<u>194,816</u>	<u>493,335</u>
	<u>126,743</u>	<u>209,022</u>	<u>75,957</u>	<u>194,816</u>	<u>597,705</u>
Interfund balances	<u>(23,077)</u>	<u>5,024</u>	<u>18,073</u>	<u>(20)</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 TAKAFUL FUNDS (CONTINUED)

**STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2012 (CONTINUED)**

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Company RM'000
1.1.2011					
Assets:					
Property, plant and equipment	1,350	-	-	-	1,350
Intangible assets	2,676	-	-	-	2,676
Investments	107,706	43,424	37,860	139,100	328,090
Retakaful assets	-	62,182	11,389	-	73,571
Takaful receivable	-	37,226	6,409	-	43,635
Other receivables *	18,594	325	777	430	3,482
Cash and bank balances	1,885	698	3,336	2,137	8,056
	<u>132,211</u>	<u>143,855</u>	<u>59,771</u>	<u>141,667</u>	<u>460,860</u>
Equity, participants' fund and liabilities:					
Total equity	<u>107,694</u>	<u>(14,519)</u>	<u>-</u>	<u>-</u>	<u>91,050</u>
Takaful contract liabilities	-	104,749	51,128	139,997	297,999
Takaful payable	-	41,611	4,950	-	46,561
Tax payable	-	-	-	348	348
Deferred tax liabilities	1,534	252	119	625	2,530
Other payables *	<u>11,323</u>	<u>19,900</u>	<u>6,748</u>	<u>1,045</u>	<u>22,372</u>
Total participants' fund and liabilities	<u>12,857</u>	<u>166,512</u>	<u>62,945</u>	<u>142,015</u>	<u>369,810</u>
	<u>120,551</u>	<u>151,993</u>	<u>62,945</u>	<u>142,015</u>	<u>460,860</u>
Interfund balances	<u>11,660</u>	<u>(8,138)</u>	<u>(3,174)</u>	<u>(348)</u>	<u>-</u>

* Included in the other receivables balance in the Takaful Operator and other payables balance of the Takaful funds are Qardhul Hassan balances as described in Note 9 and 13 to the financial statement respectively.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 TAKAFUL FUNDS

**INCOME STATEMENT BY FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012**

	Takaful Operator RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Interfund elimination RM'000	Company RM'000
<u>31.12.2012</u>						
Operating revenue	3,748	155,800	211,973	6,389	-	377,910
Gross contribution	-	152,907	209,099	-	-	362,006
Contribution ceded to retakaful	-	(121,522)	(18,709)	-	-	(140,231)
Net contribution	-	31,385	190,390	-	-	221,775
Investment income	3,748	2,893	2,874	6,389	-	15,904
Realised gains and losses	5,056	565	1,352	6,993	-	13,966
Fair value gains and losses	126	-	-	5,884	-	6,010
Fees and commission income	-	31,330	-	-	-	31,330
Wakalah fee income	113,351	-	-	-	(113,351)	-
Other operating income	10,378	-	-	-	(10,296)	82
Other income	132,659	34,788	4,226	19,266	(123,647)	67,292
Gross benefits and claims paid	-	(48,812)	(84,879)	-	-	(133,691)
Claims ceded to retakaful	-	32,808	20,634	-	-	53,442
Gross change to contract liabilities	-	(15,348)	(37,215)	(15,078)	-	(67,641)
Change in contract liabilities to retakaful	-	18,601	4,486	-	-	23,087
Net claims	-	(12,751)	(96,974)	(15,078)	-	(124,803)
Fees and commission expenses	(80,292)	-	-	-	-	(80,292)
Management expenses	(51,900)	-	-	-	-	(51,900)
Allowance for doubtful debts	-	(3)	-	-	-	(3)
Wakalah fee expenses	-	(43,316)	(70,035)	-	113,351	-
Other operating expenses	-	-	(7,650)	(2,646)	10,296	-
Expense reserves	(818)	-	-	-	-	(818)
Other expenses	(133,010)	(43,319)	(77,685)	(2,646)	123,647	(133,013)
(Deficit)/surplus before taxation	(351)	10,103	19,957	1,542	-	31,251
Taxation on takaful funds	-	(3,327)	(935)	(1,542)	-	(5,804)
(Deficit)/surplus after taxation	(351)	6,776	19,022	-	-	25,447
Surplus attributable to participants	-	-	(9,190)	-	-	(9,190)
Surplus attributable to Takaful Operator	16,608	(6,776)	(9,832)	-	-	-
Profit before taxation	16,257	-	-	-	-	16,257
Zakat	(225)	-	-	-	-	(225)
Taxation	(3,033)	-	-	-	-	(3,033)
Net profit after taxation	12,999	-	-	-	-	12,999

