

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012**

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012

CONTENTS

	PAGES
DIRECTORS' REPORT	1 - 14
STATEMENT BY DIRECTORS	15
STATUTORY DECLARATION	15
SHARIAH COMMITTEE'S REPORT	16 - 17
INDEPENDENT AUDITORS' REPORT	18 - 19
STATEMENT OF FINANCIAL POSITION	20
FAMILY TAKAFUL STATEMENT OF FINANCIAL POSITION	21
STATEMENT OF COMPREHENSIVE INCOME	22
FAMILY TAKAFUL STATEMENT OF COMPREHENSIVE INCOME	23
STATEMENT OF CHANGES IN EQUITY	24
CASH FLOW STATEMENT	25 - 26
NOTES TO THE FINANCIAL STATEMENTS	27 - 82

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 November 2012.

PRINCIPAL ACTIVITIES

The Company is engaged principally in managing Family Takaful including investment-linked Takaful business.

There have been no significant changes in these activities during the financial year.

RESULTS

	RM'000
Loss for the financial year	<u>(10,901)</u>

DIVIDEND

No dividend was paid or declared by the Company since the end of the previous financial year and the Directors do not recommend any dividend for the current financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year, other than those disclosed in the financial statements.

PROVISION FOR OUTSTANDING CLAIMS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for incurred claims, including incurred but not reported ('IBNR') claims.

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CONTINGENT AND OTHER LIABILITIES (CONTINUED)

No contingent 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, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet their obligations when they fall due.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who served office since the date of the last report are:

Khor Hock Seng (Resigned on 7.12.2012)
Dato' Thomas Mun Lung Lee
Dato' Majid bin Mohamad
Mohd Daruis bin Zainuddin
Foong Sai Cheong
Lim Kheng Swee

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive any benefit (other than Directors' remuneration as shown in Note 17 to the financial statements) by reason of a contract made by the Company or a related corporation with any Directors or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTEREST

According to the Register of Directors' shareholdings, the interests of the Directors in the office at the end of the financial year in shares and options over shares in the Company's ultimate holding company during the financial year were as follows:

	Number of ordinary shares of US\$1.00 each			
	As at 1.12.2011	Bought	Sold	As at 30.11.2012
<u>AIA Group Limited</u>				
Direct Interest				
Khor Hock Seng	30,762	4,218	-	34,980
Foong Sai Cheong	22,807	4,384	-	27,191

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTEREST (CONTINUED)

	Number of matching shares over ordinary shares of US\$1.00 each under Employee Share Purchase Plan			
	As at	Granted	Exercised	As at
	<u>1.12.2011</u>			<u>30.11.2012</u>
<u>AIA Group Limited</u>				
Khor Hock Seng	381	2,091	-	2,472
Foong Sai Cheong	403	2,173	-	2,576

	Number of restricted share units over ordinary shares of US\$1.00 each			
	As at	Granted	Exercised	As at
	<u>1.12.2011</u>			<u>30.11.2012</u>
<u>AIA Group Limited</u>				
Khor Hock Seng	127,953	121,902	-	249,855
Foong Sai Cheong	107,399	72,624	-	180,023

	Number of share options over ordinary shares of US\$1.00 each			
	As at	Granted	Exercised	As at
	<u>1.12.2011</u>			<u>30.11.2012</u>
<u>AIA Group Limited</u>				
Khor Hock Seng	63,977	60,951	-	124,928
Foong Sai Cheong	142,716	36,312	-	179,028

Employee share purchase plan, restricted share units and share options are granted to certain employees, directors and officers of the Company under the Employee Share Purchase Plan, Restricted Share Unit Scheme and Share Option Scheme of AIA Group Limited. Details of the employee share purchase plan, restricted share units and share options are set out in Note 25 to the financial statements.

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

At the date of Statement of Financial Position, the Company was a 70% owned subsidiary of American International Assurance Bhd. ("AIA Bhd"), a company incorporated in Malaysia. The Directors regard AIA Group Limited ("AIAGL"), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited as its ultimate holding company.

STATEMENT ON CORPORATE GOVERNANCE

The Company has taken concerted steps to ensure compliance with Bank Negara Malaysia's ("BNM") Guidelines on Directorship for Takaful Operators and Shariah Governance Framework for Islamic Financial Institutions.

Company No.

924363	W
--------	---

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT

The Board of Directors ("the Board") is responsible for the overall governance of the Company and discharges this responsibility through compliance with the Takaful Act, 1984 ("the Act"), Guidelines on Directorship for Takaful Operators and Shariah Governance Framework for Islamic Financial Institutions issued by BNM and other directives, in addition to adopting other best practices on corporate governance.

The Board has an overall responsibility to lead the Company, including setting the strategic future direction, review viability of the corporate objective and overseeing the conduct and performance of business.

The Board comprises three Independent Non-Executive Directors and three Non-Independent Non-Executive Directors to enable a balanced and objective consideration of issues, hence facilitating optimal decision-making.

The Board met seven times during the financial year. All Directors in office at the end of the financial year complied with the 75% minimum attendance requirement at such meeting.

The number of meetings attended by each Director during the financial year are as follows:

<u>Name of Directors</u>	No of.	<u>attendance</u>
Dato' Thomas Mun Lung Lee	Chairman (Independent Non-Executive)	6/7
Khor Hock Seng (Resigned on 7 December 2012)	Member (Non-Independent Non-Executive)	7/7
Dato' Majid bin Mohamad	Member (Independent Non-Executive)	7/7
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	7/7
Foong Sai Cheong	Member (Non-Independent Non-Executive)	6/7
Lim Kheng Swee	Member (Non-Independent Non-Executive)	7/7

To support sound corporate governance and processes, the Board formed various Board Committees namely Nominating Committee, Remuneration Committee, Risk Management Committee and Audit Committee ("the Committees") in accordance with the requirements of BNM's Guidelines on Directorship for Takaful Operators.

The roles and members of the Committees are as provided below.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Nominating Committee

Dato' Majid bin Mohamad	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Khor Hock Seng (Resigned on 7 December 2012)	Member (Non-Independent Non-Executive)
Foong Sai Cheong	Member (Non-Independent Non-Executive)
Lim Kheng Swee	Member (Non-Independent Non-Executive)

The objective of the Nominating Committee ("NC") is to establish a documented, formal and transparent procedure for the appointment of Directors, Chief Executive Officer ("CEO"), key senior officers ("KSOs") and Shariah Committee members and to assess the effectiveness of individual Directors, the Board as a whole (including various committees of the Board), CEO, KSOs and Shariah Committee members on an on-going basis.

