ERNST & YOUNG

GREAT EASTERN TAKAFUL SDN BHD

(916257 - H)

(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements

31 December 2012

916257-H

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia) – FINANCIAL STATEMENTS 31 DECEMBER 2012

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GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors hereby present their report together with the audited financial statements of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITY

The Company is principally engaged in managing family takaful business including takaful investment-linked business. There has been no significant change in the nature of these activities to the end of the financial year.

RESULTS

	RM'000
Net loss for the financial year	15,214

There were no material transfers to or from reserves or provisions during the financial year.

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

DIVIDENDS

No dividends have been paid or declared by the Company since the date of incorporation. The Directors do not recommend any final dividend for the financial year ended 31 December 2012.

DIRECTORS

The Directors who have held office during the financial year since the beginning of the financial year are as follows:

Datuk Kamaruddin bin Taib (Chairman)
Mrs Fang Ai Lian
Tan Sri Dato' Nasrudin bin Bahari
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad
Tuan Haji Jamaluddin bin Masrin
Dato Koh Yaw Hui
Encik Mohamad Salihuddin bin Ahmad *(resigned on 20 September 2012)*

GREAT EASTERN TAKAFUL SDN BHD
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DIRECTORS (CONTINUED)

In accordance with Article 72 of the Company's Articles of Association, Tan Sri Dato' Nasrudin bin Bahari and Datuk Kamaruddin bin Taib, would retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that period, did there subsist any arrangement to which the Company was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the options over shares in the Company's ultimate holding company as disclosed in this report.

No Director has received or become entitled to receive a benefit (other than the benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest to be disclosed under Section 169(8) of the Companies Act, 1965.

DIRECTORS' INTEREST

According to the register of Directors' shareholdings, the interests of Directors in office at the end of the financial year in shares and options over shares in the Company's ultimate holding company, Oversea-Chinese Banking Corporation Limited ("OCBC") during the financial year were as follows:

	Shareholdings in which Directors have a direct interest			
	1.1.2012	Acquired	Disposed	31.12.2012
a) Ordinary shares in the capital of OCBC Bank				
Mrs. Fang Ai Lian	62,671	-	-	62,671
Tan Sri Dato' Nasrudin bin Bahari	20,285	-	-	20,285
Dato Koh Yaw Hui	59,235	18,342	3,035	74,542

	Shareholdings in which Directors are deemed to have an interest			
	1.1.2012	Acquired	Disposed	31.12.2012
Dato Koh Yaw Hui	24,690	15,252	14,303	25,639 (1)

DIRECTORS' INTERESTS (CONTINUED)

	Shareholdings in which Directors have a direct interest			
	1.1.2012	Acquired	Disposed	31.12.2012
a) 5.1% non cumulative non convertible Class B Preference Shares in OCBC Bank				
Mrs. Fang Ai Lian	1,700	-	-	1,700

			Options held by Directors in their own name			
	Expiry Date	Exercise Price S$	1.1.2012	Granted	Exercised	31.12.2012
a) Options to subscribe for ordinary shares in the capital of OCBC Bank						
Dato Koh Yaw Hui	7.4.2015	5.78	32,000	-	-	32,000
	22.5.2016	6.58	25,000	-	-	25,000
	13.2.2017	8.59	25,000	-	-	25,000
	13.3.2018	7.52	30,000	-	-	30,000
	15.3.2019	4.14	23,224	-	-	23,224
	14.3.2020	8.76	40,000	-	-	40,000
	13.3.2021	9.35	36,773	-	-	36,773
	13.2.2022	8.79	-	84,010	-	84,010

Note:

(1) Comprises deemed interest in 25,639 ordinary shares subject to award(s) under the OCBC Deferred Share Plan

Other than as disclosed above, none of the Directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

AUTHORISED AND PAID UP SHARE CAPITAL

On 14 December 2012, the authorised share capital of the Company of RM200,000,000 is divided into 180,000,000 ordinary shares of RM1.00 each and 20,000,000 preference shares of RM1.00 each by the classification of the unissued share capital comprising of 20,000,000 ordinary shares of RM1.00 each into 20,000,000 redeemable preference shares of RM1.00 each.

On the same date, the Company increased its issued and fully paid share capital from RM100,000,000 to RM120,000,000 via the issuance of 20,000,000 new redeemable preference shares of RM1.00 each, for cash, at the following proportion:

a) 14,000,000 shares issued to I Great Capital Holdings Sdn. Bhd.
b) 6,000,000 shares issued to Koperasi Angkatan Tentera Malaysia Berhad.

GREAT EASTERN TAKAFUL SDN BHD
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CORPORATE GOVERNANCE

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

OTHER STATUTORY INFORMATION

(a) Before the statements of financial position, income statements and statements of comprehensive income of the Company were made out, the Directors took reasonable steps:

   (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that no provision for doubtful debts was necessary other than those already disclosed; and

   (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

   (i) it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Company; and

   (ii) the values attributed to the current assets in the financial statements of the Company misleading.

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

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

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OTHER STATUTORY INFORMATION (CONTINUED)

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

(i) 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

(ii) any contingent liability in respect of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

(i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations as and when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) (ii) and (f) (i) above, contingent and other liabilities do not include liabilities arising from certificates of takaful underwritten in the ordinary course of business of the Company.

(g) Before the statements of financial position, income statements and statements of comprehensive income of the Company were made out; the Directors took reasonable steps to ascertain that there was adequate provision for its takaful contract liabilities.

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AUDITORS

The auditors, Ernst & Young, retire and have expressed their willingness to continue in office.

Signed on behalf of the Board, in accordance with a resolution of the Directors dated 4 February 2013.

Datuk Kamaruddin bin Taib

Tan Sri Dato' Nasrudin bin Bahari

Kuala Lumpur

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CORPORATE GOVERNANCE

The Board of Directors of Great Eastern Takaful Sdn Bhd (the "Company") fully appreciates the importance of adopting high standards of corporate governance and is committed to uphold good governance practices in conformity with Bank Negara Malaysia ("BNM") guidelines, *BNM/RH/GL 004-1 Guidelines on Directorship for Takaful Operators* and *BNM/RH/GL 003-2 Prudential Framework of Corporate Governance for Insurers* (the "Framework"). This is a fundamental part of discharging their responsibilities to protect and enhance all stakeholders' values and the financial performance of the Company.

The Company adopts management practices and has complied with the prescriptive applications as prescribed in the Framework and Shariah principles.

PART A. BOARD RESPONSIBILITY AND OVERSIGHT

Board's Conduct of its Affairs, Composition and Balance

The Company's Board of Directors (the "Board") has overall responsibility of leading the Company and providing strategic direction in terms of corporate objectives and business strategies for the Company.

The Board comprises three Independent Non-Executive Directors and three Non-Independent Non-Executive Directors. The Directors, with diverse backgrounds experiences and knowledge, collectively bring with them a wide range of core competencies to the Company.

As at 31 December 2012, the Company's Board comprised of six Directors as follows:-

Members	**Status of directorship**
Datuk Kamaruddin bin Taib (Chairman)	Independent Non-Executive Director
Mrs Fang Ai Lian	Independent Non-Executive Director
Tan Sri Dato' Nasrudin bin Bahari	Independent Non-Executive Director
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad	Non-Independent Non-Executive Director
Tuan Haji Jamaluddin bin Masrin	Non-Independent Non-Executive Director
Dato Koh Yaw Hui	Non-Independent Non-Executive Director

During the year, Encik Mohamad Salihuddin bin Ahmad, an Executive Director, resigned from the Board on 20 September 2012.

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board's Conduct of its Affairs, Composition and Balance (Continued)

The Board meets at least six times a year with the meeting dates scheduled in advance before the beginning of every calendar year. All Directors in office at the end of the financial year complied with the 75% minimum attendance requirement at such meetings. In 2012, the Board met seven times and the attendance of the Directors was as follows:

Name	Number of Board Meetings Attended	Percentage (%)
Datuk Kamaruddin bin Taib (Chairman)	7/7	100
Mrs Fang Ai Lian	7/7	100
Tan Sri Dato' Nasrudin bin Bahari	7/7	100
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad	7/7	100
Tuan Haji Jamaluddin bin Masrin	7/7	100
Dato Koh Yaw Hui	7/7	100

(Encik Mohamad Salihuddin bin Ahmad, attended all six (6) Board meetings prior to his resignation on 20 September 2012.)

Besides carrying out its fiduciary and statutory responsibilities, the Board approves the annual business and strategic plans of the Company. It oversees the management of the Company's business affairs, and regularly reviews the financial performance of the Company. Matters reserved for the Board's decision include corporate restructuring, major acquisition and disposal of assets by the Company, all material related party transactions, authority levels for the Company's core functions, outsourcing of core business functions and corporate policies on investment, underwriting, retakaful, claims and risk management practices.

Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO are distinct and separate, with clear division of responsibility between them to ensure an appropriate balance of authority, increased accountability and greater capacity of the Board for independent decision making. For the financial year ended 31 December 2012, the Chairman was Datuk Kamaruddin bin Taib, an Independent Non-Executive Director and the CEO was Encik Mohamad Salihuddin bin Ahmad who resigned on 19 December 2012. After Encik Mohamad Salihuddin's resignation, the Board appointed Encik Zafri Ab Halim as the Appointed Representative of the Company.

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Chairman and Chief Executive Officer ("CEO") (Continued)

The Chairman leads the Board and fosters the Board's effectiveness. The Chairman, with the assistance of the Company Secretary, facilitates the convening of board meetings. He sets guidelines and monitors the flow of information from Management to the Board to ensure that all material information provided to the Directors is timely and clear, to facilitate the Board's consideration of such matters. His responsibilities also include facilitating robust discussions and deliberations at Board meetings, and encouraging constructive relations between Directors as well as between the Board and Management. He promotes high standards of corporate governance with the full support of the other Directors, the Company Secretary and Management.

The CEO manages the Company and oversees its business operations in accordance with the Company's strategy, plans and policies to achieve corporate performance and financial goals, ensuring, inter alia, operational and organisational efficiency, profit performance and effective risk management.

The CEO manages the business of the Company and implements the Board's decisions with the assistance of the Senior Management Team of the Company. Collectively, they are responsible for the day-to-day operations and administration of the Company.

Access to Information

Board members are provided with adequate and timely information and reports, including background explanatory information relating to matters brought before the Board, forecasts, regular internal financial statements of the Company and explanations of material variances between actual results and budget. The Directors have independent access to the advice and services of the Company Secretary and the Senior Management Team.

The Board Members are also provided with access to all information within the Company whether as a full board or in their individual capacity, in furtherance of their duties.

Board Committees

The Board has established specialised Board Committees to assist it in carrying out its responsibilities and oversight over the Company's operations more effectively. These Board Committees, comprising the Audit Committee, Board Risk Committee, Nominating Committee and Remuneration Committee, operate under clearly defined terms of reference approved by the Board and minutes of meetings of these Committees are tabled periodically at the regularly convened Board meetings.

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Audit Committee

The Audit Committee ("AC") comprises the following three members, a majority of whom are Independent Non-Executive Directors:

Mrs Fang Ai Lian (Chairman)
Datuk Kamaruddin bin Taib
Tuan Haji Jamaluddin bin Masrin

The members of the AC are appropriately qualified to discharge their responsibilities as prescribed by the Framework.

In 2012, the AC held six meetings and carried out functions specified in the Companies Act 1965, Takaful Act 1984, BNM Guidelines and other relevant guidelines and regulations. Attendance at meetings for the period from 1 January 2012 to 31 December 2012 was as follows:

	Number of Meetings	
Name	**Attended**	**Percentage (%)**
Mrs Fang Ai Lian	6/6	100
Datuk Kamaruddin bin Taib	6/6	100
Haji Jamaluddin bin Masrin	5/6	83

The AC performed the following activities:

(a) Reviewed with the internal and external auditors their audit plans, their evaluation of the system of internal accounting controls, audit findings and Management's response to those findings;

(b) Reviewed the scope and results of the internal audit procedures and resources needed;

(c) Reviewed, with the internal and external auditors, the effectiveness of the material internal controls including the financial controls of the Company;

(d) Reviewed, with the external auditors, the audited financial statements of the Company for the financial year from 1 January 2012 to 31 December 2012 and the auditors' report thereon and thereafter submitted the audited financial statements to the Board for consideration and approval;

(e) Reviewed the assistance given by the Senior Management Team and officers to the auditors;

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Audit Committee (Continued)

(f) Reviewed the scope and results of the audit procedures and its cost effectiveness and reviewed the independence and objectivity of the external auditors before nominating the external auditors for re-appointment;

(g) Reviewed related party transactions to ascertain that the terms of such transactions were at arm's length basis, on normal commercial terms and not prejudicial to the interests of the Company and its shareholders; and

(h) Reviewed with the external auditors and the Senior Management, the impact of new or proposed changes in accounting standards, policies or regulatory requirements on the financial statements.

The nature and extent of the non-audit services, if any, provided by the external auditors, do not affect their independence as external auditors of the Company.

The AC has full and independent access to the Company's Senior Management Team and Internal Auditors. The AC also met with the external auditors, without the presence of Management. Resources are made available to the AC to enable it to discharge its functions. The internal audit function is independent of the activities it audits. The Chief Internal Auditor reports functionally to the AC, and administratively to the CEO.

Board Risk Committee

The Board Risk Committee ("BRC") supports the Board in the overall risk management oversight of the Company and in ensuring that a risk management process is in place and functioning effectively. The BRC comprises three members, a majority of whom are Independent Non-Executive Directors:

Datuk Kamaruddin bin Taib (Chairman)
Mrs Fang Ai Lian
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad

The BRC meets at least four times a year. In 2012, four meetings were held and the attendance was as follows:

	Number of Meetings	
Name	**Attended**	**Percentage (%)**
Datuk Kamaruddin bin Taib	4/4	100
Mrs Fang Ai Lian	4/4	100
Mej Jen (B) Dato' Che Hasni bin Che Ahmad	4/4	100

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board Risk Committee (Continued)

The BRC is responsible for the following functions:

Governance and Oversight

(a) To review the overall risk management philosophy, in line with the overall corporate strategy and risk tolerance set and approved by the Board;

(b) To review and endorse frameworks, policies, strategies and limits relating to the Company's risk management, investment management, asset-liability management and liability management activities for the Board's approval;

(c) To endorse the Group Risk Management Charter outlining the fundamental principles, role, responsibility, authority and reporting line of the Risk Management and Compliance Department for the Board's adoption;

(d) To endorse the appointment of the Head of Risk Management and Compliance;

(e) To review and recommend risk tolerance levels (Risk Appetite Statement as well as Regulatory and Economic Capital Limits) for the Board's approval;

(f) To oversee the establishment and implementation of approved frameworks, policies, strategies and limits; and where required, to approve deviations from approved framework and policies;

(g) To review the adequacy of risk management practices for material risks, such as market, credit, liquidity, takaful, operational and compliance risks on a regular basis;

(h) To review Management's frameworks and policies that govern the process for identifying, assessing and managing risks and review Management's performance against these frameworks and policies;

(i) To review the adequacy of frameworks, policies, strategies and resources for the performance of risk management, investment management, asset-liability management and liability management activities;

(j) To initiate any review and action as appropriate for prudent risk management;

(k) To ensure that the risk management function has adequate infrastructure and resources, and that it is appropriately staffed with experienced and qualified employees who are sufficiently independent to perform their duties objectively;

(l) To review the scope, effectiveness and objectivity of the risk management function.

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Board Risk Committee (Continued)

Risk Management

(a) To review reports to monitor and control the Company's risk exposures;

(b) To review and endorse the annual risk disclosures for the Board's approval.

Investment, Asset-liability and Liability Management

(a) To review and endorse for the Board's approval, the annual strategic asset allocation and tactical asset allocation limits; new asset class and complex structures; investment transactions, and new takaful product risk;

(b) To undertake any other functions as directed or delegated by the Board.

Nominating Committee

The Nominating Committee ("NC") comprises the following five members of the Board, a majority of whom are Independent Non-Executive Directors:

Datuk Kamaruddin bin Taib (Chairman)
Mrs Fang Ai Lian
Tan Sri Dato' Nasrudin bin Bahari
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad
Tuan Haji Jamaluddin bin Masrin

The members of the NC possess the appropriate mix of skills and experience, and are appropriately qualified to discharge their responsibilities.

The NC meets at least once a year. The Committee held six meetings during the period from 1 January 2012 to 31 December 2012 and the attendance by all Members was as follows:

	Number of Meetings	
Name	**Attended**	**Percentage (%)**
Datuk Kamaruddin bin Taib (Chairman)	6/6	100
Mrs Fang Ai Lian	6/6	100
Tan Sri Dato' Nasrudin bin Bahari	6/6	100
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad	6/6	100
Tuan Haji Jamaluddin bin Masrin	5/6	83

(Dato Koh Yaw Hui and Encik Mohamad Salihuddin Ahmad, attended all three NC meetings held prior to their retirement from the NC on 24 May 2012.)

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Nominating Committee (Continued)

With the endorsement of the Board, the NC has established the minimum requirements for the Board and the CEO to perform their responsibilities effectively following statutory and regulatory requirements.