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

28 **TAKAFUL FUNDS (CONTINUED)**

INCOME STATEMENT BY FUNDS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

	Shareholders' fund RM'000	General Takaful fund RM'000	Family Takaful fund RM'000	Investment- linked fund RM'000	Interfund elimination RM'000	Company RM'000
<u>31.12.2011</u>						
Operating revenue	4,252	126,879	166,036	4,308	-	301,475
Gross contribution	-	124,471	163,751	-	-	288,222
Contribution ceded to retakaful	-	(92,505)	(12,927)	-	-	(105,432)
Net contribution	-	31,966	150,824	-	-	182,790
Investment income	4,252	2,408	2,285	4,308	-	13,253
Realised gains and losses	2,559	50	-	5,633	-	8,242
Fair value gains and losses	771	-	-	1,429	-	2,200
Fees and commission income	-	23,539	1,938	-	-	25,477
Wakalah fee income	90,713	-	-	-	(90,713)	-
Other operating income	7,753	-	-	-	(7,692)	61
Other income	106,048	25,997	4,223	11,370	(98,405)	49,233
Gross benefits and claims paid	-	(32,508)	(51,362)	-	-	(83,870)
Claims ceded to retakaful	-	17,938	13,418	-	-	31,356
Gross change to contract liabilities	-	(31,042)	(36,345)	(8,570)	-	(75,957)
Change in contract liabilities to retakaful	-	28,295	(2,645)	-	-	25,650
Net claims	-	(17,317)	(76,934)	(8,570)	-	(102,821)
Fees and commission expenses	(67,347)	-	-	-	-	(67,347)
Management expenses	(37,349)	-	-	-	-	(37,349)
Allowance for doubtful debts	-	(168)	-	-	-	(168)
Wakalah fee expenses	-	(33,663)	(57,050)	-	90,713	-
Other operating expenses	-	-	(6,274)	(1,891)	7,692	(473)
Expense reserves	(241)	-	-	-	-	(241)
Other expenses	(104,937)	(33,831)	(63,324)	(1,891)	98,405	(105,578)
Surplus before taxation	1,111	6,815	14,789	909	-	23,624
Taxation on takaful funds	-	(699)	(472)	(909)	-	(2,080)
Surplus after taxation	1,111	6,116	14,317	-	-	21,544
Surplus attributable to participants	-	-	(6,223)	-	-	(6,223)
Surplus attributable to Takaful Operator	14,210	(6,116)	(8,094)	-	-	-
Profit before taxation	15,321	-	-	-	-	15,321
Zakat	(188)	-	-	-	-	(188)
Taxation	(2,616)	-	-	-	-	(2,616)
Net profit after taxation	12,517	-	-	-	-	12,517

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

29 RISK MANAGEMENT FRAMEWORK

(a) Risk Governance

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

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

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

(b) Regulatory Framework

The Company is required to comply with the Takaful Act, 1984, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the Company's investment policy rests with the Board. The Board exercises oversight on investments to safeguard the interests of participants and shareholders while ensuring compliance with Shariah.

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

(c) Capital Management

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 INSURANCE RISK

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

(a) Family takaful

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

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

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
<u>31 December 2012</u>			
Family takaful contract liabilities			
Whole life	501	-	501
Endowment	259,536	(5)	259,531
Term	47,607	(13,787)	33,820
	<u>307,644</u>	<u>(13,792)</u>	<u>293,852</u>
Total Family takaful contract liabilities	<u>307,644</u>	<u>(13,792)</u>	<u>293,852</u>
<u>31 December 2011</u>			
Family takaful contract liabilities			
Whole life	97	-	97
Endowment	203,097	-	203,097
Term	40,323	(10,049)	30,274
	<u>243,517</u>	<u>(10,049)</u>	<u>233,468</u>
Total Family takaful contract liabilities	<u>243,517</u>	<u>(10,049)</u>	<u>233,468</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(a) Family takaful (continued)

	<u>Gross</u> RM'000	<u>Retakaful</u> RM'000	<u>Net</u> RM'000
<u>1 January 2011</u>			
Family takaful contract liabilities			
Whole life	13	-	13
Endowment	150,983	-	150,983
Term	38,761	(11,389)	27,372
Total Family takaful contract liabilities	<u>189,757</u>	<u>(11,389)</u>	<u>178,368</u>

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

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, 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
5% p.a. for Participant Investment Account (PIA) and 3% p.a for Participant Risk Investment Account (PRIA)
- d) Expenses
Assumption varies by product type as follows:-