The principal duties and responsibilities of NC are:

- (a) establishing minimum requirements for the Board, the CEO and Shariah Committee members to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and mix of skills, the balance between executive, non-executive and independent Directors, and other core competencies required;
- (b) recommending and assessing the nominees for Directorship, the Directors to fill Board Committees, as well as nominees for the CEO and Shariah Committee members position. This includes assessing Directors, the CEO and Shariah Committee members proposed for reappointment before an application for approval is submitted to BNM;
- (c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the CEO and Shariah Committee members. The assessments should also include ascertaining that the Director is not disqualified under the relevant law and fulfill the 'fit and proper' criteria;
- (d) recommending to the Board the removal of a Director or CEO or Shariah Committee member if he is ineffective, errant or negligent in discharging his responsibilities;
- (e) ensuring that all Directors undergo appropriate induction programmes and receive continuous training; and
- (f) overseeing the appointment, management succession planning and performance evaluation of KSOs, and recommending to the Board the removal of KSOs if they are ineffective, errant and negligent in discharging their responsibilities.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

During the financial year, the NC held four meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the NC are as follows :

		<u>No of. Attendance</u>
Dato' Majid bin Mohamad	Chairman (Independent Non-Executive)	4/4
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	4/4
Khor Hock Seng	Member (Non-Independent Non-Executive)	4/4
Foong Sai Cheong	Member (Non-Independent Non-Executive)	3/4
Lim Kheng Swee	Member (Non-Independent Non-Executive)	4/4

Remuneration Committee

The Remuneration Committee ("RC") comprises three members as follows:

Dato' Majid bin Mohamad	Chairman (Independent Non-Executive)
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)
Khor Hock Seng	Member (Non-Independent Non-Executive)

The objective of the RC is to provide a formal and transparent procedure for developing a remuneration policy for Directors, CEO, KSOs and Shariah Committee members and ensuring that their compensation is competitive and consistent with the Company's culture, objectives and strategy.

The principal duties and responsibilities of RC are:

- (a) recommending a framework for the remuneration of Directors, the CEO, KSOs and Shariah Committee members. The remuneration policy should:
- be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - reflect the experience and level of responsibility borne by individual Directors, the CEO, KSOs and Shariah Committee members;
 - be sufficient to attract and retain Directors, CEO, KSOs and Shariah Committee members of calibre needed to manage the Company successfully; and
 - be balanced against the need to ensure that the funds of the Company are not used to subsidise excessive remuneration packages and should not create incentives for irresponsible behaviour or insider excesses.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Remuneration Committee (continued)

- (b) recommending specific remuneration packages for Directors, CEO, KSOs and Shariah Committee members. The remuneration packages should :
- be based on objective considerations and approved by the full Board;
 - take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Directors, CEO, KSOs or Shariah Committee members concerned;
 - not be decided by the exercise of sole discretion by any one individual or restricted group of individuals; and
 - be competitive and consistent with the Company's culture, objectives and strategy.

During the financial year, the RC held three meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the RC is as follows :

		<u>No of. attendance</u>
Dato' Majid bin Mohamad	Chairman (Independent Non-Executive)	3/3
Mohd Daruis bin Zainuddin	Member (Independent Non-Executive)	3/3
Khor Hock Seng	Member (Non-Independent Non-Executive)	3/3

Risk Management Committee

The Risk Management Committee ("RMC") comprises three members as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Majid bin Mohamad	Member (Independent Non-Executive)
Lim Kheng Swee	Member (Non-Independent Non-Executive)

The objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that an appropriate risk management process is in place and functioning effectively.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Risk Management Committee (continued)

The principal duties and responsibilities of RMC are:

- (a) reviewing and recommending risk management strategies, policies and risk tolerance levels for the Board's approval;
- (b) reviewing and assessing the adequacy of the risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;
- (c) ensuring that adequate infrastructure, resources and systems are in place for effective risk management; e.g. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Company's risk taking activities; and
- (d) reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

During the financial year, the RMC held four meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the RMC are as follows:

		<u>No of. attendance</u>
Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)	4/4
Dato' Majid bin Mohamad	Member (Independent Non-Executive)	4/4
Lim Kheng Swee	Member (Non-Independent Non-Executive)	4/4

Audit Committee

The Audit Committee ("AC") comprises three members as follows:

Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)
Dato' Majid bin Mohamad	Member (Independent Non-Executive)

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

The primary objective of the AC is to ensure the integrity and transparency of the financial reporting process.

The principal duties and responsibilities of the AC are:

- (a) ensuring that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;
- (b) reviewing and concurring the annual audit plan, audit charter and annual budget of the internal audit department and the appointment of the external auditors;
- (c) ensuring that internal audit staff have free and unrestricted access to the Company's records, assets, personnel or processes relevant to and within the scope of the audits;
- (d) reviewing various relationships between the external auditors and the Company or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the Company;
- (e) reviewing with the external auditors that appropriate audit plans are in place and the scope of the audit plans reflect the terms of the engagement letter;
- (f) reviewing with the external auditors the financial statements, audit reports, including obligation reports to BNM and discuss the findings and issues arising from the external audit;
- (g) ensuring that management's remediation efforts with respect to all findings and recommendations are resolved effectively and in a timely manner;
- (h) approving the provision of non-audit services by the external auditors and ensuring that the level of provision of non-audit services is compatible with maintaining auditor independence;
- (i) reviewing the Chairman's statement, interim financial reports, preliminary announcements and corporate governance disclosures in the Directors' Report;
- (j) reviewing any related party transactions and conflicts of interest situations that may arise including any transaction, procedure or conduct that raises questions of management integrity;
- (k) ensuring that the Company's accounts are prepared and published in a timely and accurate manner for regulatory, management and general reporting purposes; and
- (l) submitting to BNM annually, a summary of material concerns/weaknesses in the internal control environment of the Company noted during the year and the corresponding measures taken to address those weaknesses.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(A) BOARD RESPONSIBILITIES AND OVERSIGHT (CONTINUED)

Audit Committee (continued)

The AC has the authority to investigate any matter within its terms of reference and has unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Company.

During the financial year, the AC held four meetings and discharged its responsibilities as prescribed by the terms of reference. The number of meetings attended by each member of the AC are as follows:

	No of. <u>Attendance</u>	
Mohd Daruis bin Zainuddin	Chairman (Independent Non-Executive)	4/4
Dato' Thomas Mun Lung Lee	Member (Independent Non-Executive)	4/4
Dato' Majid bin Mohamad	Member (Independent Non-Executive)	3/4

(B) MANAGEMENT ACCOUNTABILITY

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing policy on executive remuneration. None of the Directors and senior management of the Company has, in any circumstances, conflict of interest referred to in Sections 19 of the Act.