The NC is entrusted with the responsibility of proposing new nominees for appointment to the Board and to ensure that nominations of new Directors are made in the best interest of the Company and its shareholders. Apart from nomination of new Directors, the NC is also responsible for proposing nominees for the positions of CEO and Key Senior Officers ("KSOs") of the Company. The procedures on such nominations and appointments, including re-appointment, have been put in place and approved by the Board. These have been drawn up in line with the prescribed regulatory and legal requirements.

The NC also recommends the appointment, re-appointment and re-election of Directors to the Board and assesses the mix of skills, experience and competencies that Directors should bring to the Board. The NC makes recommendations to the Board on all such nominations of Directors as well as nominations to fill up Board Committees.

On an annual basis, the NC reviews the Board's structure, size and composition and makes recommendations to the Board with regards to any changes that are deemed necessary.

The NC has in place a mechanism to carry out the Board-approved process for assessing the effectiveness of the Board as a whole and of the Board Committees, and presents its findings to the Board. No Director was involved in the assessment of his own contribution to the effectiveness of the Board.

Whenever applicable and consistent with the prescribed Framework, the NC's recommendations would be made in consultation with the NC of the holding company, taking into consideration the contribution of the Directors and of the CEO and KSOs in discharging their duties for the benefit of the Company.

Remuneration Committee

The Remuneration Committee ("RC") comprises the following five members, a majority of whom are Independent Non-Executive Directors:

Datuk Kamaruddin bin Taib (Chairman)
Mrs Fang Ai Lian
Tan Sri Dato' Nasrudin bin Bahari
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad
Tuan Haji Jamaluddin bin Masrin

PART A. BOARD RESPONSIBILITY AND OVERSIGHT (CONTINUED)

Remuneration Committee (Continued)

The RC meets at least once a year. In 2012, the Committee met five times and the attendance of the members was as follows:

Name	Number of Meetings Attended	Percentage (%)
Datuk Kamaruddin bin Taib (Chairman)	5/5	100
Mrs Fang Ai Lian	5/5	100
Tan Sri Dato' Nasrudin bin Bahari	5/5	100
Mej. Jen. (B) Dato' Che Hasni bin Che Ahmad	5/5	100
Tuan Haji Jamaluddin bin Masrin	4/5	80

A Board-approved Framework on Remuneration for Directors, CEO and KSOs is in place. The RC is charged with the responsibility of reviewing and recommending to the Board the remuneration packages of Directors, CEO and KSOs that are appropriate to attract and retain Directors, CEO and KSOs of the caliber needed to manage the Company successfully.

Non-Executive Directors are paid Directors' fees, which are recommended by the Board for approval at the Company's AGM.

The RC reviews the Directors' remuneration on an annual basis and makes recommendations to the Board for any changes. No Director was involved in deciding his own remuneration.

Whenever applicable and consistent with the Framework, the RC's recommendations will be made in consultation with the RC of the holding company, taking into consideration the contributions of the Directors and of the CEO and KSOs in discharging their duties for the benefit of the Company.

PART B. MANAGEMENT ACCOUNTABILITY

Whilst the Board is responsible for establishing appropriate framework and policies within which the Company should operate, Management is accountable for affecting such policies and is responsible for accomplishing the Company's strategic objectives.

There is a clear division of responsibilities between top management positions. The Company has an organisation structure that is well documented and clearly establishes the job description and authority limits between the senior management, line management and executive employees. Significant changes to the organisation structure including, amongst others, the Senior Management Team and other Heads of Department are communicated to the staff.

The Authority Grid of the Company, which essentially is a culmination of the various authority limits delegated to the Board as well as the Chief Executive Officer, is in place. The Grid covers business strategy and growth including capital requirements and investment vehicles, people, risk, donations, appointment of consultants and operational matters such as statement of financial position management, transaction approvals and write-offs.

All tenders, investment activities and related party transactions of the Company were conducted at arm's length and on commercial terms. All policies of the Company were approved by the Board and reviewed on an annual basis.

The business goals, annual budget, business plans and goals setting are reviewed by the CEO with the Senior Management Team annually and shared with the relevant executives.

PART C. CORPORATE INDEPENDENCE

The Company has met all the requirements of *BNM/RH/GL 004-7 Guidelines on Related Party Transactions for Takaful Operators* on related party transactions of a material nature. All material related party transactions are disclosed in Note 25 of the audited financial statements in accordance with FRS 124 *Related Party Disclosure*s.

The Board has set a stringent requirement that all related party transactions irrespective of materiality be submitted to the Audit Committee for review prior to their submission to the Board for approval or notation.

PART D. INTERNAL CONTROLS AND OPERATING RISK MANAGEMENT

The Board has overall responsibility to ensure that the Company maintains an adequate system of internal controls and that the Company has effective and efficient operations, risk management and internal controls, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard the assets of the Company and stakeholders' interests.

The investment authority limits for exposure are set at various levels with limits, which are more stringent than the statutory/regulatory limits prescribed, as set out in the Authority Grid. The Company does not have any investments in derivatives.

All new takaful products are governed by the Company's Product Development and Pricing Policy. All products launched by the Company will require prior approvals by the Product Development Committee and Group Actuarial Department. A product risk assessment also forms part of the process for new product approvals, which includes considerations on risks relating to pricing, investment, marketing and support for the product.

The Directors, CEO and Senior Management of the Company are committed to maintaining a risk-conscious culture in the Company. Great Eastern Holdings Limited's ("GEH") Enterprise Risk Management Framework and other supplementary risk management frameworks have been adopted and they provide broad guiding principles and minimum standards on risk management. The Framework also affirms the role and responsibilities for risk management and establishes the monitoring and reporting requirements, which are all aimed at embedding sound risk management practices and culture within the business and ensuring that the Company continues to expand its business with the right risk management discipline, practices and processes in place. Some initiatives undertaken include fraud and complaints reports to the Board of Directors.

The Company's risk management policies are disclosed in Note 26 of the audited financial statements.

PART D. INTERNAL CONTROLS AND OPERATING RISK MANAGEMENT (CONTINUED)

Internal Audit

The Company outsources its internal audit functions to the Internal Audit Department of Great Eastern Life Assurance (Malaysia) Berhad (“GELM”), which assists the AC in discharging its duties and responsibilities. The AC reviews the annual internal audit plan, the audit reports and follow-up actions taken by Management on audit observations made by the internal auditors.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective actions, where necessary, are taken in a timely manner. All audit reports are submitted to the AC, CEO and Management of the unit being audited within one month of completion of field work. Audit findings and recommendations are communicated to Senior Management and monitored until all audit findings are followed up and resolved. The activities of the AC are submitted annually to BNM.

In terms of segregation of duties, procedures are in place to ensure that staff is not assigned with potential conflicting responsibilities relating to, amongst others, approvals, disbursements and administration of certificates, and contribution or investment matters.

PART E. PUBLIC ACCOUNTABILITY AND FAIR PRACTICES

The Company has complied with the provisions relating to takaful certificates under the Takaful Act, 1984. All of the Company’s staff and members of the field force are required to comply with the Company’s internal policies as well as guidelines and circulars issued by BNM and the Malaysian Takaful Association The Company enforces a block leave policy and discourages siblings and spouses from working together in the same department or handling the same function.

PART E. PUBLIC ACCOUNTABILITY AND FAIR PRACTICES (CONTINUED)

Members of the public are made aware of avenues in which they can appeal against the Company's practices or decisions, if required, by alerting them via the takaful contract to the existence of the Financial Mediation Bureau and BNM's Customer Services Bureau. This is in compliance with the requirements of BNM/RH/GL 004-17 *Guidelines on Claim Settlement Practices (Consolidated)* on claims settlement practices.

All sales illustrations, marketing materials and takaful contracts of products are in compliance with requirements by BNM and filed with BNM for approval.

The Company has established an Anti-Money Laundering Framework in accordance with the relevant BNM Guidelines and Circulars to be adhered to by all staff, agents, brokers and other intermediaries so as to prevent the Company from being used as an intermediary in any potential funds laundering in the financial system. The Company is committed to implementing measures towards fulfilling its duty of vigilance and diligence on anti-money laundering.

Financial Reporting

The Board has overall oversight and responsibility for ensuring that the Company's accounting records are properly kept and that the financial statements are prepared in accordance with approved accounting standards and in compliance with the regulatory and statutory requirements in Malaysia so as to give a true and fair view of the Company's financial position.

The Board and the AC are provided with regular comprehensive information on the financial reports, any variances and analysis of the financial data of the Company.

On a monthly basis, the business and operational performance reports are submitted to the Senior Management Team for review and minutes of the various risk oversight committees are tabled at the Board Risk Committee, Asset Liability Committee and the Board, as appropriate.

A full set of the financial statements of the Company is posted on the Company's website.

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GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT 1965

We, Datuk Kamaruddin bin Taib and Tan Sri Dato' Nasrudin bin Bahari, being two of the Directors of Great Eastern Takaful Sdn Bhd, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out in pages 25 to 123 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 1965 in Malaysia so as to give a true and fair value of the financial position of the Company as at 31 December 2012 and of the financial performance and the cash flows of the Company for the period from 1 January 2012 to 31 December 2012. For the period from 29 September 2010 (date of incorporation) to 31 December 2011, the Company prepared its financial statement in accordance with Financial Reporting Standards.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 4 February 2013.

Datuk Kamaruddin bin Taib
Kuala Lumpur

Tan Sri Dato' Nasrudin bin Bahari

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

I, Zafri bin Ab Halim, being the officer primarily responsible for the financial management of Great Eastern Takaful Sdn Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 25 to 123 are in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above named
Zafri bin Ab Halim at Kuala Lumpur in the Federal Territory
on 4 February 2013

Zafri bin Ab Halim

Before me,

PESURUHJAYA SUMPAH
No W533
Nama TENGKU FARIDDUDIN
BIN TENGKU SULAIMAN
MALAYSIA

205, Bangunan Loke Yew
4, Jln Mahkamah Persekutuan
50050 Kuala Lumpur

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ERNST & YOUNG

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Independent auditors' report to the members of Great Eastern Takaful Sdn Bhd (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Great Eastern Takaful Sdn Bhd, which comprise the statements of financial position as at 31 December 2012, the income statements, the statements of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 123.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

ERNST & YOUNG

916257 - H

Independent auditors' report to the members of Great Eastern Takaful Sdn Bhd (Continued) (Incorporated in Malaysia)

Opinion

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

Report on other legal and regulatory requirements

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

Other matters

This report is made solely to the member 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.

Ernst & Young	Abdul Rauf bin Rashid
AF: 0039	No. 2305/05/14 (J)
Chartered Accountants	Chartered Accountant

Kuala Lumpur, Malaysia
4 February 2013

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

REPORT OF THE SHARIAH COMMITTEE

Shariah Committee

The Company is advised by a Shariah Committee, whose composition is as follows:

Dr. Ahmad Basri Ibrahim *(Appointed as Chairman on 4 November 2011 and reappointed on 11 December 2012)*
Dr. Wan Sabri Wan Yusof *(Appointed as member on 4 November 2011 and reappointed on 11 December 2012)*
Dr. Akhtarzaite Abdul Aziz *(Appointed on 4 November 2010 and reappointed on 11 December 2012)*
Dr. Mohamad Sabri Zakaria *(Appointed on 4 November 2010 and reappointed on 11 December 2012)*
Dr. Siti Salwani Razali *(Appointed on 1 July 2011)*
Dr. Mahamad Arifin *(Appointed on 1 July 2011)*

The Shariah Committee meets at minimum six times a year. In 2012, the Shariah Committee met eight times. The attendance of members at the Shariah Committee meetings is as follows:

Name	Number of Meetings Attended	Percentage (%)
Dr. Ahmad Basri Ibrahim *(Chairman)*	8/8	100
Dr. Wan Sabri Wan Yusof	8/8	100
Dr. Akhtarzaite Abdul Aziz	8/8	100
Dr. Mohamad Sabri Zakaria	7/8	87.5
Dr. Siti Salwani Razali	7/8	87.5
Dr. Mahamad Arifin	8/8	100

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GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

STATEMENT BY THE SHARIAH COMMITTEE

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

We have reviewed the principles and contracts relating to the transactions and applications introduced by Great Eastern Takaful Sdn Bhd during the period from 1 January 2012 to 31 December 2012. We have also conducted our review to form an opinion as to whether Great Eastern Takaful Sdn Bhd has complied with 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 Great Eastern Takaful Sdn Bhd is responsible for ensuring that Great Eastern Takaful Sdn Bhd 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 Great Eastern Takaful Sdn Bhd and to report to you.

We have assessed the work carried out by Shariah review which included examining, on a test basis, each type of transaction, the relevant documentations and procedures adopted by Great Eastern Takaful Sdn Bhd. 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 Great Eastern Takaful Sdn Bhd has not violated any Shariah principles.

In our opinion:

1. the contracts, transactions and dealings entered into by Great Eastern Takaful Sdn Bhd during the financial year from 1 January 2012 to 31 December 2012 that we have reviewed, are in compliance with 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;

We, Dr. Ahmad Basri Ibrahim and Dr. Mohamad Sabri Zakaria, being two of the members of the Shariah Committee of Great Eastern Takaful Sdn Bhd, do hereby confirm that the operations of Great Eastern Takaful Sdn Bhd for the financial year from 1 January 2012 to 31 December 2012 were conducted in conformity with the Shariah principles.

Signed on behalf of the Shariah Committee.

Dr. Ahmad Basri Ibrahim

Dr. Mohamad Sabri Zakaria

Kuala Lumpur

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		01.01.2012 to 31.12.2012		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Takaful operator income		**28,504**	**-**	**-**
Gross contributions		-	66,983	66,983
Contributions ceded to retakaful		-	(18,540)	(18,540)
Net contributions		**-**	**48,443**	**48,443**
Investment income	4	2,678	1,010	3,688
Realised gains and losses		391	38	429
Fair value gains and losses		(1)	1,263	1,262
Fee and commission income	5	2,636	28,890	28,698
Other operating income		16	13	29
Other income		**5,720**	**31,214**	**34,106**
Gross benefits and claims paid	17	(11)	(12,425)	(12,436)
Claims ceded to retakaful	17	-	6,073	6,073
Net change to contract liabilities	17	-	(17,162)	(21,033)
Change to contract liabilities ceded to retakaful	17	-	7,564	7,564
Net benefits and claims		**(11)**	**(15,950)**	**(19,832)**
Wakalah fee expense		-	(28,504)	-
Commission expense/administration fee	6	(15,595)	(30,816)	(43,749)
Management expenses	7	(32,805)	(339)	(32,978)
Provision for doubtful debts	7	(199)	-	(199)
Change in expense liabilities	16	(3,664)	-	(3,664)
Other expenses		**(52,263)**	**(59,659)**	**(80,590)**

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

		01.01.2012 to 31.12.2012		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
(Loss)/Surplus before taxation		**(18,050)**	**4,048**	**(17,873)**
Taxation	9	2,836	(177)	2,659
Net (loss)/profit for the year		**(15,214)**	**3,871**	**(15,214)**
Surplus attributable to participants		-	(3,871)	-
Net (loss)/profit for the year		**(15,214)**	**-**	**(15,214)**
Loss per share (sen)				
Basic	23	16.6	-	16.6

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

		← 29.09.2010 to 31.12.2011 →		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Takaful operator income		**9,706**	**-**	**-**
Gross contributions		-	36,243	36,243
Contributions ceded to retakaful		-	(5,698)	(5,698)
Net contributions		**-**	**30,545**	**30,545**
Investment income	4	2,833	354	3,187
Realised gains		-	202	202
Fair value losses		-	(192)	(192)
Fee and commission income	5	1,275	8,353	8,353
Other operating income		4	7	11
Other income		**4,112**	**8,724**	**11,561**
Gross benefits and claims paid	17	-	(1,193)	(1,193)
Claims ceded to retakaful	17	-	640	640
Net change to contract liabilities	17	-	(20,345)	(20,918)
Change to contract liabilities ceded to retakaful	17	-	1,549	1,549
Net benefits and claims		**-**	**(19,349)**	**(19,922)**
Wakalah fee expense		-	(9,706)	-
Commission expense/administration fee	6	(4,837)	(9,453)	(13,143)
Management expenses	7	(29,165)	(174)	(29,211)
Change in expense liabilities	16	(3,402)	-	(3,402)
Other expenses		**(37,404)**	**(19,333)**	**(45,756)**

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

		29.09.2010 to 31.12.2011		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
(Loss)/surplus before taxation		**(23,586)**	**587**	**(23,572)**
Taxation	9	4,505	(14)	4,491
		(19,081)	**573**	**(19,081)**
Surplus attributable to participants		-	(573)	-
Net loss for the period		**(19,081)**	**-**	**(19,081)**
Loss per share (sen)				
Basic	23	21.8	-	21.8