<u>Product Type</u>	<u>RM per certificate</u>
Investment-linked	53
Ordinary Family	40
Group Family	4

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(a) Family takaful (continued)

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

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

Plan	Certificate Year (%)			
	1	2	3	4+
Takafulink	25	15	10	3.5
Takafulink Education	15	10	10	3.5
Takafulife Series	25	20	10	3.5
CancerCare	30	45	20	3.5
SmartMedic	20	30	25	3.5
Term80	25	20	10	3.5

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

Sensitivities

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

		Impact on Family Takaful contract liabilities		
	Change in assumptions	Gross	Net	Surplus before tax
	%	RM'000	RM'000	RM'000
<u>31 December 2012</u>				
Mortality/morbidity	+10	2,594	686	686
Lapse and surrender rates	+10	(17)	165	165
Discount rate	+1	(1,905)	(2,572)	(2,572)
<u>31 December 2011</u>				
Mortality/morbidity	+10	1,606	98	98
Lapse and surrender rates	+10	(164)	-	-
Discount rate	+1	(74)	(564)	(564)
Expenses	+10	573	573	573

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful

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

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

	31.12.2012			31.12.2011			1.1.2011		
	Gross	Re-Takaful	Net	Gross	Re-Takaful	Net	Gross	Re-Takaful	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	14,930	(12,903)	2,027	17,190	(13,829)	3,361	17,763	(14,221)	3,542
Motor	41,192	(30,130)	11,062	28,396	(16,067)	12,329	14,283	(2,871)	11,412
MAT	8,637	(7,959)	678	5,018	(4,576)	442	6,289	(6,258)	571
Miscellaneous	43,841	(33,148)	10,693	42,649	(31,065)	11,584	23,336	(13,892)	9,444
At 31 December	108,600	(84,140)	24,460	93,253	(65,537)	27,716	62,211	(37,242)	24,969

Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of development of claims paid and development of claims reported amount. The methods employed also require assumptions on a seed prior estimate (for Bornhuetter-Ferguson based methods) for each accident year. For Frequency / Severity analysis, this method uses the fact that the number of Claims Reported is unlikely to have been affected by any changes in the claims handling process, and thus, the link ratio techniques are appropriate in determining the ultimate number of claims. Any changes in reporting, reserving or settlement process can affect the reliability of assumptions.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful (continued)

Claims development table

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

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

Gross General takaful contract liabilities for 2012:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>							
At end of accident year	96	6,816	24,168	54,138	57,359	75,801	
One year later	78	4,592	20,219	58,203	55,296	-	
Two years later	50	3,714	16,567	52,314	-	-	
Three years later	42	3,214	13,865	-	-	-	
Four years later	39	3,249	-	-	-	-	
Five years later	39	-	-	-	-	-	
Six years later	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	39	3,249	13,865	52,314	55,296	75,801	
At end of accident year	-	1,100	4,021	10,114	12,429	18,204	
One year later	39	2,807	9,177	29,052	34,709	-	
Two years later	39	3,035	10,273	35,595	-	-	
Three years later	39	3,076	12,049	-	-	-	
Four years later	39	3,089	-	-	-	-	
Five years later	39	-	-	-	-	-	
Six years later	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	
Cumulative payments to-date	39	3,089	12,049	35,595	34,709	18,204	
Gross General takaful contract liabilities	-	160	1,816	16,719	20,587	57,597	96,879
Provision for liability adequacy							11,721
Gross General takaful contract liabilities							108,600

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful (continued)

Net General takaful contract liabilities for 2012:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>							
At end of accident year	39	1,640	5,655	25,190	17,488	17,660	
One year later	48	1,642	6,165	24,835	15,510	-	
Two years later	32	1,370	5,340	23,500	-	-	
Three years later	26	1,198	5,204	-	-	-	
Four years later	24	1,230	-	-	-	-	
Five years later	24	-	-	-	-	-	
Six years later	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	
Current estimate of cumulative claims incurred	24	1,230	5,204	23,500	15,510	17,660	
At end of accident year	-	339	1,548	5,284	4,927	5,573	
One year later	23	1,032	3,831	14,461	11,260	-	
Two years later	23	1,169	4,285	18,328	-	-	
Three years later	23	1,182	4,511	-	-	-	
Four years later	23	1,186	-	-	-	-	
Five years later	23	-	-	-	-	-	
Six years later	-	-	-	-	-	-	
Seven years later	-	-	-	-	-	-	
Cumulative payments to-date	23	1,186	4,511	18,328	11,260	5,573	
Gross General Takaful contract liabilities	1	44	693	5,172	4,250	12,087	22,247
Provision for liability adequacy							2,213
Net General takaful contract liabilities							24,460