The Management meets all prescriptive requirements under this section, and has already adopted best practices in the areas of organisational structure and allocation of responsibilities, conflicts of interest, goal setting and the area of communication.

(C) CORPORATE INDEPENDENCE

All material related party transactions are conducted on agreed terms as specified under BNM's Guidelines on Related-Party Transactions for Takaful Operators. Related parties transactions and balances have been disclosed in the financial statements in compliance with Financial Reporting Standards ("FRS"), being the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the guidelines issued by BNM pursuant to the Act.

AIA AFG TAKAFUL BHD.

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

(D) INTERNAL CONTROLS AND OPERATIONAL RISKS MANAGEMENT

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which includes the setting of operational risk limits for all core activities. The Company has established internal controls which cover all levels of personnel that is capable of recognising and continually assessing material risks, including underwriting risk, reinsurance risk, investment risk, operational and legal risk, that could affect its performance and financial condition.

Continuous review and assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken on a timely manner.

(E) INTERNAL AUDIT

The internal audit function is provided by the ultimate holding company, AIAGL. Group Internal Audit ("GIA"), which reports directly to AIAGL's Audit Committee, assist the Company's Audit Committee in discharging its duties and responsibilities.

The main function of GIA includes assessment of effectiveness and adequacy of internal controls, which includes an independent examination of controls and ensure corrective actions, where necessary, are taken in a timely manner.

(F) PUBLIC ACCOUNTABILITY

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. The Company meets all prescriptive and best practice requirements under this section relating to unfair practices.

(G) FINANCIAL REPORTING

The Board has the overall responsibilities to ensure that accounting records are properly kept and that the Company's financial statements are prepared in accordance with FRS, being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the guidelines issued by BNM pursuant to the Act and comply with the provisions of the Companies Act, 1965. The Company meets all prescriptive requirements under this section relating to proper records, annual reports, public disclosure and statutory reporting. In addition, the Company also meets the best practice requirements relating to management reporting, where the key performance indicators are reported on a monthly basis.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)


(H) AUDIT COMMITTEE

The Company's financial reporting and internal control system are overseen by the Audit Committee, which comprises three Independent Non-Executive Directors. The Audit Committee's role is to provide a direct link between the Board and the internal and external audit functions of the Company. The business covered by the Audit Committee is governed by a charter approved by the Board, which includes the review of financial information provided to shareholders and BNM to ensure compliance with the Act, BNM's guidelines, the Companies Act, 1965 and other regulations.

AUDITORS

Messrs PricewaterhouseCoopers have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors passed on 18 February 2013.



MOHD DARUIS BIN ZAINUDDIN
DIRECTOR



LIM KHENG SWEE
DIRECTOR

Kuala Lumpur, Malaysia

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

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

We, Mohd Daruis bin Zainuddin and Lim Kheng Swee, two of the Directors of AIA AFG Takaful Bhd., state that, in the opinion of the Directors, the accompanying financial statements set out on pages 20 to 82 are drawn up so as to show a true and fair view of the state of affair of the Company as at 30 November 2012 and of the results and cash flows of the Company for the financial year ended on that date in accordance with Financial Reporting Standards, being the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984, and in compliance with the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Director in accordance with their resolution dated 18 February 2013.



MOHD DARUIS BIN ZAINUDDIN
DIRECTOR



LIM KHENG SWEE
DIRECTOR

Kuala Lumpur, Malaysia

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

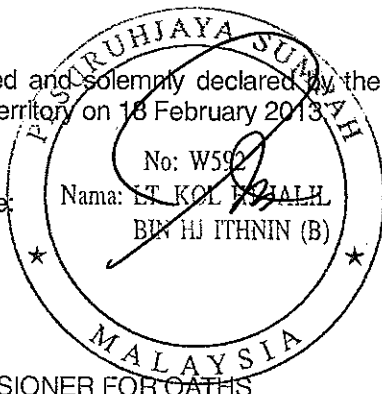
I, Loke Chang Yueh, the officer primarily responsible for the financial management of AIA AFG Takaful Bhd., do solemnly and sincerely declare that the financial statements for the financial year ended 30 November 2012 set out on pages 20 to 82 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.



LOKE CHANG YUEH

Subscribed and solemnly declared by the abovenamed Loke Chang Yueh at Kuala Lumpur in the Federal Territory on 18 February 2013.

Before me:



COMMISSIONER FOR OATHS

Tkt. 5, Wisma Harwant

106 Jalan Tuanku Abd Rahman

K. Lumpur HP: 019-233 4416

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

SHARIAH COMMITTEE REPORT

In the name of Allah, the Most Beneficent, the Most Merciful

To the shareholders of AIA AFG Takaful Bhd.

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

We have reviewed the principles and the contracts relating to the transactions applications introduced by the Company during the financial year ended 30 November 2012. We have also conducted our review to form an opinion as to whether the Company has complied with the Shariah principles and with the Shariah rulings issued by the Shariah Advisory Council of Bank Negara Malaysia, as well as decisions made by us.

The Management of the Company is responsible for ensuring that the Company 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 the Company, and to report to you.

We have assessed the work carried out by the Company's Shariah Review and Shariah Audit which are limited to the following areas:

1. Shariah Review

Proposal Form and Brochure for A-Mas and A-Prima

1.1 The review was performed on the documents to assess its compliance with Shariah principles and Shariah Committee's decisions.

AATB Distribution Channel's awards/rewards

1.2 The review was performed on the Shariah compliance of the awards/rewards particularly on the types of awards/rewards, source of expenses for awards/rewards and activities/programs used for the awards/rewards.

2. Shariah Audit

Underwriting Procedure

2.1 The audit was performed in respect of the control and procedures in the underwriting functions particularly on the screening of new business. The Company's compliance with BNM guidelines, BNM SAC decision and Shariah Committee decisions.

Agency Distribution

2.2 The audit was performed in respect of control and procedures in the Agency Administration functions particularly on the registration of new agents, agency contracts maintenance and professional development of the agency force.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

SHARIAH COMMITTEE REPORT (CONTINUED)

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

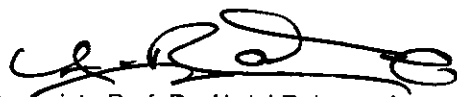
In our opinion:

1. The product structure and contracts offered by the Company during the financial year ended 30 November 2012 that we have reviewed are in compliance with the Shariah principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shariah principles; and

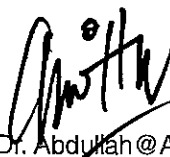
We the members of the Shariah Committee of AIA AFG Takaful Bhd. do hereby confirm that the operations of the Company for the financial year ended 30 November 2012 have been conducted in conformity with the Shariah principles.