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

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

		← 01.01.2012 to 31.12.2012 →		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Net (loss)/profit for the year		**(15,214)**	**-**	**(15,214)**
Other comprehensive income/(expense):				
Net gain on Available-for-sale ("AFS") financial assets:				
Gain on fair value changes		1,913	-	1,913
Deferred tax relating to components of other comprehensive income	15	(478)	-	(478)
Other comprehensive income for the year, net of tax		1,435	-	1,435
Total comprehensive (loss)/profit for the year		**(13,779)**	**-**	**(13,779)**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	Note	29.09.2010 to 31.12.2011 Shareholder's fund RM'000	 Family takaful fund RM'000	 Total RM'000
Net (loss)/profit for the period		**(19,081)**	**-**	**(19,081)**
Other comprehensive income/(expense):				
Net gain on available-for-sale ("AFS") financial assets:				
Gain on fair value changes		180	-	180
Deferred tax relating to components of other comprehensive income	15	(46)	-	(46)
Other comprehensive income for the period, net of tax		134	-	134
Total comprehensive (loss)/profit for the period		**(18,947)**	**-**	**(18,947)**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	At 31.12.2012 Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
ASSETS				
Property, plant and equipment	10	4,038	-	4,038
Intangible assets	11	619	-	619
Financial assets:	12			
AFS financial assets	12(a)	70,651	6,502	77,153
FVTPL financial assets	12(b)	9,998	39,581	49,579
Loans and receivables, excluding takaful receivables	12(c)	14,161	4,455	15,857
Takaful receivables	13	-	12,988	12,988
Retakaful assets		-	9,986	9,986
Deferred tax assets	15	6,817	-	6,817
Tax recoverable		-	-	-
Cash and bank balances		1,306	5,471	6,777
Total assets		**107,590**	**78,983**	**183,814**
EQUITY AND LIABILITIES				
LIABILITIES				
Tax payables		-	86	86
Deferred tax liabilities		-	99	99
Amounts due to related parties	14	4,503	-	4,503
Expense liabilities	16	7,066	-	7,066
Takaful contract liabilities	17	11	38,380	42,919
Takaful payables	19	1	19,489	19,490
Other payables	20	6,086	16,401	19,728
Provisions	21	2,649	-	2,649
Participants' fund	18	-	4,528	-
Total liabilities		**20,316**	**78,983**	**96,540**
EQUITY				
Share capital	22	120,000	-	120,000
Accumulated losses		(34,295)	-	(34,295)
Available-for-sale reserves		1,569	-	1,569
Total equity attributable to owners of the company		**87,274**	**-**	**87,274**
Total equity and liabilities		**107,590**	**78,983**	**183,814**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

		At 31.12.2011		
	Note	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
ASSETS				
Property, plant and equipment	10	2,440	-	2,440
Intangible assets	11	263	-	263
Financial assets:	12			
AFS financial assets	12(a)	36,280	999	37,279
Financial assets at FVTPL	12(b)	-	10,731	10,731
Loans and receivables, excluding takaful receivables	12(c)	50,070	9,403	54,696
Takaful receivables	13	-	6,344	6,344
Retakaful assets		-	1,549	1,549
Deferred tax assets	15	4,459	15	4,474
Cash and bank balances		25	3,189	3,214
Total assets		**93,537**	**32,230**	**120,990**
EQUITY AND LIABILITIES				
LIABILITIES				
Tax payable		-	29	29
Amounts due to related parties	14	5,295	-	5,295
Expense liabilities	16	3,402	-	3,402
Takaful contract liabilities	17	-	20,345	20,920
Takaful payables	19	-	5,646	5,646
Other payables	20	2,282	5,635	3,140
Provisions	21	1,505	-	1,505
Participants' fund	18	-	575	-
Total liabilities		**12,484**	**32,230**	**39,937**
EQUITY				
Share capital	22	100,000	-	100,000
Accumulated losses		(19,081)	-	(19,081)
Available-for-sale reserves		134	-	134
Total equity attributable to owners of the company		**81,053**	**-**	**81,053**
Total equity and liabilities		**93,537**	**32,230**	**120,990**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

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

	Share capital RM'000	Accumulated losses RM'000	Non-distributable AFS reserve RM'000	Total RM'000
At beginning of the year	100,000	(19,081)	134	81,053
Issuance of shares (Note 22)	20,000	-	-	20,000
Total comprehensive (loss)/profit for the year	-	(15,214)	1,435	(13,779)
At 31 December 2012	120,000	(34,295)	1,569	87,274

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

	Share capital RM'000	Accumulated losses RM'000	Non-distributable AFS reserve RM'000	Total RM'000
At date of incorporation on 29.09.2010	-*	-	-	-*
Issuance of shares (Note 22)	100,000	-	-	100,000
Total comprehensive loss for the period	-	(19,081)	134	(18,947)
At 31 December 2011	100,000	(19,081)	134	81,053

-* *Denotes share capital of RM2*

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
OPERATING ACTIVITIES		
Loss before taxation	(18,050)	(23,586)
Adjustments for:		
Depreciation for property, plant and equipment	581	167
Amortisation of intangible assets	105	30
Net accretion of discounts on investments	(25)	-
Profit on investment accounts	(4,092)	(3,256)
Fair value adjustments of financial assets at FVTPL	(1,262)	192
Operating loss before working capital changes	(22,743)	(26,453)
Purchase of financial assets/investments	(75,461)	(48,022)
Decrease in Islamic investment accounts	39,516	(54,430)
Increase in contract liabilities	22,082	20,932
Increase in retakaful assets	(8,437)	(1,549)
Increase in other receivables	(6,746)	(6,483)
Increase in other payables	35,251	13,692
Net change in balance with related companies	(792)	5,295
Net cash (used in)/generated from operating activities	(17,330)	(97,018)
Investment income received	3,533	3,132
Net cash flow generated from operating activities	**(13,797)**	**(93,886)**

GREAT EASTERN TAKAFUL SDN BHD
(Incorporated in Malaysia)

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,179)	(2,607)
Purchase of intangibles	(461)	(293)
Net cash used in investing activities	**(2,640)**	**(2,900)**
FINANCING ACTIVITY		
Issuance of redeemable preference/ordinary shares	20,000	100,000
Net cash generated from financing activity	**20,000**	**100,000**
Cash and cash equivalents at beginning of the year/period	3,214	-
Net increase in cash and cash equivalents	3,563	3,214
Cash and cash equivalents at end of period	**6,777**	**3,214**
Cash and cash equivalents comprise cash and bank balances of:		
Shareholder's fund	1,306	25
Family takaful fund	5,471	3,189
Cash and bank balances	**6,777**	**3,214**

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD FROM 1 JANUARY 2012 TO 31 DECEMBER 2012

1. CORPORATE INFORMATION

The Company is principally engaged in managing family takaful business including takaful investment-linked business. There has been no significant change in the nature of these activities to the end of the financial year.

The Company is a private limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 20, Menara Great Eastern, 303 Jalan Ampang, 50450 Kuala Lumpur. The principal place of business of the Company is located at Level 3, Menara Great Eastern, 303 Jalan Ampang, 50450 Kuala Lumpur.

The immediate holding company is I Great Capital Holdings Sdn. Bhd., a company incorporated in Malaysia. The ultimate holding company is Oversea-Chinese Banking Corporation Ltd. ("OCBC"), a public-listed company incorporated in the Republic of Singapore.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 4 February 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in the accounting policies below and comply with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRS"), and the Companies Act 1965 in Malaysia. These are the Company's first financial statements prepared in accordance with MFRSs and MFRS 1 *First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1")* has been applied.

The Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 29 September 2010. 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 the statement of comprehensive income, statement of changes in equity and statement cash flows for the year then ended 31 December 2011.

In the previous financial year, the financial statements were prepared in accordance with Financial Reporting Standards ("FRSs") in Malaysia.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

The financial statement has been presented in a columnar format to meet the requirement of BNM/RH/GL 004-6: *Guidelines on Financial Reporting for Takaful Operators* which was issued by BNM on 23 December 2010. The Guideline requires takaful operators to present statements of financial position, statements of comprehensive income and related explanatory notes by funds, i.e. the Company's statement of financial position and statement of comprehensive income are presented separately from those of the family takaful fund.

The Company has adopted all MFRSs, Amendments to MFRSs and Issues Committee ("IC") Interpretations which have become mandatory since the beginning of the financial year, except for those which have been issued but are not yet effective as disclosed in Note 2.3.

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment and depreciation

Property, plant and equipment are initially stated at cost. Subsequently, property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The initial cost of property and equipment comprises its purchase price, including non-refundable taxes and any costs to enhance the working condition of the asset for its intended use.

Expenditure incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit or loss in the period in which the costs are incurred. Where the expenditure has resulted in an increase of the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of property and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Property, plant and equipment and depreciation

Depreciation of property and equipment is calculated on a straight-line basis to write-off the cost of each amount to its residual value over its estimated useful life. The annual depreciation rates are summarised as follows:

Furniture and fittings	10%
Computer equipment	20% - 33%
Office equipment	10%

An item of property and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in profit or loss.

(b) Intangible assets and amortisation

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software development costs are incurred for the development of software for the takaful family administration system and the distribution channel management system. These costs are amortised over a period of 4 years or 25% on a straight line basis from the date of system commissioning.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(c) Investments and financial assets

The Company classifies its financial assets into financial assets at fair value through profit or loss (“FVTPL”), loans and other receivables (“LAR”) and Available-for-Sale ("AFS") financial assets. The classification is dependent on the purpose for which the financial assets were acquired or originated.

Financial assets are classified as fair value through profit or loss where the Company’s documented investment strategy is to manage financial assets on a fair value basis to match related liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments and financial assets (Continued)

The AFS category is used when matching liabilities are passively managed and/or carried at amortised cost. All regular way purchases and sales of financial assets are recognised on the trade date that is the date the Company commits to purchase or sell the asset. Such purchases require delivery of assets within the period generally established by regulation or acceptable in the market.

(i) Financial assets at fair value through profit and loss ("FVTPL") (Continued)

FVTPL assets comprise financial assets that are held for trading and those designated as this category upon initial recognition. These investments are typically bought with the intention to sell in the near future.

The following criteria must be met for an asset to be designated at fair value through profit and loss:

- The designation eliminates or significantly reduces inconsistent treatment such as asset liability mismatch, that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

- The assets and liabilities are part of a group of financial assets, or financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets classified as FVTPL also include Islamic private debt securities. Investments under unit-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.

These investments are initially and subsequently recorded at fair value. All fair value adjustments and realised gains and losses are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments and financial assets (Continued)

(ii) Loans and Receivables ("LAR")

Loans and receivables category comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and includes trade and other receivables.

These investments 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 investment cost.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss when the assets are de-recognised or impaired, as well as through the amortisation process.

(iii) Available-for-Sale financial assets ("AFS")

Non-derivative financial assets not classified in any of the preceding asset categories are categorised as available-for-sale financial assets.

AFS are measured at fair value. Any gains or losses from changes in fair value of the assets are recognised in the fair value reserve in the other comprehensive income, except for impairment losses, foreign exchange gains and losses on monetary instruments and profit calculated using the effective profit method, which is recognised in the statement of comprehensive income accordingly. The cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss when the financial asset is de-recognised.

(d) Takaful receivables

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Takaful receivables (Continued)

If there is objective indication that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivables accordingly and the impairment loss is recognised in profit or loss. The Company gathers objective evidence that a takaful receivable is impaired using the same process 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 2.2(h).

Takaful receivables are de-recognised when the criteria for de-recognition for financial assets, as described in Note 2.2(h), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment as in Note 2.2(h).

(e) Financial liabilities and other takaful payables

Financial liabilities and takaful payables within the scope of FRS 139 *Financial Instruments: Recognition and Measurement* and FRS 4 *Insurance Contracts* respectively are recognised on the statement of financial position when the Company becomes a party to the contractual obligations of the financial instrument.

Such liabilities are recognised when due and measured on initial recognition at the fair value of the consideration received plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective yield method, except for derivatives which are measured at fair value.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

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

Other financial liabilities categorised as fair value through profit or loss, are subsequently measured at their fair values with the gain or loss recognised in profit or loss. A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

A regular way purchase or sale of financial assets is recognised and de-recognised, as applicable, using the trade date accounting. Trade date accounting refers to:

(i) The recognition of an asset to be received and the liability to pay for it on the trade date; and

(ii) Derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

(g) Fair value of financial assets at FVTPL and AFS

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets at the close of business on reporting date.

Fair value for investments in quoted unit trusts, and similar investments, is determined by reference to published net assets value. Investments in Quoted Shariah-approved equities that are not quoted in an active market and whose fair value cannot be reliably measured will be stated at cost.

For financial instruments for which there is no active market such as unquoted Islamic private debt securities or corporate bonds, the estimated fair value is based on the average prices obtained from three banks which are principal dealers.

In cases where the fair value cannot be reliably measured, the financial instruments are stated 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment

All financial assets (except for financial assets categorised as fair value through profit and loss) are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. For an equity instrument, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment.

Objective evidence that a financial asset is impaired includes observable data about loss events like significant financial difficulty of the issuer or obligator; significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for a particular financial asset because of financial difficulties which indicate that there is a measurable decrease in the estimated future cash flows. As it is not possible to identify a single, discrete event that causes impairment, the combined effect of several events is taken into consideration in determining whether an asset is impaired.

(i) 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 assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective profit rate or yield. The carrying amount of the asset is reduced and the loss is recorded in profit or loss.

Subsequently, if the amount of 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 to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (Continued)

(ii) Assets carried at cost

If there is objective evidence that an impairment loss on a financial asset carried at cost has been incurred, the carrying amount will be written down to the recoverable amount. Such impairment losses are not reversed in subsequent periods.

(iii) AFS investments

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

When assessing the impairment of an equity instrument, the Company takes into consideration, in addition to observable data about loss events, whether there is significant or prolonged decline in the fair value of the equity instrument, and whether the cost of the investment in the equity instrument may be recovered. Where there is evidence that the cost of the investment in equity instrument may not be recovered, impairment loss is provided.

(iv) Loans and Receivables

An impairment loss in respect of loans and receivables (excluding takaful receivables as set out in Note 2.2(h) is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment (Continued)

(v) Non-financial assets

The carrying amount of non-financial assets is reviewed at each reporting date to determine whether there is any indication of impairment. 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 in 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 recognised in profit or loss in the period in which it arises. Subsequent increases 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. A reversal of impairment loss is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(i) Derecognition of financial assets and liabilities

A financial asset or liability is de-recognised when:

(i) The contractual right to receive cash flows from the financial asset has expired;

(ii) The Company retains the contractual rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party;

(iii) The Company has transferred its rights to receive cash flows from the asset and either:

- Has transferred substantially all the risks and rewards of the asset, and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Derecognition of financial assets and liabilities (Continued)

- Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of written and/or purchased option on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of:

(i) The consideration received (including any new asset obtained less any new liability assumed; and

(ii) Any cumulative gain or loss that has been recognised directly in equity is recognised in profit or loss. A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability. The recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employee benefits

Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are recognised as expenses in the year in which the associated services are rendered by employees of the Company.

Short term accumulated compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

The Company's contribution to the national pension scheme, the Employees' Provident Fund ("EPF") is charged to profit or loss in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

Long-term employee benefits

Long-term employee benefit obligations in respect of long-term incentives given to senior level management staff and above are based on certain criteria set by an affiliated company.

A provision is recognised for the amount expected to be paid under long-term benefit plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

(k) Provisions

A provision is recognised if, as a result of past events, the Company has a present obligation and it is probable that an outflow of resources embodying the economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Provisions (Continued)

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits is required to settle the obligation, the provision is reversed. Where the effect of time value money is material, provision is discounted using a current pre-tax rate that reflects current market assessments of the time value and the risk specific to the liability. Any increase due to the passage of time is recognised as finance cost.

(l) Income tax

Income tax on the profit or loss for the period comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the period and is measured using tax rates that have been enacted at the reporting date.

Deferred tax is provided for, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, unused taxed losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred tax is recognised in profit or loss, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Family takaful fund

The family takaful fund is maintained in accordance with the requirements of the Takaful Act 1984 and consists of the accumulated surplus in the fund. The family takaful fund surplus or deficit is determined by the Company's appointed actuary by an annual actuarial valuation of the Family takaful fund.

Surplus distributable to participants is determined after deducting claims or benefits paid and payable, retakaful, provisions, reserves and wakalah fees and distributed in accordance with the terms and conditions prescribed by the Shariah Committee of the Company. Actual commissions and management expenses are paid from the Shareholder's fund.

(i) Contribution income

Contribution is recognised as soon as the amount of the contribution can be reliably measured. First year contribution is recognised from inception date and subsequent contribution is recognised when it is due.

At the end of the financial year, all due contributions are accounted for to the extent that they can be reliably measured. Contributions not received on due date are recognised as revenue in the profit or loss and reported as outstanding contributions in the balance sheet.

(ii) Investment-linked business

Investments of investment-linked business are stated at fair values. Any increase or decrease in value of these investments is taken into profit or loss.

All investments of the investment-linked funds are stated at closing market prices or indicative market prices as at each closing period.