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful (continued)

Gross General takaful contract liabilities for 2011:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>						
At end of accident year	96	6,816	24,168	54,138	57,359	
One year later	78	4,592	20,219	58,203	-	
Two years later	50	3,714	16,567	-	-	
Three years later	42	3,214	-	-	-	
Four years later	39	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Current estimate of cumulative claims incurred	39	3,214	16,567	58,203	57,359	
At end of accident year	-	1,100	4,021	10,114	12,429	
One year later	39	2,807	9,177	29,052	-	
Two years later	39	3,035	10,278	-	-	
Three years later	39	3,076	-	-	-	
Four years later	39	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Cumulative payments to-date	39	3,076	10,278	29,052	12,429	
Gross General takaful contract liabilities	-	138	6,289	29,151	44,930	80,508
Claims handling expenses						840
Provision for liability adequacy						11,905
Gross General takaful contract liabilities						93,253

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful (continued)

Net General takaful contract liabilities for 2011:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accident year</u>						
At end of accident year	39	1,640	5,655	25,190	17,489	
One year later	48	1,642	6,165	24,835	-	
Two years later	32	1,370	5,340	-	-	
Three years later	26	1,198	-	-	-	
Four years later	24	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Current estimate of cumulative claims incurred	24	1,198	5,340	24,835	17,489	
At end of accident year	-	339	1,548	5,284	4,927	
One year later	23	1,032	3,831	14,461	-	
Two years later	23	1,169	4,285	-	-	
Three years later	23	1,182	-	-	-	
Four years later	23	-	-	-	-	
Five years later	-	-	-	-	-	
Six years later	-	-	-	-	-	
Seven years later	-	-	-	-	-	
Cumulative payments to-date	23	1,182	4,285	14,461	4,927	
Gross General Takaful contract liabilities	1	16	1,055	10,374	12,562	24,008
Claims handling expenses						840
Provision for liability adequacy						2,868
Net General takaful contract liabilities						27,716

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

30 TAKAFUL RISK (CONTINUED)

(b) General takaful (continued)

Sensitivities

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

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

	Impact on General takaful claims liabilities				
	Change in	Gross	Net	Surplus	Surplus
	<u>assumptions</u>	RM'000	RM'000	<u>before tax</u>	<u>after tax</u>
	%			RM'000	RM'000
<u>31 December 2012</u>					
Average open claims	+10	10,860	2,446	2,446	1,835
Loss ratio	+10	15,291	3,138	3,138	2,354
Claims handling expenses	+10	-	-	-	-
Provision for liability adequacy	+1	117	22	22	17
<u>31 December 2011</u>					
Average open claims	+10	9,325	2,771	2,771	2,079
Loss ratio	+10	12,447	3,212	3,212	2,409
Claims handling expenses	+10	96	94	94	70
Provision for liability adequacy	+1	651	199	199	149

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK

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

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

Credit Risk

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

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

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

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

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31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Exposure to Credit Risk

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

	Takaful and Operations funds RM'000	Investment- linked fund RM'000	Total RM'000
31 December 2012			
HTM financial investment:			
Malaysian Government securities	35,044	-	35,044
AFS financial investment:			
Islamic debt securities	153,470	-	153,470
Financial investment at FVTPL:			
Islamic debt securities	-	41,152	41,152
LAR:			
Fixed and call deposits	35,845	80,545	116,390
Retakaful assets	84,729	-	84,729
Takaful receivables	46,860	-	46,860
Other receivables	8,475	968	9,443
Cash and bank balances	3,209	470	3,679
	<u>367,632</u>	<u>123,135</u>	<u>490,767</u>
31 December 2011			
HTM financial investment:			
Malaysian Government securities	20,000	-	20,000
AFS financial investment:			
Islamic debt securities	144,590	-	144,590
Financial investment at FVTPL:			
Islamic debt securities	-	29,134	29,134
LAR:			
Fixed and call deposits	33,975	71,479	105,454
Retakaful assets	66,870	-	66,870
Takaful receivables	62,756	-	62,756
Other receivables	4,010	421	4,431
Cash and bank balances	2,091	82	2,173
	<u>334,292</u>	<u>101,116</u>	<u>435,408</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Exposure to Credit Risk (continued)

	Takaful and Operations funds RM'000	Investment- linked fund RM'000	Total RM'000
1 January 2011			
HTM financial investment:			
Malaysian Government securities	10,000	-	10,000
AFS financial investment:			
Islamic debt securities	142,638	-	142,638
Financial investment at FVTPL:			
Islamic debt securities	-	21,995	21,995
LAR:			
Fixed and call deposits	31,112	56,912	88,024
Retakaful assets	37,270	-	37,270
Takaful receivables	43,635	-	43,635
Other receivables	3,052	430	3,482
Cash and bank balances	5,919	2,137	8,056
	<u>273,626</u>	<u>81,474</u>	<u>355,100</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties.