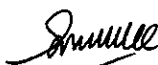
Associate Prof. Dr. Asyraf Wajdi Dusuki
Chairman
Shariah Committee




Associate Prof. Dr. Abdul Rahman Awang
Member
Shariah Committee



Prof. Dr. Abdul Wahid Alwi Haji Hassan
Member
Shariah Committee



Dr. Asmak Ab Rahman
Member
Shariah Committee



Associate Prof. Dr. Hussin Salamon
Member
Shariah Committee

Kuala Lumpur, Malaysia
31 January 2013



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)
(Company No. 924363-W)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of AIA AFG Takaful Bhd., which comprise the statement of financial position as at 30 November 2012, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant policies and explanatory notes, as set out on pages 20 to 82.

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 MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 and comply with the Companies Act, 1965, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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



INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)
(Company No. 924363-W)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

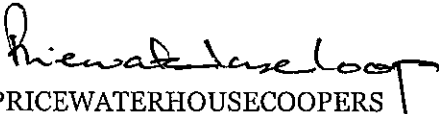
In our opinion, the financial statements have been properly drawn up in accordance MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by guidelines issued by Bank Negara Malaysia pursuant to the Takaful Act, 1984 and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 30 November 2012 and of their financial performance and cash flows for the financial year then ended.


REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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


PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants


SHIRLEY GOH
(No. 1778/08/14 (J))
Chartered Accountant

Kuala Lumpur
18 February 2013

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

**STATEMENT OF FINANCIAL POSITION
AS AT 30 NOVEMBER 2012**

	<u>Note</u>	<u>30.11.2012</u> RM'000	<u>30.11.2011</u> RM'000
ASSETS			
Property, plant and equipment	3	1,303	1,070
Financial investments - available for sale	4(a)	73,591	84,371
Tax recoverable		78	12
Other receivables	5	2,360	580
Cash and cash equivalents	6	14,167	10,103
		<hr/>	<hr/>
Total Shareholders' fund assets		91,499	96,136
Total Family Takaful fund assets		90,138	25,257
		<hr/>	<hr/>
TOTAL ASSETS		181,637	121,393
		<hr/> <hr/>	<hr/> <hr/>
EQUITY AND LIABILITIES			
LIABILITIES			
Deferred tax liabilities	8	-	482
Sundry creditors and other liabilities	9	11,020	5,199
		<hr/>	<hr/>
Total Shareholders' fund liabilities		11,020	5,681
Total Family Takaful fund liabilities		90,138	25,257
		<hr/>	<hr/>
		101,158	30,938
		<hr/>	<hr/>
SHAREHOLDERS' EQUITY			
Share capital	10	100,000	100,000
Available for sale reserve		2,372	1,447
Accumulated loss		(21,893)	(10,992)
		<hr/>	<hr/>
Total Shareholders' equity		80,479	90,455
		<hr/>	<hr/>
TOTAL EQUITY AND LIABILITIES		181,637	121,393
		<hr/> <hr/>	<hr/> <hr/>

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

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

FAMILY TAKAFUL STATEMENT OF FINANCIAL POSITION
AS AT 30 NOVEMBER 2012

	<u>Note</u>	<u>30.11.2012</u> RM'000	<u>30.11.2011</u> RM'000
ASSETS			
Financial investments – fair value through profit or loss	4(b)	73,764	16,521
Tax recoverable		14	6
Other receivables	5	432	499
Cash and cash equivalents	6	15,928	8,231
TOTAL FAMILY TAKAFUL FUND ASSETS		<u>90,138</u>	<u>25,257</u>
LIABILITIES			
Takaful contract liabilities	7	84,100	23,594
Deferred tax liabilities	8	113	20
Current tax liabilities		41	16
Takaful payable		224	85
Sundry creditors and other liabilities	9	5,660	1,542
TOTAL FAMILY TAKAFUL FUND LIABILITIES		<u>90,138</u>	<u>25,257</u>

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

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012

	Note	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
SHAREHOLDERS' FUND			
Wakalah fee income		37,213	7,624
Investment income	12	3,127	2,963
Realised gain	14	698	102
Investment profit shared from Family Takaful fund		245	9
Other operating revenue	15	529	209
Total income		<u>41,812</u>	<u>10,907</u>
Fee and commission expenses		(19,582)	(5,048)
Management expenses	17	(33,922)	(16,851)
Total expenses		<u>(53,504)</u>	<u>(21,899)</u>
Loss before tax		(11,692)	(10,992)
Tax benefits		791	-
Loss after tax for the financial year/period		<u>(10,901)</u>	<u>(10,992)</u>
<u>Other comprehensive income for the financial year/period</u>			
Fair value change on available-for-sale financial assets			
Fair value change		1,932	1,929
Realised gain transfer to income statement		(698)	-
Deferred taxation	8	(309)	(482)
Net fair value change		<u>925</u>	<u>1,447</u>
Total comprehensive loss for the financial year/period		<u>(9,976)</u>	<u>(9,545)</u>

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

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

FAMILY TAKAFUL STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012

	<u>Note</u>	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
Gross earned contributions		98,879	31,165
Contributions ceded to retakaful operator		(1,197)	(109)
Net earned contributions		<u>97,682</u>	<u>31,056</u>
Investment income	12	1,914	443
Fair value gain	13	1,171	242
Realised gain/(loss)	14	147	(168)
Commission income		123	24
Total income		<u>101,037</u>	<u>31,597</u>
Gross benefits and claims paid		(2,940)	(71)
Retakaful recoveries		496	-
Changes in net Takaful contract liabilities		(60,506)	(23,594)
Net benefits and claims		<u>(62,950)</u>	<u>(23,665)</u>
Wakalah fee expenses		(37,213)	(7,624)
Other operating expenses	16	(463)	(304)
Investment profit shared with Shareholders' fund		(245)	(9)
Taxation	18	(126)	(35)
		<u>(38,047)</u>	<u>(7,972)</u>
Surplus/(Deficit) for the financial year/period		<u>40</u>	<u>(40)</u>

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

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012

	Share capital RM'000	Non-distributable Available- for-sale fair value reserves RM'000	Accumulated loss RM'000	Total RM'000
SHAREHOLDERS' FUND				
At 1 December 2011	100,000	1,447	(10,992)	90,455
Total comprehensive income/(loss) for the financial year	-	925	(10,901)	(9,976)
At 30 November 2012	<u>100,000</u>	<u>2,372</u>	<u>(21,893)</u>	<u>80,479</u>
At the date of incorporation	-*	-	-	-*
Issuance of shares	100,000	-	-	100,000
Total comprehensive income/(loss) for the financial period	-	1,447	(10,992)	(9,545)
At 30 November 2011	<u>100,000</u>	<u>1,447</u>	<u>(10,992)</u>	<u>90,455</u>

* Represents 2 subscribers' shares at date of incorporation.