(iii) Creation or cancellation of units

Amounts received for units created represent contributions paid by unit holders as payments for new contracts or subsequent payments to increase the amount of contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Family takaful fund (Continued)

(iii) Creation or cancellation of units (Continued)

Creation or cancellation of units is recognised in the financial statements at the next valuation date, after the request to purchase or sell units is received from the unit holders.

(iv) Provision for outstanding claims

A liability for outstanding claims is recognised when a claimable event occurs and/or the Company is notified.

Claims and provisions for claims arising from 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 family takaful certificates are recognised as follows:

- Maturity or other certificate benefit payments due on specified dates are treated as claims payable on the due dates;

- Death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the participant or occurrence of contingency covered;

(v) Actuarial liabilities

The actuarial liability is calculated using the discounted cash flow method. This is to ensure that any future negative cash flow resulting from insufficient tabarru’ charges to meet expected benefit outgo are eliminated. Family takaful liabilities are recognised when contracts are entered into and contribution is charged.

The liabilities are based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Family takaful fund (Continued)

(v) Actuarial liabilities (Continued)

In the case of a family certificate where a part of, or the whole of the contributions are accumulated in a fund, the accumulated amount, as declared to the participants, are set as liabilities. Zerorisation is applied at certificate level and no certificate is treated as an asset under the valuation method adopted.

Adjustments to the liabilities at each reporting date are recorded in the statement of income. Profits originating from margins of adverse deviations on run-off contracts are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

The liability is de-recognised when the contract expires, is discharged or is cancelled. At each reporting date, an assessment is made of whether the recognised family takaful liabilities are adequate by using a liability adequacy test.

Any inadequacy is recorded in profit or loss by establishing technical reserves for the loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of loss recognition. Losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

(n) Product classification

The family takaful fund consists of contracts that transfer takaful and financial risks. Financial risk is the risk of a possible future change in one or more of a specified profit rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is risk other than financial risk.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Product classification (Continued)

Takaful contracts are those contracts that transfer significant takaful risk. A takaful contract is a contract under which the fund has accepted significant takaful risk from another party (the certificate holders) by agreeing to compensate participants if a specified uncertain future event (the covered event) adversely affects participants. As a general guideline, to determine whether a contract has significant takaful risk, benefits paid are compared with benefits payable if the covered event did not occur.

Investment contracts are those contracts that do not transfer significant takaful risk. There are no contracts that are classified as investment contracts in the Family takaful fund.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its life time, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Takaful contracts in the current portfolio are classified as being without discretionary participation features (“DPF”) as it does not satisfy the criteria for DPF. DPF is a contractual right to receive additional benefits that are, as a supplement to guaranteed benefits:

(i) Likely to be a significant portion of the total contractual benefits;

(ii) Whose amount or timing is contractually at the discretion of the issuer; and

(iii) That are contractually based on the:
- Performance of a specified pool of contracts or a specified type of contract;
- Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
- The profit or loss of the fund.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Retakaful

The Company cedes takaful risk in the normal course of business for all its business. Ceded retakaful arrangements do not relieve the Company from their obligations to participants. For both ceded and assumed retakaful, contributions and claims are presented on a gross basis.

Retakaful arrangements entered into by the Company that meet the classification requirements of takaful contracts as described in Note 2.2(m) are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets. As at the reporting date, all retakaful arrangements entered into by the Company during the year met the classification requirements of takaful contracts.

Retakaful assets represent amounts recoverable from reinsurers for takaful contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the underlying takaful contract and the terms of the relevant retakaful arrangement.

At each reporting date, or more frequently, the Company assesses whether objective evidence exists that retakaful assets are impaired. Objective evidence of impairment for retakaful assets are similar to those noted for takaful receivables as described in Note 2.2(h)(i).

If any such evidence exists, 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 discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

(p) Other revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the Company and/or takaful funds, and the amount of the revenue can be measured reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Other revenue recognition (Continued)

Profit income

Profit income is recognised on a time proportion basis that takes into account the effective yield of the asset.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances. The statement of cash flows has been prepared using the indirect method.

(r) Zakat

This represents tithes payable by the Company to comply with the principles of Shariah and is approved by the Shariah Committee of the Company. Zakat is calculated based on 2.577% of the net asset method and is only provided when there is a commitment or obligation to pay at the end of financial year, as approved by the Shariah Committee.

(s) Shareholder’s fund

(i) Wakalah fees, commission expenses and management expenses

In accordance with the principles of wakalah, as approved by the Shariah Committee of the Company and agreed between the participants and the Company, an agreed percentage of the gross contribution will be charged by the Shareholder’s fund, on an upfront basis on the participants’ contribution as wakalah fees.

The wakalah fees charged by the Shareholder’s fund are used to pay all management and commission expenses in the Shareholder’s fund, which are incurred on behalf of the family takaful fund. All management expenses are recognised in the Shareholder’s fund as incurred.

Commission expenses, which are costs directly incurred in securing contributions on takaful certificates are recognised in the Shareholder’s fund as incurred and properly allocated to the periods in which it is probable they give rise to income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Shareholder's fund

(ii) Expense liabilities

The expense liabilities of the Shareholder's fund consist of expense liabilities of the family takaful fund which are based on estimations performed by a qualified actuary. The movement in expense liabilities is released over the term of the takaful contracts and recognised in the income statement.

- **Expense liabilities of family takaful fund**

  The valuation of expense liabilities in relation to contracts of the family takaful fund is conducted separately by the Appointed Actuary in the Shareholder's fund. The method used to value expense liabilities is consistent with the method used to value takaful liabilities of the corresponding family takaful contracts.

- **Expense liabilities of family takaful fund (Continued)**

  In valuing the expense liabilities, the present value of expected future expenses payable by the Shareholder's fund in managing the takaful fund for the full contractual obligation of the takaful contracts less any expected cash flows from future wakalah fee income, and any other income due to the Shareholder's fund that can be determined with reasonable certainty, are taken into consideration.

- **Liability adequacy test**

  At each financial year end, the Company reviews the expense liabilities of the shareholder's fund to ensure that the carrying amount is sufficient or adequate to cover the obligations of the shareholder's fund for all managed takaful certificates.

  In performing this review, the Company considers all contractual cash flows and compares this against the carrying value of expense liabilities. Any deficiency is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency ("foreign currencies") are recorded in the functional currency using the exchange rates prevailing at the dates of transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Exchange differences arising on the settlement of monetary items and translation of monetary items are included in profit or loss.

The principal exchange rate for every unit of Singapore Dollar ruling at the reporting date used is RM2.50.

(u) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in the statement of changes in equity in the period in which they are declared.

(v) Leases

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. All leases that do not transfer substantially all the risks and rewards are classified as operating leases.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Operating leases – company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE

As at the date of authorisation of these financial statements, the following MFRSs, Amendments to MFRS and IC Interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective as at 31 December 2012 and have not been adopted by the Company.

Effective for financial years beginning on or after 1 July 2012

MFRS 101 *Presentation of Items of Other Comprehensive Income (Amendments to MFRS101)*

Effective for financial years beginning on or after 1 January 2013

Amendments to MFRS 1 *Government Loans*
Amendments to MFRS 1 *Annual Improvements 2009 – 2011 Cycle*
MFRS 10 *Consolidated Financial Statements*
MFRS 11 *Joint Arrangements*
MFRS 12 *Disclosure of Interests in Other Entities*
MFRS 13 *Fair Value Measurement*
MFRS 101 *Amendments to MFRS101 (Annual Improvements 2009 – 2011 Cycle)*
MFRS 116 *Amendments to MFRS116 (Annual Improvements 2009 – 2011 Cycle)*
MFRS 119 *Employee Benefits (IAS 19 as amended by IASB in June 2011)*
MFRS 127 *Separate Financial Statements (IAS 27 as amended by IASB in May 2011)*
MFRS 128 *Investments in Associates and Joint Ventures (IAS 28 as amended by IASB in May 2011)*
MFRS 132 *Amendments to MFRS 132 (Annual Improvements 2009 – 2011 Cycle)*
MFRS 132 *Offsetting Financial Assets and Financial Liabilities (Amendments to MFRS 132)*
MFRS 134 *Amendments to MFRS 134 (Annual Improvements 2009 – 2011 Cycle)*

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 STANDARDS ISSUED BUT NOT EFFECTIVE (CONTINUED)

Effective for financial years beginning on or after 1 January 2014

MFRS 132 *Amendments to MFRS 132, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

Effective for financial years beginning on or after 1 January 2014

MFRS 9 *Financial Instruments (IFRS 9 issued by IASB in Nov 2009)*
MFRS 9 *Financial Instruments (IFRS 9 issued by IASB in Oct 2010)*
MFRS 7 *Amendment to MFRS 7, Financial Instruments: Disclosures – Mandatory Date of MFRS 9 and Transition Disclosures*

The Company plans to adopt the above pronouncements when they become effective in the respective financial years. These pronouncements are expected to have no significant impact to the financial statements of the Company upon their initial application except as discussed below:

MFRS 9 *Financial Instruments*

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured either at fair value or amortised cost. The adoption of MFRS 9 will result in change in accounting policy. The Company is currently assessing the financial impact of adopting MFRS 9.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Company exercises due care in making estimates, judgments and assumptions that have an effect on the amount reported for revenues, expenses, assets and liabilities at the end of the financial year. However, there are some uncertainties that could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Critical judgments made in application of accounting policies

The following judgments are made by the management in the process of applying the Company's accounting policies that have the most significant impact on the financial statements. These judgments are continuously evaluated and are based on historical experiences and other factors, including expectations of future events that are reasonable and relevant under the circumstances.

(a) Impairment of AFS financial assets

Significant judgment is required to assess impairment for AFS financial assets. The Company takes into consideration the duration and extent to which the fair value of an investment is less than its cost; the financial health and near term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology and operational and financial cash flow.

(b) Depreciation and amortisation

Depreciation and amortisation is based on the management's estimates of the future estimated average useful lives and residual values of property, plant and equipment and intangible assets. Estimates may change due to technological developments, expected level of usage, competition, market conditions and other factors, and could impact the estimated average useful lives and the residual values of these assets.

This may result in future changes in the estimated useful lives and in the depreciation or amortisation expenses. It is currently estimated that the property, plant and equipment and intangible assets of the Company will not have any residual values.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

3.1 Critical judgments made in application of accounting policies (Continued)

(c) Impairment of takaful receivables

The Company reviews its takaful receivables on a regular basis to assess whether an allowance for impairment should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment required. Such estimates are based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

(d) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

Assumptions about generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future production and sales volume, operating costs, capital expenditure, dividends and other capital management transactions. Judgment is also required about application of income tax legislation. These judgments and assumptions are subject to risks and uncertainties hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statement of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

The estimation of the ultimate liability arising from claims made under family takaful certificates is a critical accounting estimate. There are several sources of uncertainty that need to be considered in estimation of the liabilities that the family takaful fund will ultimately be required to pay as claims.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

3.2 Key sources of estimation uncertainty (Continued)

Uncertainty in accounting estimates for family takaful certificate liabilities

For family takaful certificates, estimates are made for future deaths, disabilities, maturities, investment returns, voluntary terminations and expenses in accordance with contractual and regulatory requirements. The family takaful fund bases the estimate of expected number of deaths at industry rates, adjusted where appropriate to reflect the fund's unique risk exposures. The estimated number of death determines the value of possible future benefits paid out, which will be factored into ensuring sufficient cover by reserves, which in return is monitored against current and future contributions.

For those certificates that cover risks related to disability, estimates are made based on recent past experience and emerging trends. However, epidemics, as well as wide ranging changes to lifestyle, could result in significant changes to the expected future exposures.

All of these will give rise to estimation uncertainties of projected ultimate liability of the family takaful fund. At each financial year end, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

The principal uncertainty in the Shareholder's fund takaful certificate liabilities arises from the technical provisions, which comprise the expense liabilities of the family takaful fund.

The unexpired expense reserve for family business is estimated assuming that the block of in-force contracts are to be maintained on a 'going concern' basis. Under a 'going concern' scenario, the contracts so valued are taken as a particular sub-block of contracts and the maintenance expenses for which are valued to the point the last certificate goes off the books.

The maintenance expenses related to such contracts include the cost of functions that is normally associated with the operations of a business on a 'going concern' basis.

The unexpired expense reserve is calculated using adjusted parameters to provide sufficient reserves at the appropriate percentile of statistical variation that is higher than the best estimate values. It is the present value of future maintenance expenses on the current in-force family takaful contracts and is further reduced by the present value of future shareholders income that can be realised with reasonable certainty relating to those in-force family takaful contracts.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

3.2 Key sources of estimation uncertainty (Continued)

Uncertainty in accounting estimates for family takaful certificate liabilities (continued)

All of these will give rise to estimation uncertainties of projected expense liability of the Shareholder's fund. At each financial year end, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

4. INVESTMENT INCOME

	01.01.2012 to 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Profit income on:			
AFS financial assets	2,334	181	2,515
Financial assets at FVTPL	-	628	628
Loans and receivables	345	257	582
Investment expenses	(1)	(56)	(37)
	2,678	**1,010**	**3,688**

	29.09.2010 to 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Profit income on:			
AFS financial assets	17	-	17
Financial assets at FVTPL	-	269	269
Loans and receivables	2,817	146	2,959
Investment expenses	(1)	(61)	(58)
	2,833	**354**	**3,187**

5. FEES AND COMMISSION INCOME

	01.01.2012 to 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Risk management charges	1,518	-	-
Certificate charges	1,118	28,518	28,326
Surplus sharing income	-	311	311
Retakaful commission income	-	61	61
	2,636	**28,890**	**28,698**

	29.09.2010 to 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Risk management charge	667	-	-
Certificate charges	608	8,301	8,301
Retakaful commission income	-	52	52
	1,275	**8,353**	**8,353**

6. COMMISSION EXPENSE/ADMINISTRATION FEE

	01.01.2012 to 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Commissions paid to agents	15,359	-	15,359
Risk management charge	-	1,518	-
Other charges	236	29,298	28,390
	15,595	**30,816**	**43,749**

6. COMMISSION EXPENSE/ADMINISTRATION FEE (CONTINUED)

	29.09.2010 to 31.12.2011		
	Shareholder's fund RM'000	**Family takaful fund RM'000**	**Total RM'000**
Commissions paid to agents	4,816	-	4,816
Risk management charge	-	667	-
Other charges	21	8,786	8,327
	4,837	**9,453**	**13,143**

7. MANAGEMENT EXPENSES

	← 01.01.2012 to 31.12.2012 →		
	Shareholder's fund RM'000	**Family takaful fund RM'000**	**Total RM'000**
Staff costs:			
Salaries, bonus and other related costs	11,114	-	11,114
Pension costs – EPF	1,172	-	1,172
Social security costs	57	-	57
Short-term accumulating compensated absences	(2)	-	(2)
	12,341	-	12,341
Non-executive directors' remuneration (Note 8(a))	406	-	406
Auditors' remuneration:			
- statutory audit	159	8	167
- other services	16	-	16
Agency related expenses	3,937	-	3,937
Advertising and marketing expenses	2,659	296	2,789
Rental of properties	931	-	931
Depreciation of property, plant and equipment	583	-	583
Amortisation of intangible assets	105	-	105
Marketing and communication	657	-	657
Electronic data processing	1,013	-	1,013
Management fees	3,108	-	3,108
Shared service charges	6,253	-	6,253
Other expenses	637	35	672
Provision for doubtful debts	199	-	199
Total	**33,004**	**339**	**33,177**

Included in staff costs is the Chief Executive Officer's ("CEO")/Executive director's remuneration for the period amounting to approximately RM1,344,294, as disclosed in Note 8(b).

7. MANAGEMENT EXPENSES (CONTINUED)

	29.09.2010 to 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Staff costs:			
Salaries, bonus and other related costs	11,060	-	11,060
Pension costs – EPF	1,488	-	1,488
Social security costs	50	-	50
Short-term accumulating compensated absences	112	-	112
	12,710	-	12,710
Non-executive directors' remuneration (Note 8(a))	428	-	428
Auditors' remuneration:			
- statutory audit	120	9	129
- other services	10	-	10
Agency related expenses	1,220	-	1,220
Advertising and marketing expenses	2,792	165	2,828
Rental of properties	607	-	607
Depreciation of property, plant and equipment	167	-	167
Amortisation of intangible assets	30	-	30
Marketing and communication	2,789	-	2,789
Electronic data processing	710	-	710
Management fees	3,582	-	3,582
Shared service charges	3,217	-	3,217
Other expenses	783	-	783
Total	**29,165**	**174**	**29,210**

Included in staff costs is Chief Executive Officer's ("CEO")/Executive director's remuneration for the period amounting to approximately RM1,226,956, as disclosed in Note 8(b).

8. DIRECTORS' REMUNERATION

Shareholder's fund	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
(a) Non-executive directors' remuneration:		
Fees	279	317
Allowances and other emoluments	127	111
Total	406	428

(b) CEO/Executive director's remuneration:		
Salaries and bonus	1,178	969
Pension costs – EPF	147	155
Others	19	103
Total	1,344	1,227

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer, who is also the Executive Director of the Company amounted to approximately RM1,344,294 during the period (29.09.2010 to 31.12.2011: RM1,226,956).