	Neither past-due nor impaired				
	Investment grade	Non- investment grade	Not rated	Investment- linked	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2012					
HTM financial investment:					
Islamic debt securities	-	-	35,044*	-	35,044
AFS financial investment:					
Islamic debt securities	135,865	-	17,605*	-	153,470
Financial Investment at FVTPL:					
Islamic debt securities	-	-	-	41,152	41,152
LAR:					
Fixed and call deposits	34,781	-	1,064^	80,545	116,390
Retakaful assets	65,492	-	19,237	-	84,729
Takaful receivables	23,772	-	23,088	-	46,860
Other receivables	-	-	8,475	968	9,443
Cash and bank balances	2,834	-	375	470	3,679
	<u>262,744</u>	<u>-</u>	<u>104,888</u>	<u>123,135</u>	<u>490,767</u>
31 December 2011					
HTM financial investment:					
Islamic debt securities	-	-	20,000*	-	20,000
AFS financial investment:					
Islamic debt securities	137,328	-	7,262*	-	144,590
Financial Investment at FVTPL:					
Islamic debt securities	-	-	-	29,134	29,134
LAR:					
Fixed and call deposits	32,944	-	1,031^	71,479	105,454
Retakaful assets	51,885	-	14,985	-	66,870
Takaful receivables	17,882	-	44,874	-	62,756
Other receivables	-	-	4,010	421	4,431
Cash and bank balances	2,026	-	65	82	2,173
	<u>242,065</u>	<u>-</u>	<u>92,227</u>	<u>101,116</u>	<u>435,408</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

	Neither past-due nor impaired				
	Investment grade	Non- investment grade	Not rated	Investment- linked	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
1 January 2011					
HTM financial investment:					
Islamic debt securities	-	-	10,000*	-	10,000
AFS financial investment:					
Islamic debt securities	135,907	-	6,731*	-	142,638
Financial Investment at FVTPL:					
Islamic debt securities	-	-	-	21,995	21,995
LAR:					
Fixed and call deposits	30,112	-	1,000^	56,912	88,024
Retakaful assets	22,953	-	14,317	-	37,270
Takaful receivables	10,617	-	33,018	-	43,635
Other receivables	-	-	3,052	430	3,482
Cash and bank balances	5,704	-	215	2,137	8,056
	<u>205,293</u>	<u>-</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

* Fully guaranteed by the Government

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

The Company does not have any financial assets that fall within the "past due but not impaired" category as at 31 December 2012, 31 December 2011 and 1 July 2011.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- linked RM'000	Total RM'000
31 December 2012							
HTM financial investment:							
Malaysian Government securities	-	-	-	-	35,044*	-	35,044
AFS financial investments:							
Islamic debt securities	57,650	78,215	-	-	17,605*	-	153,470
Financial investment at FVTPL:							
Islamic debt securities	-	-	-	-	-	41,152	41,152
LAR:							
Fixed and call deposits	24,162	10,619	-	-	1,064^	80,545	116,390
Retakaful assets	4,308	753	34,583	25,848	19,237	-	84,729
Takaful receivables	-	327	6,448	16,997	23,088	-	46,860
Other receivables	-	-	-	-	8,475	968	9,443
Cash and bank balances	2,300	481	53	-	375	470	3,679
	<u>88,420</u>	<u>90,395</u>	<u>41,084</u>	<u>42,845</u>	<u>104,888</u>	<u>123,135</u>	<u>490,767</u>
31 December 2011							
HTM financial investment:							
Malaysian Government securities	-	-	-	-	20,000*	-	20,000
AFS financial investments:							
Islamic debt securities	52,777	84,551	-	-	7,262*	-	144,590
Financial investment at FVTPL:							
Islamic debt securities	-	-	-	-	-	29,134	29,134
LAR:							
Fixed and call deposits	27,674	5,270	-	-	1,031^	71,479	105,454
Retakaful assets	3,355	586	27,245	20,699	14,985	-	66,870
Takaful receivables	-	251	4,835	12,796	44,874	-	62,756
Other receivables	-	-	-	-	4,010	421	4,431
Cash and bank balances	1,409	516	101	-	65	82	2,173
	<u>85,215</u>	<u>91,174</u>	<u>32,181</u>	<u>33,495</u>	<u>92,227</u>	<u>101,116</u>	<u>435,408</u>
1 January 2011							
HTM financial investment:							
Malaysian Government securities	-	-	-	-	10,000*	-	10,000
AFS financial investments:							
Islamic debt securities	41,030	90,765	4,112	-	6,731*	-	142,638
Financial investment at FVTPL:							
Islamic debt securities	-	-	-	-	-	21,995	21,995
LAR:							
Fixed and call deposits	21,307	8,805	-	-	1,000^	56,912	88,024
Retakaful assets	3,607	-	13,816	5,530	14,317	-	37,270
Takaful receivables	-	150	3,741	6,726	33,018	-	43,635
Other receivables	-	-	-	-	3,052	430	3,482
Cash and bank balances	2,185	3,430	89	-	215	2,137	8,056
	<u>68,129</u>	<u>103,150</u>	<u>21,758</u>	<u>12,256</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