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

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012

	Note	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax for the financial period		(11,692)	(10,992)
Adjustments:			
Investment income		(5,041)	(3,406)
Realised gain		(845)	66
Fair value gains		(1,171)	(242)
Non-cash item			
Depreciation of property, plant and equipment		330	47
Changes in gross / net Takaful contract liabilities		60,506	23,594
Property, plant & equipment written off		-	4
		<u>42,087</u>	<u>9,071</u>
Changes in working capital:			
Increase in financial investment		(42,568)	(98,061)
Increase in other receivables		(1,595)	(1,050)
Increase in Takaful payable		139	85
Increase in sundry creditors and other liabilities		9,939	6,741
		<u>8,002</u>	<u>(83,214)</u>
Income taxes paid		(74)	(11)
Profit income received		4,124	2,577
Dividend received		272	103
Net cash inflows/(outflows) from operating activities		<u>12,324</u>	<u>(80,545)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(563)	(1,121)
Net cash outflows from investing activities		<u>(563)</u>	<u>(1,121)</u>

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

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012 (CONTINUED)

	<u>Note</u>	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share		-	100,000
Net cash inflows from financing activities		-	100,000
NET INCREASE IN CASH AND CASH EQUIVALENT		11,761	18,334
Cash and Cash equivalents at the beginning of the year		18,334	-
Cash and Cash equivalents at the end of the year		30,095	18,334
CASH AND CASH EQUIVALENTS COMPRISE:			
SHAREHOLDERS' FUND		14,167	10,103
FAMILY TAKAFUL FUND		15,928	8,231
		30,095	18,334

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

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012

1 CORPORATE INFORMATION

The Company is engaged principally in the underwriting of Family Takaful business including Investment-Linked Takaful business.

The Company is a public limited liability company, incorporated under the Companies Act, 1965 and Takaful Act, 1984 and domiciled in Malaysia. The registered office of the Company is located at Level 29, Menara AIA, 99 Jalan Ampang, 50450 Kuala Lumpur and principal place of business is located at Concourse Level, Wisma Chartis, 99 Jalan Ampang, 50450 Kuala Lumpur.

The immediate holding company of the Company is American International Assurance Bhd, a company incorporated in Malaysia. The Directors regard AIA Group Limited, a company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong Limited, as the ultimate holding company.

The financial statements are authorised for issue by the Board on 18 February 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation

The financial statements of the Company are prepared in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by the guidelines issued by Bank Negara Malaysia ("BNM") pursuant to the Takaful Act, 1984, and the provisions of the Companies Act 1965.

The preparation of financial statements in conformity with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities as modified by guidelines issued by BNM pursuant to the Takaful Act, 1984 requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise its judgment in the process of applying the Company's accounting policies. Although these estimates and judgement are based the Directors' best knowledge of current events and actions, actual result may differ. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.4.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies

(a) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred. The cost of major renovations is included in work in progress and will be transferred once it is complete when it is probable that future economic benefits in excess of the original assessed standard of performance of the existing asset will flow to the Company.

The residual values, useful life and depreciation method are reviewed and adjusted, if applicable, at each date of the Statement of Financial Position. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts.

The gain and loss on disposal of an asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss of the respective funds.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost less any residual value over the estimated useful life, as summarised as follows :

Furniture, fixtures and fittings	5 -10 years
Office equipment	2 - 5 years
Computer equipments	2 - 3 years

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(b) Impairment of Non-Financial Assets

Property, plant and equipment and other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised to the extent that the carrying amount of the asset exceeds its recoverable amount, which is the higher of the asset's net selling price and value in use. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit.

An impairment loss is charged to profit or loss. Subsequent increase in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss of the respective funds immediately.

(c) Financial Instruments

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 financial assets ("AFS"). The classification depends on the purpose for which the financial assets were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

The significant accounting policies by the categories above are as follow:

FVTPL

Financial assets at FVTPL comprise two sub-categories:

- financial assets designated at fair value through profit or loss; and
- financial assets held for trading, including derivatives not designated as hedges.

The Company designates financial assets at FVTPL if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back Investment-linked contracts and Family Takaful fund; and
- other financial assets managed on a fair value basis; consisting of the Company's equity portfolio and investments held by the Company's Investment-linked funds.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Financial assets at FVTPL are initially recorded at fair value. Subsequent to initial recognition, financial assets at FVTPL are re-measured at fair value. Fair value adjustments and realised gain and losses on de-recognition are recognised in profit or loss of the respective funds. Transaction costs in respect of financial assets at FVTPL are expensed as they are incurred.

Dividend income from equity instruments designated at fair value through profit or loss is recognised as investment income in profit or loss of the respective funds, generally when the security becomes ex-dividend or the right to receive payment is established. Investment income is recognised in profit or loss using effective profit method.

LAR

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those the Company intends to sell in the short term or that it has designated as FVTPL. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective profit rate method less any impairment losses.

Profit income from loans and receivables is recognised in profit or loss of the respective funds using the effective profit rate method. Gains and losses are recognised in profit or loss of respective funds when the investments are derecognised or impaired, as well as through the amortisation process.

AFS

Financial assets, other than those at FVTPL and LAR are classified as AFS.

AFS category is used where the relevant investments backing shareholders' equity are not managed on a fair value basis. These principally consist of the Company's debt securities (other than those backing Family Takaful funds and Investment-linked contracts) and seed money in Investment-linked funds. AFS financial assets are initially recognised at fair value plus attributable transaction costs. For AFS debt securities, the difference between their cost and par value is amortised. AFS financial assets are subsequently measured at fair value.

Profit income from debt securities classified as AFS is recognised in profit or loss of the respective funds using the effective interest method.