The directors' fees are subject to the recommendation of the Remuneration Committee to the Board of Directors for endorsement and approval by shareholders at the Annual General Meeting.

(c) Directors' Remuneration

The number of directors whose total remuneration received from the Company during the year that fall within the following bands is analysed as follows:

Shareholder's fund	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
Executive director		
Above RM1,000,000	1	1
Non-Executive directors		
Below RM100,000	4	5
RM100,001 – RM150,000	1	1

9. TAXATION

Shareholder's fund	**01.01.2012 to 31.12.2012 RM'000**	**29.09.2010 to 31.12.2011 RM'000**
Current tax	-	-
Deferred tax relating to origination and reversal of temporary differences	(2,836)	(4,505)
Tax (income)/expense for the period	(2,836)	(4,505)

Domestic income tax for the Shareholder's fund is calculated at the Malaysian statutory tax rate of 25% of the estimated assessable profit for the period.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

Shareholder's fund	**01.01.2012 to 31.12.2012 RM'000**	**29.09.2010 to 31.12.2011 RM'000**
Loss before taxation	(18,050)	(23,586)
Taxation at Malaysian statutory tax rate of 25%	(4,513)	(5,897)
Expenses not deductible for tax purposes	1,677	1,392
Tax (income)/expense for the period	(2,836)	(4,505)

9. TAXATION (CONTINUED)

Family takaful fund	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
Tax expense for the period – Current tax	62	29
Deferred tax relating to origination and reversal of temporary differences	115	(15)
Tax expense for the period	177	14

The Malaysian tax charge on family takaful business is based on the method prescribed under the Income Tax Act 1967 for family takaful business. The statutory tax rate for family takaful business is 8%.

A reconciliation of income tax expense applicable to surplus before taxation at the statutory income tax rate to income tax expense at the preferential income tax rate of the family takaful fund is as follows:

Family takaful fund	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
Profit before taxation	4,048	587
Taxation at preferential tax rate of 8%	324	47
Income not subject to tax	(7,281)	(2,610)
Expenses not deductible for tax purposes	7,134	2,577
Tax expense for the period	177	14

10. PROPERTY, PLANT AND EQUIPMENT

Shareholder's fund	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Work-in-progress RM'000	Total RM'000
Cost				
At 1 January 2012	464	1,515	628	2,607
Additions	441	2,279	(541)	2,179
As at 31 December 2012	905	3,794	87	4,786
Accumulated Depreciation				
At 1 January 2012	(91)	(76)	-	(167)
Charge for the period	(133)	(448)	-	(581)
As at 31 December 2012	(224)	(524)	-	(748)
Net Book Value				
As at 31 December 2012	681	3,270	87	4,038

Shareholder's fund	Computer equipment RM'000	Furniture, fittings and office equipment RM'000	Work-in-progress RM'000	Total RM'000
Cost				
At date of incorporation on 29.09.2010	-	-	-	-
Additions	464	1,515	628	2,607
As at 31 December 2011	464	1,515	628	2,607
Accumulated Depreciation				
At date of incorporation on 29.09.2010	-	-	-	-
Charge for the period	(91)	(76)	-	(167)
As at 31 December 2011	(91)	(76)	-	(167)
Net Book Value				
As at 31 December 2011	373	1,439	628	2,440

11. INTANGIBLE ASSETS

	Computer software and licences	
	31.12.2012	**31.12.2011**
<u>**Shareholder's fund**</u>	**RM'000**	**RM'000**
Cost		
At beginning of the year/period	293	-
Additions	461	293
At end of the year/period	754	293
Accumulated amortisation		
At beginning of the year/period	(30)	-
Charge for the year/period	(105)	(30)
At end of the year/period	(135)	(30)
Net Book Value		
At end of the year/period	619	263

12. FINANCIAL ASSETS

	At 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
AFS Financial assets:			
Quoted Shariah-approved equities	723	408	1,131
Government investment issues	13,542	2,016	15,558
Islamic private debt securities	46,442	4,078	50,520
Units held in investment-linked fund	9,944	-	9,944
Financial assets at FVTPL:			
Quoted Shariah-approved equities	-	7,380	7,380
Financial instruments with embedded derivatives	-	13	13
Unit trusts - REITS	-	199	199
Government investment issues	9,998	24,043	34,041
Islamic private debt securities	-	7,946	7,946
Loans and receivables:			
Islamic investment accounts with licensed Islamic banks	10,600	4,314	14,914
Amounts due from family takaful fund (Note 20)	2,759	-	-
Profit due and accrued	569	133	702
Other receivables and deposits	233	8	241
	94,810	**50,538**	**142,589**

The Company's financial assets are summarised by categories as follows:

	At 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
AFS financial assets (Note 12(a))	70,651	6,502	77,153
Financial assets at FVTPL (Note 12(b))	9,998	39,581	49,579
Loans and receivables (Note 12(c))	14,161	4,455	15,857
	94,810	**50,538**	**142,589**

12. FINANCIAL ASSETS (CONTINUED)

	At 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
AFS Financial assets:			
Government investment issues	20,055	999	21,054
Islamic private debt securities	4,043	-	4,043
Units held in investment-linked fund	12,182	-	12,182
Financial assets at FVTPL:			
Quoted Shariah-approved equities	-	6,983	6,983
Financial instruments with embedded derivatives	-	8	8
Unit trusts – REITS	-	165	165
Government investment issues	-	999	999
Islamic private debt securities	-	2,576	2,576
Loans and receivables:			
Islamic investment accounts with licensed Islamic banks	45,050	9,380	54,430
Amounts due from family takaful fund (Note 20)	4,777	-	-
Profit due and accrued	104	19	123
Other receivables and deposits	139	4	143
	86,350	**21,133**	**102,706**

The Company's financial assets are summarised by categories as follows:

	At 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
AFS financial assets (Note 12(a))	36,280	999	37,279
Financial assets at FVTPL (Note 12(b))	-	10,731	10,731
Loans and receivables (Note 12(c))	50,070	9,403	54,696
	86,350	**21,133**	**102,706**

12. FINANCIAL ASSETS (CONTINUED)

(a) AFS financial assets

	At 31.12.2012		
	Shareholder's fund	Family takaful fund	Total
At amortised cost:	RM'000	RM'000	RM'000
Quoted Shariah-approved equities	731	412	1,143
Government investment issues	13,499	1,999	15,498
Islamic private debt securities	45,328	4,007	49,335
Units held in investment-linked fund	9,000	-	9,000
	68,558	**6,418**	**74,976**
At fair value:			
Quoted Shariah-approved equities	723	408	1,131
Government investment issues	13,542	2,016	15,558
Islamic private debt securities	46,442	4,078	50,520
Units held in investment-linked fund	9,944	-	9,944
	70,651	**6,502**	**77,153**

	At 31.12.2011		
	Shareholder's fund	Family takaful fund	Total
At amortised cost:	RM'000	RM'000	RM'000
Government investment issues	20,056	998	21,054
Islamic private debt securities	4,044	-	4,044
Units held in investment-linked fund	12,000	-	12,000
	36,100	**998**	**37,098**
At fair value:			
Government investment issues	20,055	999	21,054
Islamic private debt securities	4,043	-	4,043
Units held in investment-linked fund	12,182	-	12,182
	36,280	**999**	**37,279**

The fair values of the financial instruments are based on broker/dealer price quotations.

12. FINANCIAL ASSETS (CONTINUED)

(b) Financial assets at FVTPL

	At 31.12.2012		
	Shareholder's fund	Family takaful fund	Total
At amortised cost:	RM'000	RM'000	RM'000
Quoted Shariah-approved equities	-	6,479	6,479
Financial instruments with embedded derivatives	-	6	6
Unit trusts - REITS	-	160	160
Government investment issues	9,998	24,031	34,029
Islamic private debt securities	-	7,833	7,833
	9,998	**38,509**	**48,507**
At fair value:			
Quoted Shariah-approved equities	-	7,380	7,380
Financial instruments with embedded derivatives	-	13	13
Unit trusts - REITS	-	199	199
Government investment issues	9,998	24,043	34,041
Islamic private debt securities	-	7,946	7,946
	9,998	**39,581**	**49,579**

	At 31.12.2011		
	Shareholder's fund	Family takaful fund	Total
At amortised cost:	RM'000	RM'000	RM'000
Quoted Shariah-approved equities	-	7,246	7,246
Financial instruments with embedded derivatives	-	6	6
Unit trusts - REITS	-	159	159
Government investment issues	-	997	997
Islamic private debt securities	-	2,516	2,516
	-	**10,924**	**10,924**

12. FINANCIAL ASSETS (CONTINUED)

(b) Financial assets at FVTPL (Continued)

	At 31.12.2011		
	Shareholder's fund	Family takaful fund	Total
At fair value:	RM'000	RM'000	RM'000
Quoted Shariah-approved equities	-	6,983	6,983
Financial instruments with embedded derivatives	-	8	8
Unit trusts	-	165	165
Government investment issues	-	999	999
Islamic private debt securities	-	2,576	2,576
	-	**10,731**	**10,731**

The following table shows financial investments recorded at fair value analysed by the different basis of fair value as follows:

	At 31.12.2012		
	Shareholder's fund	Family takaful fund	Total
Valuation techniques:	RM'000	RM'000	RM'000
AFS financial assets			
– Quoted prices	10,667	408	11,075
– Market observable inputs	59,984	6,094	66,078
Financial assets at FVTPL			
– Quoted prices	-	7,592	7,592
– Market observable inputs	9,998	31,989	41,987
	80,649	**46,083**	**126,732**

12. FINANCIAL ASSETS (CONTINUED)

	At 31.12.2011		
	Shareholder's fund	Family takaful fund	Total
Valuation techniques:	**RM'000**	**RM'000**	**RM'000**
AFS financial assets			
– Quoted prices	12,182	-	12,182
– Market observable inputs	24,098	999	25,097
Financial assets at FVTPL			
– Quoted prices	-	7,156	7,156
– Market observable inputs	-	3,575	3,575
	36,280	**11,730**	**48,010**

(c) Loans and receivables

	At 31.12.2012		
	Shareholder's fund	Family takaful fund	Total
At amortised cost/fair value:	**RM'000**	**RM'000**	**RM'000**
Islamic investment accounts with licensed Islamic banks	10,600	4,314	14,914
Amounts due from family takaful fund (Note 20)	2,759	-	-
Profit due and accrued	569	133	702
Other receivables and deposits	233	8	241
	14,161	**4,455**	**15,857**

	At 31.12.2011		
At amortised cost/fair value:	**RM'000**	**RM'000**	**RM'000**
Islamic investment accounts with licensed Islamic banks	45,050	9,380	54,430
Amounts due from family takaful fund (Note 20)	4,777	-	-
Profit due and accrued	104	20	124
Other receivables and deposits	139	3	142
	50,070	**9,403**	**54,696**

* Amounts due from family takaful and investment-linked funds are unsecured, not subject to any profit elements and are repayable upon demand.

13. TAKAFUL RECEIVABLES

Family takaful fund	At 31.12.2012 RM'000	At 31.12.2011 RM'000
Contributions due from agents or other intermediaries	6,275	5,704
Amount due from retakaful operators	6,713	640
	12,988	**6,344**

14. AMOUNT DUE TO RELATED COMPANIES

The amount due to related companies is non-trade in nature, unsecured, not subject to any profit elements and repayable upon demand.

15. DEFERRED TAX ASSETS

Shareholder's fund	At 31.12.2012 RM'000	At 31.12.2011 RM'000
At beginning of the year/period	4,459	-
Recognised in other comprehensive income	(478)	(46)
Recognised in income statement (Note 9)	2,836	4,505
	6,817	**4,459**

The components and movements of deferred tax (liability)/assets during the financial year are as follows:

	Liability	← Assets	→	
Shareholder's fund	**AFS Reserve RM'000**	**Unutilised tax losses RM'000**	**Accelerated capital allowances RM'000**	**Total RM'000**
At beginning of the year	(46)	4,262	243	4,459
Recognised in other comprehensive income	(478)	-	-	(478)
Recognised in profit or loss	-	2,490	346	2,836
At 31 December 2012	**(524)**	**6,752**	**589**	**6,817**

15. DEFERRED TAX ASSETS (CONTINUED)

The components and movements of deferred tax (liability)/assets during the financial period are as follows:

	Liability	← Assets	→	
Shareholder's fund	**AFS Reserve RM'000**	**Unutilised tax losses RM'000**	**Accelerated capital allowances RM'000**	**Total RM'000**
At date of incorporation on 29.09.2010	-	-	-	-
Recognised in other comprehensive income	(46)	-	-	(46)
Recognised in profit or loss	-	4,262	243	4,505
At 31 December 2011	**(46)**	**4,262**	**243**	**4,459**

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.

16. EXPENSE LIABILITIES

Shareholder's fund	**At 31.12.2012 RM'000**	**At 31.12.2011 RM'000**
At beginning of the year/period	3,402	-
Change in expense liabilities	(3,241)	3,402
Expense over-run reserves	6,905	-
At end of the year/period	**7,066**	**3,402**

The expense liabilities are amount set aside as a provision, as determined by the Appointed Actuary, in the shareholder's fund. The amount includes the expense liabilities, as well as any potential expense over-run, typically faced by a new start-up company.

17. TAKAFUL CONTRACT LIABILITIES

	At 31.12.2012		
Family takaful fund	**Gross RM'000**	**Retakaful RM'000**	**Net RM'000**
Provision for outstanding claims reported by certificate holders	9,782	(7,564)	2,218
Actuarial liabilities	28,598	(2,422)	26,176
	38,380	**(9,986)**	**28,394**

The movement of the family takaful contract liabilities is further analysed as follows:

	At 31.12.2012		
Family takaful fund	**Gross RM'000**	**Retakaful RM'000**	**Net RM'000**
At beginning of the year	20,345	(1,549)	18,796
Benefits intimated during the period	20,413	(12,088)	8,325
Benefits paid during the period	(12,425)	6,073	(6,352)
Increase in actuarial liabilities due to:			
Change in portfolio movement	9,180	(2,213)	6,967
Change in assumptions and basis	867	(209)	658
	38,380	**(9,986)**	**28,394**

	At 31.12.2011		
Family takaful fund	**Gross RM'000**	**Retakaful RM'000**	**Net RM'000**
Provision for outstanding claims reported by certificate holders	1,794	(1,549)	245
Actuarial liabilities	18,551	-	18,551
	20,345	**(1,549)**	**18,796**

The movement of the family takaful contract liabilities is further analysed as follows:

	At 31.12.2011		
Family takaful fund	**Gross RM'000**	**Retakaful RM'000**	**Net RM'000**
At beginning of the period	-	-	-
Benefits intimated during the period	2,987	(2,189)	798
Benefits paid during the period	(1,193)	640	(553)
Increase in actuarial liabilities	18,551	-	18,551
	20,345	**(1,549)**	**18,796**

18. PARTICIPANTS' FUND

	At 31.12.2012 RM'000	At 31.12.2011 RM'000
Accumulated surplus (Note (i))	4,444	573
AFS reserves (Note (ii))	84	2
	4,528	**575**

	At 31.12.2012 RM'000	At 31.12.2011 RM'000
(i) Accumulated surplus:		
At beginning of the year/period	573	-
Surplus arising during the year/period	3,871	573
	4,444	**573**
(ii) AFS reserves:		
At beginning of the year/period	2	-
Net gain recognised during the year/period	82	2
	84	**2**

19. TAKAFUL PAYABLES

	At 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Due to clients, agents and other intermediaries	1	1,111	1,112
Amount due to retakaful operator	-	18,378	18,378
	1	**19,489**	**19,490**

19. TAKAFUL PAYABLES (CONTINUED)

	At 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Due to clients, agents and other intermediaries	-	154	154
Amount due to retakaful operator	-	5,492	5,492
	-	**5,646**	**5,646**

The carrying amounts disclosed above approximate fair values at the reporting date due to the relatively short-term maturity of these balances.

20. OTHER PAYABLES

	At 31.12.2012		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Takaful payables	1,477	-	1,477
Deposit contributions	-	13,183	13,183
Amount due to shareholder's fund* (Note 12)	-	2,759	-
Other accruals and payables	4,609	459	5,068
	6,086	**16,401**	**19,728**

	At 31.12.2011		
	Shareholder's fund RM'000	Family takaful fund RM'000	Total RM'000
Outstanding commissions	1	-	1
Takaful payables	557	-	557
Deposit contributions	-	322	322
Amount due to shareholder's fund* (Note 12)	-	4,777	-
Other accruals and payables	1,724	536	2,260
	2,282	**5,635**	**3,140**

* The amounts due to shareholder's fund are non-trade in nature, unsecured, not subject to any profit elements and repayable upon demand.