* Fully guaranteed by the Government

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

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31 FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- linked RM'000	Total RM'000
31 December 2012							
Investment grade	88,420	90,395	41,084	42,845	-	121,697	384,441
Non-investment grade:							
Satisfactory	-	-	-	-	104,888	1,438	106,326
Unsatisfactory	-	-	-	-	-	-	-
	<u>88,420</u>	<u>90,395</u>	<u>41,084</u>	<u>42,845</u>	<u>104,888</u>	<u>123,135</u>	<u>490,767</u>
31 December 2011							
Investment grade	85,215	91,174	32,181	33,495	-	100,613	342,678
Non-investment grade:							
Satisfactory	-	-	-	-	92,226	503	92,730
Unsatisfactory	-	-	-	-	-	-	-
	<u>85,215</u>	<u>91,174</u>	<u>32,181</u>	<u>33,495</u>	<u>92,226</u>	<u>101,117</u>	<u>435,408</u>
1 January 2011							
Investment grade	68,129	103,150	21,758	12,256	-	78,907	284,200
Non-investment grade:							
Satisfactory	-	-	-	-	68,333	2,567	70,900
Unsatisfactory	-	-	-	-	-	-	-
	<u>68,129</u>	<u>103,150</u>	<u>21,758</u>	<u>12,256</u>	<u>68,333</u>	<u>81,474</u>	<u>355,100</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity Risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Exposure to liquidity risk

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

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2012								
HTM financial investments:								
Malysian Government securities	35,044	-	-	-	32,030	29,988	-	62,018
AFS financial investment:								
Islamic debt securities	153,470	5,000	5,786	12,188	127,455	79,692	-	230,121
Financial investment at FVTPL:								
Shariah approved equity securities	134,419	-	-	-	-	-	134,419	134,419
Islamic debt securities	41,152	-	3,540	7,298	30,837	20,200	-	61,874
LAR:								
Fixed and call deposits	116,390	72,834	47,397	-	-	-	-	120,231
Retakaful assets	84,729	64,048	18,043	2,269	369	-	-	84,729
Takaful receivables	46,860	46,860	-	-	-	-	-	46,860
Other receivables	9,443	9,443	-	-	-	-	-	9,443
Cash and bank balances	3,679	3,679	-	-	-	-	-	3,679
Total assets	625,186	201,865	74,766	21,754	190,691	129,879	134,419	753,374
Takaful contract liabilities	478,819	410,031	23,022	2,946	1,202	41,618	-	478,819
Other financial liabilities	455	455	-	-	-	-	-	455
Takaful payables	54,731	54,731	-	-	-	-	-	54,731
Other liabilities	38,069	38,069	-	-	-	-	-	38,069
Total liabilities	572,074	503,283	23,022	2,946	1,202	41,618	-	572,074
31 December 2011								
HTM financial investments:								
Malysian Government securities	20,000	-	-	-	16,415	17,826	-	34,241
AFS financial investment:								
Islamic debt securities	144,590	-	-	6,048	162,479	49,623	-	218,150
Financial investment at FVTPL:								
Shariah approved equity securities	94,641	-	-	-	-	-	94,641	94,641
Islamic debt securities	29,134	-	7,070	12,320	13,483	6,284	-	39,157
Investment-linked funds	8,246	-	-	-	-	-	8,246	8,246
LAR:								
Fixed and call deposits	105,455	64,532	45,256	-	-	-	-	109,788
Retakaful assets	66,870	52,596	13,779	495	-	-	-	66,870
Takaful receivables	62,756	62,756	-	-	-	-	-	62,756
Other receivables	4,431	4,431	-	-	-	-	-	4,431
Cash and bank balances	2,173	2,173	-	-	-	-	-	2,173
Total assets	538,296	186,488	66,105	18,863	192,377	73,733	102,887	640,453
Takaful contract liabilities	390,707	331,844	21,153	870	330	36,080	430	390,707
Other financial liabilities	3	3	-	-	-	-	-	3
Takaful payables	65,850	65,850	-	-	-	-	-	65,850
Other liabilities	24,965	24,965	-	-	-	-	-	24,965
Total liabilities	481,525	422,662	21,153	870	330	36,080	430	481,525