Unrealised gains and losses on securities classified as AFS are analysed between differences resulting from foreign currency translation, and other fair value changes. Foreign currency translation differences on monetary available for sale investments, such as debt securities, and impairment of AFS financial assets are recognised in profit or loss of the respective funds.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Changes in the fair value of securities classified as AFS, except for impairment losses and relevant foreign exchange gains and losses, are recorded in a separate fair value reserve within equity.

On derecognition, the cumulative fair value gains and losses previously reported in equity are transferred to profit or loss of the respective funds.

Financial Liabilities

All financial liabilities initially recorded at fair value. Subsequent to initial recognition, financial liabilities are carried at amortised cost using effective profit rate method.

(d) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, having regard to the specific characteristics of the asset or liability concerned, assuming that the transfer takes place in the most advantageous market to which the Company has access. The fair values of financial instruments traded in active markets (such as financial instruments at FVTPL and AFS) are based on quoted market prices at the date of the Statement of Financial Position. The quoted market price used for financial assets held by the Company is the current bid price. The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions at the date of each Statement of Financial Position. The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the date of the Statement of Financial Position.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value i.e. the cost of the deposits/placements and accrued profits. The fair value of fixed profit yield bearing deposit is estimated using discounted cash flow techniques. Expected cash flows are discounted as current market rates for similar instrument at the reporting date.

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

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(e) Impairment of Financial Instruments

General

Financial assets are assessed for impairment on a regular basis. A financial asset is impaired if its carrying value exceeds the estimated recoverable amount and there is objective evidence of impairment to the financial asset. The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset, or group of financial assets, is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset, or group of assets, is impaired includes observable data that comes to the attention of the Company about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data, including market prices, indicating that there is a potential decrease in the estimated future cash flows since the initial recognition of those assets, including :
 - adverse changes in the payment status of issuers
 - national or local economic conditions that correlate with increased default risk.

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

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(e) Impairment of Financial Instruments (continued)

Financial Assets Carried at Amortised Cost

For assets carried at amortised cost, impairment is considered to have taken place if it is probable that the Company will not be able to collect principal and/or profit due according to the contractual terms of the instrument. When impairment is determined to have occurred, the carrying amount is decreased through a charge to profit or loss of the respective funds. The carrying amount of mortgage loans or receivables is reduced through the use of an allowance account, and the amount of any allowance is recognised as an impairment loss in profit or loss of the respective fund.

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

AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognised in shareholders' equity and there is objective evidence that the financial asset is impaired, the cumulative loss already recognised directly in shareholders' equity is recognised in current period profit or loss of the Shareholders' fund. The Company generally considers an AFS debt security for evidence of impairment when it is identified as credit impaired. In the absence of any other evidence of credit impairment, a debt security would be assessed for impairment when there is a significant decline in fair value.

If the fair value of a debt instrument classified as AFS increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss of the Shareholders' fund, the impairment loss is reversed through profit or loss of the Shareholders' fund.

Where, following the recognition of an impairment loss in respect of an AFS debt security, the financial asset suffers further falls in value, such further falls are recognised as an impairment only in the case when objective evidence exists of a further impairment event to which the losses can be attributed.

(f) Derecognition of Financial Assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(g) Equity Instruments

Ordinary Share Capital

Issued capital represents the nominal value of shares issued plus any share contribution received from the issue of share capital, if any. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue.

Dividends on Ordinary Share Capital

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the date of Statement of Financial Position. A dividend proposed or declared after the date of Statement Financial Position, but before the financial statements are authorised for issue, is not recognised as a liability at the date of Statement of Financial Position but as an appropriation from retained earnings to a "proposed dividend reserve". Upon the dividend becoming payable, it will be accounted for as a liability.

(h) Product Classification

Takaful contracts are those contracts that transfer significant Takaful risk. These contracts may also transfer financial risk. Significant Takaful risk is defined as the possibility of paying significantly more in a scenario where the Takaful event occurs than in a scenario in which it does not. Scenarios considered are those with commercial substance.

Investment contracts are those contracts without significant Takaful risk.

Once a contract has been classified as an Takaful or investment contract no reclassification is subsequently performed, unless the terms of the agreement are later amended.

Certain contracts has discretionary participating features ("DPF") which are distinct from other Takaful and investment contracts as the Company has discretion in the amount and/or timing of the benefits declared, and how such benefits are allocated between groups of policyholders. Customers may be entitled to receive, as a supplement to guaranteed benefits, additional benefits or surplus sharing:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Company; and
- 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 Income Statement of the Company, fund or other entity that issues the contract.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(h) Product Classification (continued)

Surpluses in the DPF fund are distributable to participants and the Company in accordance with the relevant terms under the Takaful contracts. The Company has the discretion over the amount and timing of the distribution of these surpluses to participants, subject to the advice of the Company's Appointed Actuary. All DPF liabilities, at the end of the reporting period are held within Takaful contract liabilities.

Certain derivatives embedded in Takaful contracts are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss of the respective funds.

The Company does not separately measure embedded derivatives that meet the definition of an Takaful contract or embedded options to surrender Takaful contracts for a fixed amount (or an amount based on a fixed amount and an profit rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host Takaful contract and meet the definition of a derivative.

An investment-linked Takaful contract is a Takaful contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Company with the consideration received from the contract holders. This embedded derivative meets the definition of an Takaful contract and is not therefore accounted for separately from the host Takaful contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

(i) Family Takaful Contracts

The Family Takaful fund is maintained in accordance with the requirements of Takaful Act, 1984 and includes the amount attributable to participants which represents the participants' share of the returns on the investments of the Family Takaful in accordance with the terms and conditions prescribed in the contracts and approved by the Shariah Committee of the Company.

The surplus transferable from the Family Takaful fund to profit or loss of the Shareholders' fund is based on the surplus determined by an actuarial valuation of the long term liabilities to the participants.

Any actuarial deficit in the Family Takaful risk fund will be made good by the Shareholders' fund via a benevolent loan or Qard.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(i) Family Takaful Contracts (continued)

Gross contribution

Contribution income includes contribution recognised in the Family Takaful business and Investment-Linked Takaful business. Gross contribution is recognised as soon as the amount of the contribution can be reliably measured. First contribution is recognised from inception date and subsequent contribution is recognised when its due.

At the end of the financial period, all due contributions are accounted for to the extent that they can be reliably measured.

Contribution income of the Investment-linked Takaful business is in respect of the net creation of units which represents contributions paid by participants as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

Management Expenses, Commission Expenses and Wakalah Fees

Acquisition costs, commissions and management expenses are borne by the Family Takaful fund in profit or loss of the Family Takaful fund at an agreed percentage of the gross contribution, in accordance with the principles of Wakalah as approved by the Company's Shariah Committee and agreed between the participants and the Company. These expenses are allocated to the shareholders' fund via wakalah fee and recognised as income by the shareholders' fund upon issuance of certificates.