21. PROVISIONS

Shareholder's fund	At 31.12.2012 RM'000	At 31.12.2011 RM'000
Provision for bonus	2,546	1,393
Short-term accumulating compensated absences	103	112
Total	**2,649**	**1,505**

22. SHARE CAPITAL

	No. of shares of RM1.00 each '000	RM'000
Authorised:		
Ordinary shares of RM1 each:		
At beginning of the year	200,000	200,000
Reclassified to redeemable preference shares of RM1 each	(20,000)	(20,000)
At 31 December 2012	180,000	180,000
Redeemable preference shares of RM1 each:		
At beginning of the year	-	-
Issued during the year	20,000	20,000
At 31 December 2012	20,000	20,000
Issued and Paid-up:		
Ordinary shares of RM1 each:		
At beginning and end of the year	100,000	100,000
Redeemable preference shares of RM1 each:		
At beginning of the year	-	-
Issued during the year	20,000	20,000
At 31 December 2012	120,000	120,000

22. SHARE CAPITAL (CONTINUED)

	No. of shares of RM1.00 each '000	RM'000
Authorised:		
Ordinary shares of RM1 each:		
At date of incorporation on 29.09.2010	200,000	200,000
Issued and Paid-up:		
Ordinary shares of RM1 each:		
At date of incorporation on 29.09.2010	- *	- *
Issued during the period	100,000	100,000
At 31 December 2011	100,000	100,000

* *Denotes share capital of RM2.*

On 14 December 2012, the authorised share capital of the Company of RM200,000,000 was divided into 180,000,000 ordinary shares of RM1.00 each and 20,000,000 preference shares of RM1.00 each by the classification of the unissued share capital comprising of 20,000,000 ordinary shares of RM1.00 each into 20,000,000 redeemable preference shares of RM1.00 each.

On the same date, the Company increased its issued and fully paid share capital from RM100,000,000 to RM120,000,000 via the issuance of 20,000,000 new redeemable preference shares of RM1.00 each, for cash, to the existing shareholders of the Company in the following proportions:

a) 14,000,000 shares issued to I Great Capital Holdings Sdn. Bhd.; and
b) 6,000,000 shares issued to Koperasi Angkatan Tentera Malaysia Berhad.

The salient features of the redeemable preference shares are as follows:

(a) The non-cumulative dividend payable to preference shareholders shall be in priority to the dividend (if any) payable to the ordinary shareholders, subject to the ordinary shareholders agreeing to the amount of the dividend to be distributed prior to each distribution;

(b) Each redeemable preference share confers on the preference shareholder the right to receive, pari passu with the ordinary shareholders in the share capital of the Company, the repayment in full of the nominal amount of that redeemable preference share;

(c) The redeemable preference shares are non-cumulative, non-convertible, non-participating in profits, assets or other rights, and there is no fixed rate for dividends declared (if any);

22. SHARE CAPITAL (CONTINUED)

(d) The redeemable preference shares are transferable only in the manner provided in the Articles of Association, and have no specific redemption date but the Company has an option to redeem the preference shares, which option shall only be exercisable after the expiry of the period of five (5) years from the issue date of the redeemable preference shares;

(e) The redeemable preference shares confer on a preference shareholder the right to receive notices of general meetings, reports and balance sheets of the Company, and to attend general meetings and the preference shareholder is entitled to vote in each of the relevant circumstances as stipulated in the Companies Act 1965 only.

23. LOSS PER SHARE

The basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares in issue during the period as follows:

Shareholder's fund	**At 31.12.2012**	**At 31.12.2011**
Net loss for the year/period (RM'000)	15,214	19,081
Weighted average number of ordinary shares in issue ('000)	91,420	87,555
Basic loss per share (sen)	16.6	21.8

24. CAPITAL COMMITMENTS

Shareholder's fund	**At 31.12.2012 RM'000**	**At 31.12.2011 RM'000**
Authorised but not contracted for:		
Renovation work	1,927	1,823
Payable within 12 months	1,927	1,823

25. RELATED PARTY DISCLOSURES

For the purpose of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and/or operational decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all Directors of the Company and certain members of senior management of the Company.

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

Related Parties	Relationship
Oversea-Chinese Banking Corporation Ltd. (OCBC)	Ultimate holding company
Great Eastern Holdings Ltd.	Penultimate holding company
Great Eastern Life Assurance Co. Ltd.	Intermediate holding company
Great Eastern Capital (Malaysia) Sdn Bhd	Intermediate holding company
I Great Capital Holdings Sdn Bhd	Immediate holding company
Koperasi Angkatan Tentera	Corporate shareholder of the Company
Great Eastern Life Assurance (M) Bhd	Subsidiary of intermediate holding company
OCBC Al-Amin Berhad	Subsidiary of ultimate holding company

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company and its takaful funds had the following transactions and balances with related parties during and at the end of the financial year:

(i) Transactions with related parties during the financial year:

(Expenses)/income	**01.01.2012 to 31.12.2012 RM'000**	**29.09.2010 to 31.12.2011 RM'000**
Contribution received		
- OCBC Al-Amin Bank Berhad	4,647	4,896
- Koperasi Angkatan Tentera	26,208	8,495
Commission fees paid		
- OCBC Al-Amin Bank Berhad	(463)	(490)
- Koperasi Angkatan Tentera	(2,600)	(849)

25. RELATED PARTY DISCLOSURES (CONTINUED)

(i) Transactions with related parties during the financial year (continued):

(Expenses)/income	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
Profit income		
- OCBC Al-Amin Bank Berhad	499	1,350
Bank charges		
- OCBC Al-Amin Bank Berhad	(200)	(35)
Charges for group services		
- Great Eastern Life Assurance (M) Bhd	(7,284)	(4,849)
- OCBC Al-Amin Bank Berhad	(420)	(9)
- Great Eastern Life Assurance Co. Ltd.	(3,240)	(3,583)
- I Great Capital Holdings Sdn Bhd	90	90
- Koperasi Angkatan Tentera	(1,167)	(37)

(i) Balances with related parties at year/period end:

	At 31.12.2012 RM'000	At 31.12.2011 RM'000
Cash and bank balances		
- OCBC Al-Amin Bank Berhad	6,193	3,045
Islamic investment accounts with licensed banks		
- OCBC Al-Amin Bank Berhad	4,614	13,430
Amount due (to)/from related companies:		
- Great Eastern Life Assurance (M) Bhd	(1,459)	(2,176)
- Great Eastern Life Assurance Co. Ltd.	(3,180)	(3,121)
- I Great Capital Holdings Sdn Bhd	137	-
- Koperasi Angkatan Tentera	6,160	5,701

Related companies are within the OCBC Group:

(i) The sale and purchase of takaful certificates to related companies are made according to normal market prices and at terms and conditions no more favourable than those to other customers and employees;

(ii) Payment of bank service charges to related parties are made according to normal market prices;

.

25. RELATED PARTY DISCLOSURES (CONTINUED)

(iii) The profit income arose mainly from investments in money and deposits and repurchase agreements which are made according to prevailing market rates, terms and conditions;

(iv) The outsourcing agreement was made at arm's length and approved by the Board.

The remuneration of key management personnel during the year/period was as follows:

	01.01.2012 to 31.12.2012 RM'000	29.09.2010 to 31.12.2011 RM'000
Other key management personnel's remuneration:		
Salaries and bonus	1,533	1,542
Pension costs – EPF	204	227
Short-term accumulating compensated absences	-	3
Benefits-in-kind	30	108
	1,767	1,880

26. RISK MANAGEMENT FRAMEWORK

Risk Governance framework

Managing risk is an integral part of the Company's core business. As stated in the Enterprise Risk Management ("ERM") Framework, the Company shall not shy away from taking risk, but shall, at all times, conduct its business within the risk appetite as expected by the Board and ensure that the Company is duly rewarded according to risk taken.

The ERM is designed to determine the level of risk acceptable to the Company relating to its core operations by setting the appropriate limits for Board approval and adherence by management after considering the risk parameters, the nature, the size, the mix and complexity of business and operations. It is adopted to ascertain and evaluate core business risks that may affect the organisation and to establish and implement an appropriate system of internal controls to manage these risks while ensuring full and effective control over significant strategic, financial, organisational and compliance matters.

26. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Risk Governance framework (Continued)

The main objectives of the risk management framework, amongst others, are to:

(a) Provide guidance for the effective management of risk throughout the Company;
(b) Provide information on risk governance, responsibilities and accountabilities;
(c) Provide guidance to a standard methodology to managing risks;
(d) Create a risk conscious culture; and
(e) Enhance professionalism, increase profitability and value for shareholders.

The Risk Management Department spearheads the development and implementation of the ERM Framework for the Company in pursuit of the above objectives. It is the Company's policy to implement good governance, risk management and compliance principles and best practices, and to uphold high standards of business practices in all the activities undertaken by the Company.

The Risk Management Governance structure is as follows:

- The Board Risk Committee ("BRC") provides an oversight on the risk management initiatives. The Board is ultimately responsible for the management of risks. Detailed risk management activities are undertaken by the following management committees comprising the chief executive officer and key senior management personnel;

- The Senior Management Team ("SMT") is responsible for providing leadership, direction and oversight with regards to all matters of the Company. The SMT is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework and Group's standards and policies;

- The Asset-Liability Committee ("ALC") is responsible for assisting the SMT in statement of financial position management. Specifically, the ALC reviews and formulates technical frameworks, policies and methodology relating to statement of financial position management. The ALC is also responsible for ensuring compliance and alignment with Group Governance and Oversight Framework and Group's standards and policies;

- The Product Development Committee ("PDC") oversees the product development and launch process. In addition, the PDC regularly reviews and monitors the performance of new and existing products and ensure compliance with local regulations;

- The IT Steering Committee ("ITSC") is responsible for assisting the SMT in executing approved IT projects within allocated budget. It is also responsible to review and monitor local IT related risks and issues and ensure compliance and alignment with Group Governance and Oversight Framework.

26. RISK MANAGEMENT FRAMEWORK (CONTINUED)

Regulatory framework

Takaful operators are required to comply with the Takaful Act 1984 and other regulations administered by Bank Negara Malaysia (BNM). BNM is primarily interested in protecting the rights of participants and monitors the takaful operators closely to ensure prudent management of its business operations. BNM is also concerned with ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic cycle or natural disasters.

Capital Management framework

The Company's capital management policy is to create shareholder value, deliver sustainable returns to shareholders and maintain a strong capital position with optimum buffer to meet participants' obligations and regulatory requirements and make strategic investments for business growth. The Company shall at all times maintain an appropriate level of capital which commensurate with its risk profile.

For 2012, the Company had obtained exemptions from BNM to conducts stress tests for the first half of the year. The first half yearly Stress Test Report was submitted to BNM on the 28th September 2012 in compliance with the requirements stated in *Guidelines of Stress Testing for Takaful Operators (BNM/RH/GL 004-16)*. The purpose of the stress test is to test the solvency of the family fund under various scenarios according to regulatory guidelines, simulating drastic changes in major parameters such as new business volume, investment environment, mortality/morbidity patterns and lapse rates.

Currently, as at 31 December 2012, the Company maintains a paid-up capital of RM120 million which is in line with the regulatory requirements set by BNM (BNM/RH/CIR 004-13 *Minimum Paid-up Capital requirement for Takaful Operators)*. The Company has also complied with the margin of solvency requirements as prescribed under the Takaful Act, 1984.

27. UNDERWRITING RISK

Nature of risk

The principal activities of the Company are the provision of financial services coupled with takaful protection against risks such as mortality and morbidity (health, critical illness, disability and personal accident). In principle, the Company issues the following types of family takaful certificates: Family Takaful Plans, Mortgage Takaful Plans, Group Takaful Plans and Investment-linked Takaful Plans.

The Company's underwriting strategy is designed to ensure that these risks are well diversified in terms of type of risk and level of takaful coverage benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes into account current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are also set in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual certificate, it can impose deductibles and has the right to reject fraudulent claims payments, to name but a few.

The following sections provide details regarding the Company's exposure to risks and the objectives, policies and processes for the management of these risks. Risks inherent in the takaful business include, but are not limited to the following:

Takaful Risk

Takaful risk comprises of both actuarial and underwriting risks resulting from the pricing and acceptance of takaful contracts. The risks arise when actual claims experience is different from the assumptions used in setting the prices for products and establishing the technical provisions and liabilities for claims. Sources of risks include certificate lapses and certificate benefits such as mortality, morbidity and expenses.

The Company utilises retakaful to manage mortality and morbidity risks. The Company's retakaful management strategies and policies are reviewed annually by the ALC and BRC, and approved by the Board. Retakaful strategies and structures are set based on the type of risk.

Only retakaful operators that meet a minimum credit rating of "A-", as evaluated by Standards & Poors, are considered when deciding on which retakaful operators to cede out the Company's risks. The Company limits its risks to any one retakaful operator by ceding different products to different retakaful operators or to a panel of retakaful operators.

The SMT reviews the actual mortality, morbidity, lapsation and surrender, as well as expense experience to ensure that appropriate policies, guidelines and limits are put in place to manage and ensure that these risks remain appropriate.

27. UNDERWRITING RISK (CONTINUED)

Takaful Risk (Continued)

For family takaful funds, the risk is that the guaranteed certificate benefits must be met even when investment markets perform poorly, or claims experience is higher than expected. As such, the investment profit and surplus distribution to the participants may be reduced.

For investment-linked funds, the risk exposure of the participants' risk fund is limited only to the underwriting aspect as all investment risks are borne by the participants.

Concentration of by type of certificates

The following table shows the concentration of family takaful contract liabilities as at the reporting date, net of retakaful:

	At 31.12.2012		
	Gross RM'000	Retakaful RM'000	Net RM'000
Family takaful plans	54	-	54
Investment-linked takaful plans	68	-	68
Mortgage takaful plans	5	-	5
Group credit takaful plans	34	-	34
	161	-	161

	At 31.12.2011		
	Gross RM'000	Retakaful RM'000	Net RM'000
Family takaful plans	39	-	39
Investment-linked takaful plans	386	-	386
Mortgage takaful plans	103	-	103
Group credit takaful plans	2,748	-	2,748
	3,276	-	3,276

All family takaful fund business is derived in Malaysia. Accordingly, management is of the opinion that analysis of family takaful business by geographical concentration is not relevant.

27. UNDERWRITING RISK (CONTINUED)

Concentration of by type of certificates (Continued)

Key assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated in accordance to the guidelines laid down by Bank Negara Malaysia.

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

i) Mortality and morbidity rates

Assumptions are based on the mortality rates as they reflect the historical local experience and are adjusted, when appropriate, to reflect the participants' own experience. Assumptions are differentiated by gender, occupational class and product group.

An increase in rates will lead to a larger number of claims (as claims could occur sooner than anticipated), which will reduce surplus from the risk fund and subsequently reduce profits for the shareholders in terms of reduction of income arising from the surplus administration charge and the requirement to inject Qardh Hassan (a benevolent loan) into the Tabarru' Fund if there is any underwriting deficit.

ii) Discount rates

The family takaful liabilities are determined in present value terms using the approximate discount rates. Discount rates are based on the Guidelines on Valuation Basis for Liabilities of Family Takaful Business issued by Bank Negara Malaysia. Specifically, the rates used are derived from the Malaysian Government Islamic issued yields, determined based on the following:

(a) for cash flows with durations of less than 15 years- GII zero-coupon spot yield with matching duration; and

(b) for cash flows with duration of 15 years of more – GII zero-coupon spot yield with 15 years term to maturity

27. UNDERWRITING RISK (CONTINUED)

Sensitivity analysis

The sensitivity analysis below shows the impact of change in key parameters on the value of certificate liabilities, and hence on the statement of comprehensive income and Shareholder's equity:

Sensitivity analyses produced are based on parameters set out as follows:

Change in Assumptions

(a)	Scenario 1 – Mortality & Major Illness	+25% for all future years
(b)	Scenario 2 – Mortality & Major Illness	-25% for all future years
(c)	Scenario 3 – Health & Disability	+25% for all future years
(d)	Scenario 4 – Health & Disability	-25% for all future years
(e)	Scenario 5 – Lapse & Surrender rates	+25% for all future years
(f)	Scenario 6 – Lapse & Surrender rates	-25% for all future years
(g)	Scenario 7 – Expenses	+30% for all future years

Impact on one year's profit after tax and Shareholder's equity in RM'000:

01.01.2012 to 31.12.2012	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**	**Scenario 7**
Gross impact	(23)	9	(2)	2	17	(24)	(130)

29.09.2010 to 31.12.2011	**Scenario 1**	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**	**Scenario 6**	**Scenario 7**
Gross impact	(2,590)	989	(345)	71	52	(102)	(222)

The above table demonstrates the sensitivity of the Company's profit and loss after tax to a reasonably possible change in actuarial valuation assumptions on an individual basis with all other variables held constant. Retakaful has no effect on the contract liabilities of the family takaful fund.

27. UNDERWRITING RISK (CONTINUED)

Sensitivity analysis (continued)

The sensitivity analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlations 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. An equal decrease in assumptions would have an equal, but opposite, impact on the gross liabilities, profit before tax and equity of the fund.