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Exposure to liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
1 January 2011								
HTM financial investments:								
Malysian Government securities	10,000	-	-	-	8,395	9,817	-	18,212
AFS financial investment:								
Islamic debt securities	142,638	-	-	6,310	203,040	10,000	-	219,350
Financial investment at FVTPL:								
Shariah approved equity securities	60,193	-	-	-	-	-	60,193	60,193
Islamic debt securities	21,995	3,068	7,864	14,134	-	-	-	25,066
Investment-linked funds	5,240	-	-	-	-	-	5,240	5,240
LAR:								
Fixed and call deposits	88,024	47,495	44,892	-	-	-	-	92,387
Retakaful assets	37,270	30,205	6,514	399	152	-	-	37,270
Takaful receivables	43,635	43,635	-	-	-	-	-	43,635
Other receivables	3,482	3,482	-	-	-	-	-	3,482
Cash and bank balances	8,056	8,056	-	-	-	-	-	8,056
Total assets	420,533	135,941	59,270	20,843	211,587	19,817	65,433	512,891
Takaful contract liabilities	295,875	246,826	11,367	1,480	998	33,079	2,125	295,875
Other Financial liabilities	143	143	-	-	-	-	-	143
Takaful payables	46,418	46,418	-	-	-	-	-	46,418
Other liabilities	22,372	22,372	-	-	-	-	-	22,372
Total liabilities	364,808	315,759	11,367	1,480	998	33,079	2,125	364,808

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

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

	<u>Current*</u> RM'000	<u>Non-current</u> RM'000	<u>Investment- linked</u> RM'000	<u>Total</u> RM'000
31 December 2012				
Property, plant and equipment	-	13,704	-	13,704
Intangible assets	-	3,067	-	3,067
HTM financial investment:				
Malaysian Government securities	-	35,044	-	35,044
AFS financial investment:				
Islamic debt securities	4,956	148,514	-	153,470
Financial investment at FVTPL:				
Shariah approved equity securities	-	4,230	130,189	134,419
Islamic debt securities	-	-	41,152	41,152
LAR:				
Fixed and call deposits	35,845	-	80,545	116,390
Retakaful assets	112,050	33,882	-	145,932
Takaful receivables	46,860	-	-	46,860
Other receivables	8,475	-	968	9,443
Cash and bank balances	3,209	-	470	3,679
	<u>211,395</u>	<u>238,441</u>	<u>253,324</u>	<u>703,160</u>
31 December 2011				
Property, plant and equipment	-	5,178	-	5,178
Intangible assets	-	3,360	-	3,360
HTM financial investment:				
Malaysian Government securities	-	20,000	-	20,000
AFS financial investment:				
Islamic debt securities	-	144,590	-	144,590
Financial investment at FVTPL:				
Shariah approved equity securities	-	962	93,679	94,641
Islamic debt securities	-	-	29,134	29,134
Investment-linked funds	-	8,247	-	8,247
LAR:				
Fixed and call deposits	33,975	-	71,479	105,454
Retakaful assets	94,751	22,990	-	117,741
Takaful receivables	62,756	-	-	62,756
Other receivables	4,009	-	422	4,431
Cash and bank balances	2,091	-	82	2,173
	<u>197,582</u>	<u>205,327</u>	<u>194,796</u>	<u>597,705</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

	<u>Current*</u> RM'000	<u>Non-current</u> RM'000	<u>Investment- linked</u> RM'000	<u>Total</u> RM'000
1 January 2011				
Property, plant and equipment	-	1,350	-	1,350
Intangible assets	-	2,676	-	2,676
HTM financial investment:				
Malaysian Government securities	-	10,000	-	10,000
AFS financial investment:				
Islamic debt securities	-	142,638	-	142,638
Financial investment at FVTPL:				
Shariah approved equity securities	-	-	60,193	60,193
Islamic debt securities	-	-	21,995	21,995
Investment-linked funds	-	5,240	-	5,240
LAR:				
Fixed and call deposits	31,112	-	56,912	88,024
Retakaful assets	55,145	18,426	-	73,571
Takaful receivables	43,635	-	-	43,635
Other receivables	3,052	-	430	3,482
Cash and bank balances	5,919	-	2,137	8,056
	<u>138,863</u>	<u>180,330</u>	<u>141,667</u>	<u>460,860</u>