At each reporting date, the Company estimates its net future expense cash flow required on the maintenance of the Family Takaful fund. If the estimate shows that there is deficiency in the net future expense cash flow, the deficiency is immediately charged to profit or loss of the Shareholders' fund with a corresponding credit to a provision of expense liabilities.

Benefits, Claims and Expenses

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

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(i) Family Takaful Contracts (continued)

Benefits and claims arising on Family Takaful contracts, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under Family Takaful contracts are recognised as follows:

- (i) maturity or other policy benefits payments due on specified dates are treated as claims payable on the due dates;
- (ii) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the participant or occurrence of contingency covered;
- (iii) benefit payable under Investment-linked business include net cancellation of units are recognised as surrender; and
- (iv) share of surplus on Family Takaful risk upon its declaration.

Family Takaful Contracts Liabilities

Family Takaful contract liabilities comprise (i) claims liabilities, (ii) actuarial liabilities, (iii) net asset value attributable to participants.

(i) Claims liabilities

Claims liabilities represent the amounts payable under a Family Takaful contract in respect of claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

(ii) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and contributions are charged.

Actuarial liabilities as determined by the annual actuarial valuation are based on the Guidelines on Valuation Basis for Liabilities of Family Takaful Business by BNM pursuant to the Act and Takaful Act, 1984.

Actuarial liabilities are valued, where appropriate by using a prospective actuarial valuation based on the sum of the present value of future gross benefits (with investment returns net of tax), less the present value of future gross tabarru arising from the policy discounted at the appropriate risk discount rate plus unearned tabarru.

The expected future cash flows are determined using best estimate assumptions after taking into account of all future contractual cash flows and investment returns net of tax from assets backing such liabilities. An appropriate allowance for provision of risk margin adverse deviation from expected experience is provided for in the valuation.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(i) Family Takaful Contracts (continued)

The actuarial liabilities are derecognised when the Takaful contract expires, is discharged or is cancelled.

Adjustment to the actuarial liabilities at each reporting date are recorded in profit or loss of Takaful fund.

The liability adequacy test has been in-built in the valuation of actuarial liabilities and hence no separate assessment is to be carried out.

(iii) Net asset value attributable to participants

Net asset value represents contribution received and investment surplus credited to the policy less deduction for mortality and morbidity cost and expenses charges. The net asset value attributable to participants of Investment-linked policy is equal to the net asset value of the Investment-linked funds.

(j) Retakaful contracts

The Company cedes retakaful in the normal course of business, with retentions varying by line of business. The cost of retakaful is accounted for over the life of the underlying retakaful contracts, using assumptions consistent with those used to account for such contracts.

Contributions ceded and claims recovered are recognised in the same accounting period as the original contract which the retakaful relates, and are presented on a gross basis in profit or loss of the Family Takaful Fund.

Fee income derived from retakaful operators in the course of retakaful are credited to profit or loss of Takaful fund in the financial year in which they are earned.

Retakaful assets consist of amounts receivable in respect of ceded Takaful liabilities. Amounts recoverable from retakaful operators are estimated in a manner consistent with the takaful's contract or investment contract liabilities or benefits paid and in accordance with the relevant retakaful contract.

To the extent that retakaful contracts principally carry financial risk (as opposed to Takaful risk), they are accounted for directly through the Statements of Financial Position and are not included in retakaful assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified contributions or fees to be retained by the Takaful operator.

If a retakaful asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in profit or loss of the Takaful Fund. A retakaful asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the retakaful asset, that the Company may not receive all amounts due to it under the terms of the contract, and the impact on the amounts that the Company will receive from the retakaful operator can be reliably measured.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(k) 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.

If there is objective evidence that the Takaful receivable is impaired, the Company reduces the carrying amount of the Takaful receivable accordingly and recognises that impairment loss in profit or loss of the Takaful fund. The Company gathers the objective evidence that a Takaful receivable is impaired using the same process adopted for financial assets carried at amortised cost. These processes are described in Note 2.2(e).

(l) Other Financial Liabilities and Takaful Payables

Other liabilities and payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

(m) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each date of Statement of Financial Position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

(n) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hands, deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purpose. The Company classifies the cash flows for the purchase and disposal of investment in financial asset in its operating cash flows as the purchases are funded from the cash flows associated with the origination of Takaful contracts, net of the cash flows for payments of Takaful benefits and claims benefits.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(o) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increases their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Post retirement benefit obligations

Defined Contribution Plans

As required by law, the Company make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss of the Shareholders' Fund as incurred. Once the contributions have been paid, the Company has no further payment obligations.

Share-based Compensation Plans

AIA Group Limited ("AIAGL") launched a number of share-based compensation plans, under which the Company receives services from the employees, directors and officers as consideration for the shares and/or options of AIAGL. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme), and the Employee Share Purchase Plan (ESPP).

The AIA Group's share compensation plans offered to the Company's employees are equity-settled plans. Under equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of AIAGL's shares and/or options is recognised as an expense in profit or loss of the Shareholders' Fund over the vesting period with a corresponding amount recorded in equity for the Family Takaful contract liabilities for the Family Takaful business. Any amounts recharged from AIAGL related to equity-settled share-based payment arrangements are offset against the amount recorded in equity for the Family Takaful contract liabilities for the Family Takaful business.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options granted. Non-market vesting conditions are included in assumptions about the number of shares and/or options that are expected to be vested. At each period end, the Company revises its estimates of the number of shares and/or options that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss of the Shareholders' Fund with a corresponding adjustment to equity. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(o) Employee Benefits (continued)

(ii) Post retirement benefit obligations (continued)

The Company estimates the fair value of options using a binomial lattice model. This model requires inputs such as share price, implied volatility, risk free interest rate, expected dividend rate and the expected life of the option.

Where modification or cancellation of an equity-settled share-based compensation plan occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

(p) Foreign Currency

(i) Functional and Presentation Currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in thousands of Ringgit Malaysia (RM), which is the Company's functional and presentation currency.

(ii) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of respective funds.

Translation differences on non-monetary items carried at fair value are translated at the rates prevailing on the date when the fair value is determined. Non-monetary items that are measured in terms of historical cost in foreign currency are not retranslated.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(q) Taxation

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

In addition to paying tax on shareholders' profit, Family Takaful business pay tax on policyholders'/certificate holders' investment returns at a tax rate of 8%.