At 31 December 2012	Change in assumptions %	Impact on gross liabilities %	Impact on profit before tax %	Impact on equity %
Mortality/Morbidity	+10%	+4.1%	-0.04%	-0.01%
Discount rates	+1%	-6.7%	+0.07%	+0.01%

At 31 December 2011	Impact on Change in assumptions %	Impact on gross liabilities %	profit before tax %	Impact on equity %
Mortality/Morbidity	+10%	+25.9%	-4.6%	-1.1%
Discount rates	+1%	+2.3%	-0.4%	-0.1%

28. FINANCIAL RISK

The Company may be exposed to financial risks arising from transactions in financial instruments. Financial risks include credit risk, liquidity risk and market risk. This note provides information about the Company's exposure to each of the said risks, the Company's objectives, policies and processes for measuring and managing such risks.

Market and credit risk

Market risk arises when the market value of assets and liabilities fluctuates according to market conditions. Changes in profit rates, foreign exchange rates, equity prices and alternative investment prices can impact present and future investment earnings of the takaful operations as well as Shareholder's equity.

The Company is exposed to market risk as well as mismatch risk between the assets and the liabilities of the takaful funds. However, the latter risk is still immaterial as the Company's liabilities are mostly in investment-linked funds and are short term in nature. The Company actively manages market risk through setting and monitoring of the investment policies, asset allocation, portfolio construction and risk management. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies.

Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework. Management of market risk resulting from changes in profit rates and currency exchange rates, volatility in equity price, as well as other risks like credit and liquidity risks are briefly described as follows:

(a) Credit risk

Credit risk represents the loss that would be recognised if counterparties to investment transactions and retakaful failed to meet their contractual obligations.

The Company is exposed to credit risk through (i) investment in bonds and (ii) exposure to counterparty's credit in retakaful contracts. For all types of exposures, financial loss may materialise as a result of credit default by the borrower or counterparty. For investment in bonds, financial loss may materialise as a result of the widening credit spread or a downgrade of credit ratings.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

The Company has internal limits by issuer or counterparty and by credit ratings. These limits are actively monitored to manage the credit and concentration risks. These limits are reviewed on a regular basis. The creditworthiness of retakaful and banks is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

The Company is exposed to investment credit risk on its investment portfolio, primarily from investments in Islamic private debt securities or corporate bonds. Creditworthiness assessment for new and existing investments is undertaken by the Company in accordance with internal investment policies. The credit rating of the Company's bond portfolio is regularly monitored and any downgrade in credit ratings will be evaluated to determine appropriate actions. To-date, the Company's bond portfolio is highly rated, with no material exposures below investment grade.

To mitigate credit risk, investment policies prescribe the minimum credit rating of bonds that may be held. Investments are also managed by diversifying the Company's investment portfolio, which reduces the impact from individual companies defaulting. In addition, counterparty limits are set for investments and cash deposits.

The Company is exposed to retakaful counterparty credit risk where financial loss may arise from a retakaful operator's default, or the deterioration of the retakaful operator's solvency position. Retakaful is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year. The Company gives due consideration to the credit quality of a retakaful operator before incepting a retakaful treaty arrangement.

Credit risk in respect of customer balances incurred on non-payment of contributions or contributions will only persist during the grace period specified in the certificate document until expiry, or when the certificate is either paid up or terminated.

The Company issues investment-linked investment certificates. In the investment-linked business, the participant bears the investment risk on the assets held in the investment-linked funds as the certificate 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.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

The following table shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown as gross, before the effect of mitigation through the use of master netting or collateral agreements and use of credit derivatives.

Credit exposure	Shareholder's fund RM'000	Family fund RM'000	Total RM'000
AFS financial assets:			
Quoted Shariah-approved equities	723	408	1,131
Government investment issues	13,542	2,016	15,558
Islamic private debt securities	46,442	4,078	50,520
Units held in investment-linked fund	9,944	-	9,944
Financial assets at FVTPL:			
Quoted Shariah-approved equities	-	7,380	7,380
Financial instruments with embedded derivatives	-	13	13
Unit trusts	-	199	199
Government investment issues	9,998	24,043	34,041
Islamic private debt securities	-	7,946	7,946
LAR:			
Islamic investment accounts with licensed Islamic banks	10,600	4,314	14,914
Amounts due from family takaful fund	2,759	-	-
Profit due and accrued	569	133	702
Other receivables and deposits	233	8	241
Takaful receivables	-	12,988	12,988
Retakaful assets	-	9,986	9,986
Cash equivalents and bank balances	1,306	5,471	6,777
At 31 December 2012	**96,116**	**78,983**	**172,340**

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

The following table shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown as gross, before the effect of mitigation through the use of master netting or collateral agreements and use of credit derivatives.

Credit exposure	**Shareholder's fund RM'000**	**Family fund RM'000**	**Total RM'000**
AFS financial assets:			
Government investment issues	20,055	999	21,054
Islamic private debt securities	4,043	-	4,043
Units held in investment-linked fund	12,182	-	12,182
Financial assets at FVTPL:			
Quoted Shariah-approved equities	-	6,983	6,983
Financial instruments with embedded derivatives	-	8	8
Unit trusts	-	165	165
Government investment issues	-	999	999
Islamic private debt securities	-	2,576	2,576
LAR:			
Islamic investment accounts with licensed Islamic banks	45,050	9,380	54,430
Amounts due from family takaful fund	4,777	-	-
Profit due and accrued	104	20	124
Other receivables and deposits	139	3	142
Takaful receivables	-	6,344	6,344
Retakaful assets	-	1,549	1,549
Cash equivalents and bank balances	25	3,189	3,214
At 31 December 2011	**86,375**	**32,215**	**113,813**

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

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

	Neither past-due nor impaired					
Shareholder's fund **Credit exposure by credit ratings**	**Government Guaranteed RM'000**	**Investment grade* (BBB to AAA) RM'000**	**Not rated RM'000**	**Not subject to credit risk RM'000**	**Past due** RM'000**	**Total RM'000**
AFS financial assets:						
Quoted Shariah-approved equities	-	-	-	723	-	723
Government investment issues	13,542	-	-	-	-	13,542
Islamic private debt securities	-	40,255	6,187	-	-	46,442
Units held in investment-linked funds	-	-	9,944	-	-	9,944
Financial assets at FVTPL:						
Government investment issues	9,998	-	-	-	-	9,998
LAR						
Islamic investment accounts with licensed Islamic banks	-	-	10,600	-	-	10,600
Amounts due from family takaful fund	-	-	2,759	-	-	2,759
Profit due and accrued	-	-	569	-	-	569
Other receivables and deposits	-	-	233	-	-	233
Cash equivalents and bank balances	-	-	1,306	-	-	1,306
At 31 December 2012	**23,540**	**40,255**	**31,598**	**723**	**-**	**96,116**

* Based on public ratings assigned by external rating agencies including RAM and MARC.
** An ageing analysis for financial assets past due is provided below.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

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

<u>Shareholder's fund</u> Credit exposure by credit ratings	Neither past-due nor impaired Government Guaranteed RM'000	Investment grade* (BBB to AAA) RM'000	Not rated RM'000	Not subject to credit risk RM'000	Past due** RM'000	Total RM'000
AFS financial assets:						
Government investment issues	20,055	-	-	-	-	20,055
Islamic private debt securities	-	4,043	-	-	-	4,043
Units held in investment-linked funds	-	-	12,182	-	-	12,182
LAR						
Islamic investment accounts with licensed Islamic banks	-	-	45,050	-	-	45,050
Amounts due from family takaful fund	-	-	4,777	-	-	4,777
Profit due and accrued	-	-	104	-	-	104
Other receivables and deposits	-	-	139	-	-	139
Cash equivalents and bank balances	-	-	25	-	-	25
At 31 December 2011	**20,055**	**4,043**	**62,277**	**-**	**-**	**86,375**

* Based on public ratings assigned by external rating agencies including RAM and MARC.

** An ageing analysis for financial assets past due is provided below.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

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

	Neither past-due nor impaired					
Family takaful fund **Credit exposure by credit ratings**	**Government Guaranteed RM'000**	**Investment grade* (BBB to AAA) RM'000**	**Not rated RM'000**	**Not subject to credit risk RM'000**	**Past due** RM'000**	**Total RM'000**
AFS financial assets:						
Quoted Shariah-approved equities	-	-	-	408	-	408
Government investment issues	2,016	-	-	-	-	2,016
Islamic private debt securities	-	2,578	1,500	-	-	4,078
Financial assets at FVTPL:						
Quoted Shariah-approved equities	-	-	-	7,380	-	7,380
Financial instruments with embedded derivatives	-	-	-	13	-	13
Unit trusts	-	-	-	199	-	199
Government investment issues	24,043	-	-	-	-	24,043
Islamic private debt securities	-	4,208	3,738	-	-	7,946
LAR						
Islamic investment accounts with licensed Islamic banks	-	-	4,314	-	-	4,314
Profit due and accrued	-	-	133	-	-	133
Other receivables and deposits	-	-	8	-	-	8
Takaful receivables	-	-	10,844	-	2,144	12,988
Retakaful assets	-	-	9,986	-	-	9,986
Cash equivalents and bank balances	-	-	5,471	-	-	5,471
At 31 December 2012	**26,059**	**6,786**	**35,994**	**8,000**	**2,144**	**78,983**

* Based on public ratings assigned by external rating agencies including RAM and MARC.

** An ageing analysis for financial assets past due is provided below.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

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

	Neither past-due nor impaired					
Family takaful fund **Credit exposure by credit ratings**	**Government Guaranteed RM'000**	**Investment grade* (BBB to AAA) RM'000**	**Not rated RM'000**	**Not subject to credit risk RM'000**	**Past due** RM'000**	**Total RM'000**
AFS financial assets:						
Government investment issues	999	-	-	-	-	999
Financial assets at FVTPL:						
Quoted shariah approved shares	-	-	-	6,983	-	6,983
Financial instruments with embedded derivatives	-	-	-	8	-	8
Unit trusts	-	-	-	165	-	165
Government investment issues	999	-	-	-	-	999
Islamic private debt securities	-	2,576	-	-	-	2,576
LAR:						
Islamic investment accounts with licensed Islamic banks	-	-	9,380	-	-	9,380
Profit due and accrued	-	-	20	-	-	20
Other receivables and deposits	-	-	3	-	-	3
Takaful receivables	-	-	4,506	-	1,838	6,344
Retakaful assets	-	-	1,549	-	-	1,549
Cash equivalents and bank balances	-	-	3,189	-	-	3,189
At 31 December 2011	**1,998**	**2,576**	**18,647**	**7,156**	**1,838**	**32,215**

* Based on public ratings assigned by external rating agencies including RAM and MARC.

** An ageing analysis for financial assets past due is provided below.

28. FINANCIAL RISK (CONTINUED)

(a) Credit risk (Continued)

The ageing analysis of financial assets past due but not impaired is as follows:

	At 31.12.2012		
	0 – 60 Days	61 – 180 Days	Total
Family fund	**RM'000**	**RM'000**	**RM'000**
Takaful receivables	-	2,144	2,144

	At 31.12.2011		
	0 – 60 Days	61 – 180 Days	Total
Family fund	**RM'000**	**RM'000**	**RM'000**
Takaful receivables	-	1,838	1,838

(b) Cash flow and liquidity risk

Cash flow and liquidity risks arise when a company is unable to meet its obligations at reasonable cost when required to do so. This typically happens when the investments in the portfolio are not liquid. Demands for funds can usually be met through ongoing normal operations, contributions received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated certificate claims, or other unexpected cash demands from participants.

Expected liquidity demands are managed through a combination of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash flows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times.

The projected cash flows from the in-force takaful contract liabilities consist of renewal contributions, commissions, claims, maturities and surrenders. Renewal contributions, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although relatively small.

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender charges in takaful contracts also protects the Company from losses due to unexpected surrender trends as well as reducing the sensitivity of surrenders to changes in profit rates.

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles

The following table shows the maturity profile of the Company's financial liabilities and the expected recovery or settlement of financial assets based on contractual undiscounted cash flow basis. For takaful contract liabilities and retakaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful liabilities.

	At 31.12.2012						
Shareholder's fund	**Carrying value RM'000**	**0-6 months RM'000**	**6-12 months RM'000**	**1 – 5 years RM'000**	**> 5 years RM'000**	**No maturity date RM'000**	**Total RM'000**
AFS financial assets:							
Quoted Shariah-approved equities	723	-	-	-	-	723	723
Government investment issues	13,542	175	270	3,152	14,126	-	17,723
Islamic private debt securities	46,442	5,399	928	15,240	41,664	-	63,231
Units held in investment-linked funds	9,944	-	-	-	-	9,944	9,944
Financial assets at FVTPL:							
Government investment issues	9,998	9,993	-	-	-	-	9,993
LAR:							
Islamic investment accounts with licensed Islamic banks	10,600	10,327	310	-	-	-	10,637
Amounts due from family takaful fund	2,759	2,177	19	563	-	-	2,759
Profit due and accrued	569	568	1	-	-	-	569
Other receivables and deposits	233	-	-	-	-	233	233
Cash equivalents and bank balances	1,306	-	-	-	-	1,306	1,306
Total assets	**96,116**	**28,639**	**1,528**	**18,955**	**55,790**	**12,206**	**117,118**
Expense liabilities	7,066	-	3,789	3,132	145	-	7,066
Provision for outstanding claims	11	11	-	-	-	-	11
Amounts due to related parties	4,503	3,112	1,391	-	-	-	4,503
Other payables	6,087	4,650	637	800	-	-	6,087
Provisions	2,649	2,649	-	-	-	-	2,649
Total liabilities	**20,316**	**10,422**	**5,817**	**3,932**	**145**	**-**	**20,316**

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles

The following table shows the maturity profile of the Company's financial liabilities and the expected recovery or settlement of financial assets based on contractual undiscounted cash flow basis. For takaful contract liabilities and retakaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognised takaful liabilities.

	At 31.12.2011						
Shareholder's fund	**Carrying value RM'000**	**0-6 months RM'000**	**6-12 months RM'000**	**1 – 5 years RM'000**	**> 5 years RM'000**	**No maturity date RM'000**	**Total RM'000**
AFS financial assets:							
Government investment issues	20,055	10,080	175	10,779	-	-	21,034
Islamic private debt securities	4,043	75	92	4,779	-	-	4,946
Units held in investment-linked funds	12,182	-	-	-	-	12,182	12,182
LAR:							
Islamic investment accounts with licensed Islamic banks	45,050	44,780	311	-	-	-	45,091
Amounts due from family takaful fund	4,777	352	4,425	-	-	-	4,777
Profit due and accrued	104	104	-	-	-	-	104
Other receivables and deposits	139	-	-	-	-	139	139
Cash equivalents and bank balances	25	-	-	-	-	25	25
Total assets	**86,375**	**55,391**	**5,003**	**15,558**	**-**	**12,346**	**88,298**
Expense liabilities	3,402	3,402	-	-	-	-	3,402
Amounts due to related parties	5,295	4,250	1,045	-	-	-	5,295
Other payables	2,282	2,282	-	-	-	-	2,282
Provisions	1,505	1,505	-	-	-	-	1,505
Total liabilities	**12,484**	**11,439**	**1,045**	**-**	**-**	**-**	**12,484**

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles (Continued)

The following table shows the maturity profile of the Company's financial liabilities and the expected recovery or settlement of financial assets based on contractual undiscounted cash flow basis.

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

	At 31.12.2012						
Family takaful fund	**Carrying value RM'000**	**0-6 months RM'000**	**6-12 months RM'000**	**1 – 5 years RM'000**	**> 5 years RM'000**	**No maturity date RM'000**	**Total RM'000**
AFS financial assets:							
Quoted Shariah-approved equities	408	-	-	-	-	408	408
Government investment issues	2,016	35	39	312	2,737	-	3,123
Islamic private debt securities	4,078	48	90	1,185	4,361	-	5,684
Financial assets at FVTPL:							
Quoted Shariah-approved equities	7,380	-	-	-	-	7,380	7,380
Financial instruments with embedded derivatives	13	-	-	-	-	13	13
Unit trusts	199	-	-	-	-	199	199
Government investment issues	24,043	19,830	79	1,621	3,888	-	25,418
Islamic private debt securities	7,946	91	151	2,204	8,097	-	10,543
LAR:							
Islamic investment accounts with licensed Islamic banks	4,314	4,316	-	-	-	-	4,316
Profit due and accrued	133	133	-	-	-	-	133
Other receivables and deposits	8	8	-	-	-	-	8
Takaful receivables	12,988	12,988	-	-	-	-	12,988
Retakaful assets	9,986	2,727	6,619	640	-	-	9,986
Cash equivalents and bank balances	5,471	-	-	-	-	5,471	5,471
Total assets	**78,983**	**40,176**	**6,978**	**5,962**	**19,083**	**13,471**	**85,670**

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles (Continued)

	At 31.12.2012						
<u>Family takaful fund</u>	Carrying value RM'000	0-6 months RM'000	6-12 months RM'000	1 – 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Actuarial liabilities	28,598	2,422	147	2,085	23,944	-	28,598
Provision for outstanding claims	9,782	7,212	2,143	427	-	-	9,782
Due to clients, agents, and other intermediaries	1,111	1,111	-	-	-	-	1,111
Due to retakaful operators	18,378	7,911	8,126	2,341	-	-	18,378
Amount due to shareholder's fund	2,759	2,177	19	563	-	-	2,759
Other payables	13,642	13,436	48	158	-	-	13,642
Total liabilities	**74,270**	**34,269**	**10,483**	**5,574**	**23,944**	**-**	**74,270**

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles (Continued)

The following table shows the maturity profile of the Company's financial liabilities and the expected recovery or settlement of financial assets based on contractual undiscounted cash flow basis.