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Market Risks

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

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

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

Profit rate risk

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

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

		<u>Impact on surplus before tax[^]</u>		<u>Impact on equity[*]</u>	
	<u>Changes in variables</u>	<u>31 Dec 2012</u>	<u>31 Dec 2011</u>	<u>31 Dec 2012</u>	<u>31 Dec 2011</u>
		RM'000	RM'000	RM'000	RM'000
RM	+100 basis point	358	340	(11,147)	(13,127)
RM	-100 basis point	(358)	(340)	12,566	10,490

[^] Impact on Islamic money market instruments only.

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

Currency risk

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

31 FINANCIAL RISK (CONTINUED)

Market Risks (continued)

Operational risks

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

Price risk

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

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

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

		<u>Impact on surplus before tax</u>		<u>Impact on equity*</u>	
<u>Changes in variables</u>		<u>31 Dec 2012</u>	<u>31 Dec 2011</u>	<u>31 Dec 2012</u>	<u>31 Dec 2011</u>
		RM'000	RM'000	RM'000	RM'000
<u>Market indices</u>					
Bursa Malaysia	+15%	606	1,381	455	1,036
Bursa Malaysia	-15%	(606)	(1,381)	(455)	(1,036)

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

32 TRANSITION FROM FINANCIAL REPORTING STANDARDS (“FRS”) TO MFRS

The effects of the Company's transition to MFRS is summarised as follows:

(a) MFRS mandatory exception

MFRS estimates - MFRS estimates as at the transition date are consistent with the estimates as at the same date made in conformity with FRS.

(b) Explanation of transition from FRS to MFRS

Following the transition of FRS to MFRS, the following are changes to the financial statements of the Company

(i) Classification and measurement of Qardhul Hassan balances in the individual financial statements of the Takaful Operator, Takaful funds and at Company level

- Qard payable balances in the respective Takaful funds

Qardhul Hassan payable balances owing to the Takaful Operator were previously included as part of takaful contract liabilities.

With the transition to MFRS, Qardhul Hassan balances reported in the respective Takaful funds are now separately identified as a financial liability owing to the Takaful Operator.

- Qardhul Hassan balances at ‘Company’ level

In previous financial years, Qardhul Hassan balances (both payable and receivable) were not eliminated at Company level.

With the transition to MFRS, these balances are eliminated at the “Company” level.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

32 TRANSITION FROM FINANCIAL REPORTING STANDARDS ("FRS") TO MFRS (CONTINUED)

(b) Explanation of transition from FRS to MFRS (continued)

(ii) Treatment of accumulated deficits in the respective Takaful funds

Accumulated deficits arising from the performance of the Takaful funds during the year were previously set-off against takaful contract liabilities balances.

With the transition to MFRS, accumulated deficits are treated as an equity component.

MFRS 1 requires an entity to reconcile equity, total comprehensive income and cash flows for the prior periods. The following tables represent the reconciliation from FRS to MFRS for the respective periods noted for equity and total comprehensive income at Company level.

The transition from FRS to MFRS had no effect on the reported cash flows generated by the Company.

a. Reconciliation of equity

	<u>Company level</u>	
	<u>1 January 2011 (date of transition)</u> RM'000	<u>31 December 2011</u> RM'000
Equity as reported under FRS	107,694	113,203
Add/(less): Transitioning adjustments		
Qardhul Hassan receivable written off	(16,644)	(16,644)
Write-back of impairment of Qardhul Hassan balance	-	7,811
As restated	<u>91,050</u>	<u>104,370</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

32 TRANSITION FROM FINANCIAL REPORTING STANDARDS ("FRS") TO MFRS (CONTINUED)

(b) Explanation of transition from FRS to MFRS (continued)

b. Reconciliation of total comprehensive income

	For the financial year ended <u>1 January 2011</u> RM'000	For the financial year ended <u>31 December 2011</u> RM'000
Total comprehensive income as reported under FRS	10,592	5,509
Add/(less): (Impairment of)/ write back of impairment of Qardhul Hassan balance	<u>(16,644)</u>	<u>7,811</u>
As restated	<u><u>(6,052)</u></u>	<u><u>13,320</u></u>