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

	At 31.12.2011						
Family takaful fund	**Carrying value RM'000**	**0-6 months RM'000**	**6-12 months RM'000**	**1 – 5 years RM'000**	**> 5 years RM'000**	**No maturity date RM'000**	**Total RM'000**
AFS financial assets:							
Government investment issues	999	999	-	-	-	-	999
Financial assets at FVTPL:							
Quoted shariah approved shares	6,983	-	-	-	-	6,983	6,983
Financial instruments with embedded derivatives	8	-	-	-	-	8	8
Unit trusts	165	-	-	-	-	165	165
Government investment issues	999	999	-	-	-	-	999
Islamic private debt securities	2,576	47	63	506	3,209	-	3,825
LAR:							
Islamic investment accounts with licensed Islamic banks	9,380	9,380	-	-	-	-	9,380
Profit due and accrued	20	20	-	-	-	-	20
Other receivables, deposits and prepayments	3	3	-	-	-	-	3
Takaful receivables	6,344	6,344	-	-	-	-	6,344
Retakaful assets	1,549	1,549	-	-	-	-	1,549
Cash equivalents and bank balances	3,189	-	-	-	-	3,189	3,189
Total assets	**32,215**	**19,341**	**63**	**506**	**3,209**	**10,345**	**33,464**

28. FINANCIAL RISK (CONTINUED)

(b) Cash flow and liquidity risk (Continued)

Maturity profiles (Continued)

	At 31.12.2011						
Family takaful fund	**Carrying value RM'000**	**0-6 months RM'000**	**6-12 months RM'000**	**1 – 5 years RM'000**	**> 5 years RM'000**	**No maturity date RM'000**	**Total RM'000**
Actuarial liabilities	18,551	-	18,551	-	-	-	18,551
Provision for outstanding claims	1,794	1,794	-	-	-	-	1,794
Due to clients, agents, and other intermediaries	154	154	-	-	-	-	154
Due to retakaful operators	4,895	4,895	-	-	-	-	4,895
Amount due to shareholder's fund	4,777	352	4,425	-	-	-	4,777
Other payables	859	704	155	-	-	-	859
Total liabilities	**31,030**	**7,899**	**23,131**	**-**	**-**	**-**	**31,030**

28. FINANCIAL RISK (CONTINUED)

(c) Profit rate risk (including asset liability mismatch)

The Company is exposed to fair value profit rate risk through (i) investments in deposits and money market instruments in both the Shareholder's fund and the family fund and (ii) contract liabilities in the takaful funds. This happens when there are changes to profit rates, resulting in changes to fair values rather than cash flows; an example being fixed profit rate loans and assets. Conversely, floating rate loans expose the Company to cash flow profit rate risk.

Since the Shareholder's fund has exposure to investments in fixed income instruments but no exposure to takaful contract liabilities, it will incur an economic loss when profit rates rise.

Given the long duration of contract liabilities and uncertainty of cash flows for takaful funds, it is not possible to hold assets that will perfectly match the contract liabilities. This results in a net profit rate risk or asset liability mismatch risk. On the other hand, the takaful funds are likely to incur economic loss when profit rates drop since the duration of participants' liabilities are generally longer than the duration of the fixed income assets.

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 following tables set out the carrying amount, by maturity, of the Company's financial instruments that are exposed to profit rate risk.

	← At 31.12.2012 →		
Shareholder's fund	**Within 1 year RM'000**	**1 to 5 years RM'000**	**Total RM'000**
Government investment issues	9,998	13,542	23,540
Islamic private debt securities	4,983	41,459	46,442
Islamic investment accounts with licensed Islamic banks	10,600	-	10,600
	25,581	**55,001**	**80,582**

28. FINANCIAL RISK (CONTINUED)

(c) Profit rate risk (including asset liability mismatch)

	At 31.12.2011		
Shareholder's fund	**Within 1 year RM'000**	**1 to 5 years RM'000**	**Total RM'000**
Government investment issues	9,977	10,078	20,055
Islamic private debt securities	-	4,043	4,043
Islamic investment accounts with licensed Islamic banks	45,050	-	45,050
	55,027	**14,121**	**69,148**

	At 31.12.2012		
Family takaful fund	**Within 1 year RM'000**	**1 to 5 years RM'000**	**Total RM'000**
Government investment issues	19,785	6,274	26,059
Islamic private debt securities	-	12,024	12,024
Islamic investment accounts with licensed Islamic banks	4,314	-	4,314
	24,099	**18,298**	**42,397**

	At 31.12.2011		
Family takaful fund	**Within 1 year RM'000**	**1 to 5 years RM'000**	**Total RM'000**
Government investment issues	1,998	-	1,998
Islamic private debt securities	-	2,576	2,576
Islamic investment accounts with licensed Islamic banks	9,380	-	9,380
	11,378	**2,576**	**13,954**

28. FINANCIAL RISK (CONTINUED)

(c) Profit rate risk (including asset liability mismatch)

Sensitivity analysis on financial risks

The analysis below is performed for reasonably possible movements in key variables with all other variables being held constant. The correlation of variables will have a significant effect in determining the ultimate fair value and/or amortised cost of financial assets, but to demonstrate the impact due to changes in variables, these variables have to be changed on an individual basis. It should be noted that the movements in these variables are non-linear.

The impact on net profit after tax represents the effect caused by changes in fair value of financial assets whose fair values are recorded in profit and loss, and changes in valuation of takaful contract liabilities. The impact on equity represents the impact on net profit after tax and the effect on changes in fair value of financial assets held in the Shareholder’s fund.

28. FINANCIAL RISK (CONTINUED)

(c) Profit rate risk (including asset liability mismatch)

Sensitivity analysis on financial risks

Market risk sensitivity analysis is as follows:

	At 31.12.2012			
	Changes in basis points RM'000	**Impact on asset RM'000**	**Impact on AFS reserve RM'000**	**Impact on profit before tax RM'000**
Shareholder's fund				
Debt securities	+ 100	49,986	(59,984)	9,998
	- 100	(49,986)	59,984	(9,998)
Family fund				
Debt securities	+ 100	25,895	(6,094)	31,989
	- 100	(25,895)	6,094	(31,989)

	At 31.12.2011			
	Changes in basis points RM'000	**Impact on asset RM'000**	**Impact on AFS reserve RM'000**	**Impact on profit before tax RM'000**
Shareholder's fund				
Debt securities	+ 100	4,043	(4,043)	-
	- 100	(4,043)	4,043	-
Family fund				
Debt securities	+ 100	3,575	(999)	(2,576)
	- 100	(3,575)	999	2,576

28. FINANCIAL RISK (CONTINUED)

(d) Foreign currency risk

Investments denominated in foreign currencies are limited to 10% with no country limit, subject to the foreign investments being in jurisdictions with sovereign ratings at least equivalent to that of Malaysia, as prescribed by the regulator. Most of the foreign currency risk comes from the investment-linked fund's equity investments in Singapore, which are long-term in nature with good dividends on purchase cost. The percentage exposure is small. Foreign currency risks of the takaful funds are borne by the participants and not the Company.

The table below shows the foreign exchange position of the Company's financial assets by major currencies.

	At 31.12.2012		
	RM	**SGD**	**TOTAL**
Family takaful fund	**RM'000**	**RM'000**	**RM'000**
AFS financial assets:			
Quoted Shariah-approved equities	408	-	408
Government investment issues	2,016	-	2,016
Islamic private debt securities	4,078	-	4,078
Financial assets at FVTPL:			
Quoted Shariah-approved equities	7,325	55	7,380
Financial instruments with embedded derivatives	13	-	13
Unit trusts	199	-	199
Government investment issues	24,043	-	24,043
Islamic private debt securities	7,946	-	7,946
LAR:			
Islamic investment accounts with licensed Islamic banks	4,314	-	4,314
Profit due and accrued	133	-	133
Other receivables and deposits	8	-	8
Takaful receivables	12,988	-	12,988
Retakaful assets	9,986	-	9,986
Cash equivalents and bank balances	5,471	-	5,471
At 31 December 2012	**78,928**	**55**	**78,983**

28. FINANCIAL RISK (CONTINUED)

(d) Foreign currency risk (Continued)

	At 31.12.2011		
	RM	**SGD**	**TOTAL**
Family takaful fund	**RM'000**	**RM'000**	**RM'000**
AFS financial assets:			
Government investment issues	999	-	999
Financial assets at FVTPL:			
Quoted Shariah-approved equities	6,938	45	6,983
Financial instruments with embedded derivatives	8	-	8
Unit trusts	165	-	165
Government investment issues	999	-	999
Islamic private debt securities	2,576	-	2,576
LAR:			
Islamic investment accounts with licensed Islamic banks	9,380	-	9,380
Profit due and accrued	20	-	20
Other receivables and deposits	3	-	3
Takaful receivables	6,344	-	6,344
Retakaful assets	1,549	-	1,549
Cash equivalents and bank balances	3,189	-	3,189
At 31 December 2011	**32,170**	**45**	**32,215**

There are no foreign currency exposures with respect to the financial assets and liabilities of the shareholder's fund.

(e) Equity 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 profit yield risk or currency risk), regardless of whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market.

28. FINANCIAL RISK (CONTINUED)

(e) Equity price risk (Continued)

Exposure to equity price risk exists in both assets and liabilities. Asset exposure exists through direct equity investment, where the Company through its investments in the Shareholder's fund and takaful funds, bears all or most of the volatility in returns and investment performance risk.

Equity price risk also exists in investment-linked products where the revenues of the takaful operations are linked to the value of the underlying equity funds since this has an impact on the level of fees earned.

The Company has a robust monitoring process in place to manage equity risk by activating appropriate transfer strategies to limit the downside risk at certain predetermined levels. Limits are set for single security holdings as to country, sector, market and issuer, as a percentage of equity holdings, having regards to such limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

	At 31.12.2012		
Family takaful fund	**Changes in basis points**	**Impact on asset RM'000**	**Impact on surplus before tax RM'000**
Market indices			
Bursa Malaysia	+ 5	4	4
Bursa Malaysia	- 5	(4)	(4)

	At 31.12.2011		
Family takaful fund	**Changes in basis points**	**Impact on asset RM'000**	**Impact on surplus before tax RM'000**
Market indices			
Bursa Malaysia	+ 5	4	4
Bursa Malaysia	- 5	(4)	(4)

28. FINANCIAL RISK (CONTINUED)

(f) Credit spread risk

Exposure to credit spread risk exists in the Company's investments in Islamic private debt securities or corporate bonds. Credit spread is the difference between the corporate yields against risk-free rate of the same tenure. When spreads widen, it generally implies that the market is factoring more risk of default on lower grade bonds. A widening in credit spreads will result in a fall in the values of the Company's bond portfolio.

(g) Concentration risk

An important element of managing both market and credit risk is to actively manage concentration to specific issuers, counterparties, industry sectors, countries and currencies. Both internal and regulatory limits are put in place and monitored to manage these risks. These limits are reviewed on a regular basis by the ALC.

29. OPERATIONAL AND COMPLIANCE RISK

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors, fraud or external events. Operational risks can cause damage to the Company's reputation, have legal or regulatory implications or can lead to financial loss.

Compliance risk is any event or action that may potentially impact partly or completely the achievement of the Company's objectives, via legal or regulatory sanctions or financial losses, as a result of its failure to comply with business principles, internal policies and procedures, applicable laws, regulations, rules and standards governing the Company's products, services and activities including codes and conducts of the Company's industry.

The Company has established a Risk Management and Compliance Department to oversee all compliance aspects in observing the regulatory requirements. The day-to-day management of operational and compliance risk is effected through the maintenance of reasonable internal controls and processes, supported by an infrastructure of systems and procedures to monitor processes and transactions.

Operational and compliance issues are reviewed and monitored by the SMT in its monthly meetings. The Internal Audit team reviews the systems of internal control to assess their effectiveness and continued relevance, and report at least quarterly to the Audit Committee.

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The bases by which fair values of financial assets, takaful receivables, takaful payables and other financial liabilities are disclosed in Note 2.2(g) as well as the relevant explanatory notes in the financial statements.

The fair values of financial assets can be classified in accordance to the fair value hierarchy as defined by FRS 7 *Financial Instruments: Disclosures*. The different levels of the fair value hierarchy are an indication of the observability of prices or valuation inputs. The definition of the different levels of the fair value hierarchy is as follows:

(i) Level 1: Active market – quoted prices

Prices of financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, or other counterparty, and those prices reflect actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include equity investments listed on exchanges and unit trusts where unit prices are published or otherwise available.

(ii) Level 2: No active market – valuation using market observable inputs

Fair values of these financial instruments are valued using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).This includes financial instruments where prices are determined and estimated by pricing services or other agencies including most unquoted private debt securities and government investment issues.

(iii) Level 3: No active market – valuation using non-market observable inputs

These financial instruments are valued using inputs that are not based on observable market data. Examples of such instruments include unquoted corporate bonds in illiquid markets, non-listed equity investments and over-the-counter derivatives.

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

An analysis of the methods used in determining the fair values of financial assets in accordance with the fair value hierarchy follows:

	At 31.12.2012		
Shareholder's fund	**Level 1 RM'000**	**Level 2 RM'000**	**Total RM'000**
AFS financial assets:			
Quoted Shariah-approved equities	723	-	723
Government investment issues	-	13,542	13,542
Islamic private debt securities	-	46,442	46,442
Units held in investment-linked fund	9,944	-	9,944
Financial assets at FVTPL:			
Government investment issues	-	9,998	9,998
	10,667	**69,982**	**80,649**

	At 31.12.2012		
Family takaful fund	**Level 1 RM'000**	**Level 2 RM'000**	**Total RM'000**
AFS financial assets:			
Quoted Shariah-approved equities	408	-	408
Government investment issues	-	2,016	2,016
Islamic private debt securities	-	4,078	4,078
Financial assets at FVTPL:			
Quoted Shariah-approved equities	7,380	-	7,380
Financial instruments with embedded derivatives	13	-	13
Unit trusts - REITS	199	-	199
Government investment issues	-	24,043	24,043
Islamic private debt securities	-	7,946	7,946
	8,000	**38,083**	**46,083**

There were no financial instruments whose fair values were determined based on Level 3 of the fair value hierarchy during the period from 1 January 2012 to 31 December 2012 nor were there any significant transfers between different levels of the fair value hierarchy during the same period.

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

An analysis of the methods used in determining the fair values of financial assets in accordance with the fair value hierarchy follows:

	At 31.12.2011		
Shareholder's fund	**Level 1 RM'000**	**Level 2 RM'000**	**Total RM'000**
AFS financial assets:			
Government investment issues	-	20,055	20,055
Islamic private debt securities	-	4,043	4,043
Units held in investment-linked fund	12,182	-	12,182
	12,182	**24,098**	**36,280**

	At 31.12.2011		
Family takaful fund	**Level 1 RM'000**	**Level 2 RM'000**	**Total RM'000**
AFS financial assets:			
Government investment issues	-	999	999
Financial assets at FVTPL:			
Quoted Shariah-approved equities in Malaysia	6,983	-	6,983
Financial instruments with embedded derivatives	8	-	8
Unit trusts	165	-	165
Government investment issues	-	999	999
Islamic private debt securities	-	2,576	2,576
	7,156	**4,574**	**11,730**

There were no financial instruments whose fair values were determined based on Level 3 of the fair value hierarchy during the period from 29 September 2010 to 31 December 2011 nor were there any significant transfers between different levels of the fair value hierarchy during the same period.

31. SHARIAH NON-COMPLIANCE RISK

Shariah non-compliance risk refers to possible failure to meet the obligation of Shariah principles and values. When controls fail to perform, Shariah non-compliance risk can cause reputational and operational damage, have regulatory implications or can even lead to financial loss and ultimately impediment from Allah's barakah and blessing.

The Company has in place a robust Shariah control framework to mitigate such risks by constantly monitoring the complete end-to-end processes and operations of the Company in all aspects. Controls include effective oversight of the Shariah Committee, supported by internal Shariah Compliance Department, Shariah risk management process and Shariah audit. Other relevant controls include staff awareness training programmes and internal operating Shariah Compliance Manual.

32. OPERATING LEASE AGREEMENTS

The Company has entered into non-cancellable operating lease agreements for the use of office premises. The leases are for a period of 3 years. There are no restrictions placed upon the Company by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as at the reporting date but not recognised as liabilities, are as follows:

Shareholder's fund	At 31.12.2012 RM'000	At 31.12.2011 RM'000
Not later than 1 year	154	931
Later than 1 year but not later than 5 years	2,238	1,401
	2,392	2,332

33. COMPARATIVES

The comparative figures are prepared from the date of the Company's incorporation on 29 September 2010 to 31 December 2011.