Deferred tax is provided for, using the liability method, on temporary differences at the date of Statement of Financial Position 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 and deferred tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences 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 date of Statement of Financial Position. Deferred tax is recognised in profit or loss of the respective funds, except when it arises from a transaction which is recognised directly in equity.

(r) Other Revenue Recognition

(i) Gains and Losses on Disposal of Investments

Gains and losses on disposal of investments are arrived at after accounting for cost of investments and credited or charged to profit or loss of the respective funds. Cost is determined by specific identification.

2.3 Changes in accounting policies and effects arising from adoption of revised Financial Reporting Standards (FRS)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Company's financial year beginning on or after 1 December 2011

On 1 December 2011, the Company adopted the following revised FRSs, amendments to FRSs and Interpretations of the Issues Committee ("IC interpretations") issued by the Malaysian Accounting Standards Board ("MASB"):

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised Financial Reporting Standards (FRS) (continued)

- (a) Standards, amendments to published standards and interpretations to existing standards that are effective and relevant to the Company's financial year beginning on or after 1 December 2011 (continued)

<u>Amendments to FRSs</u>	<u>Effective date</u>
FRS 1 Limited Exemptions from Comparatives FRS 7 Disclosures for First-time Adopters	1 January 2011
FRS 1 Additional Exemptions for First-time Adopters	1 January 2011
FRS 2 Group Cash-settled Share-based Payment Transactions	1 January 2011
FRS 7 Improving Disclosures about Financial Instruments	1 January 2011
 <u>Improvements to FRS</u>	
FRS 3, FRS 7, FRS 101, FRS 121, FRS 128, FRS 132, FRS 139	Improvements to FRSs (2010) 1 January 2011
 <u>IC Interpretations ("IC INT")</u>	
IC INT 4	Determining whether an Arrangement contains a Leases 1 January 2011
IC INT 18	Transfers of assets from customers 1 January 2011
IC INT 19	Extinguishing financial liabilities with equity instrument 1 July 2011

The adoption of the above Amendments to FRS, Improvement to FRSs and IC INT did not have any significant effect on the financial performance or position of the Company, except for Amendment to FRS 7: Improving Disclosures about Financial Instruments.

Disclosures on fair value and liquidity have been enhanced upon the adoption of this amendment. In particular, financial instruments measured at fair value are disclosed by class in a three-level fair value measurement hierarchy, with specific disclosures related to transfers between levels in the hierarchy and detailed disclosures on level three of the fair value hierarchy. The adoption of this amendment resulted in additional disclosures but did not have any financial impact to the Company.

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

In the next financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). In adopting the new framework, the Company will be applying MFRS 1 "First-time adoption of MFRS".

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised Financial Reporting Standards (FRS) (continued)

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

The Company will apply the new standards, amendments to standards and interpretations in the following period:

Financial year beginning on/after 1 December 2012

- Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.
- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

Financial year beginning on/after 1 December 2013

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones.
- The revised MFRS 127 “Separate financial statements” (effective from 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of MFRS 127 have been included in the new MFRS 10.
- Amendment to MFRS 101 “Presentation of items of other comprehensive income” (effective from 1 July 2012) requires entities to separate items presented in ‘other comprehensive income’ (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Changes in accounting policies and effects arising from adoption of revised Financial Reporting Standards (FRS) (continued)

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

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

- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The company still assessing the impact to the financial statements of the Company upon adoption of the above mention standards amendments and interpretations.

Financial year beginning on/after 1 December 2015

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

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

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

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

Other than above, the Company is yet to assess the full impact of these new standards on its Statements of Financial Position and Income Statements; however, they may have a material impact on the Statement of Financial Position or Income Statements of the Company and require additional disclosures.

AIA AFG TAKAFUL BHD.

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

In the preparation of the financial statements, management has made judgements and estimates in applying accounting policies in respect of the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the judgements made by Management that have the most significant effect on the amount recognised in the financial statements:

Actuarial liabilities of Family Takaful contracts

The estimation of the actuary liabilities of Family Takaful is made in accordance with the guidelines issued by BNM.

For Shareholders' fund, the cash flow reserves for operator fund were set up using a discounted cash flow to ensure the present value of expected future expenses payable from Shareholders' fund in managing the Family Takaful fund for the full contractual obligation of the Family Takaful contract can be covered by present value of expected future income.

For Family Takaful fund, the cash flow reserves were set up using a discounted cash flow method, with sufficient Provision of Risk Margin for Adverse Deviation ("PRAD"), to ensure that any future negative cash flow resulting from insufficiency of tabarru's charges to meet expected Family Takaful contract benefits are eliminated.

An additional unearned tabarru's reserve was set up for plans with dripping model.

Incurred but not reported ("IBNR") reserve was set up based on average number of months of expected delayed claims.

A portion of the resulted net surplus was also set aside as reserve for Family Takaful fund management. In the event of a deficit in the Family Takaful fund in subsequent years, the reserve will be used as first charge to pay for any shortfall before the Qard Hassan is channeled from the Shareholders' fund.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	Computer equipments RM'000	Office equipment RM'000	Furniture and fittings RM'000	Total RM'000
<u>Shareholders' fund at 30.11.2012</u>				
<u>Cost</u>				
At 1 December 2011	224	25	868	1,117
Addition	208	227	128	563
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2012	432	252	996	1,680
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Accumulated depreciation</u>				
At 1 December 2011	43	4	-	47
Charge for the financial year	119	31	180	330
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2012	162	35	180	377
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Net carrying amount</u>				
At 30 November 2012	270	217	816	1,303
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Shareholders' fund at 30.11.2011</u>				
<u>Cost</u>				
Addition	228	25	868	1,121
Disposals	(4)	-	-	(4)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2011	224	25	868	1,117
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>Accumulated depreciation</u>				
Charge for the financial period	44	4	-	48
Disposals	(1)	-	-	(1)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 November 2011	43	4	-	47
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	<u>Computer equipments</u> RM'000	<u>Office equipment</u> RM'000	<u>Furniture and fittings</u> RM'000	<u>Total</u> RM'000
<u>Shareholders' fund at 30.11.2011</u>				
<u>Net carrying amount</u>				
At 30 November 2011	<u>181</u>	<u>21</u>	<u>868</u>	<u>1,070</u>

4 FINANCIAL INVESTMENTS

	<u>30.11.2012</u>		<u>30.11.2011</u>	
	<u>Shareholders'</u> <u>Fund</u> RM'000	<u>Family</u> <u>Takaful</u> <u>Fund</u> RM'000	<u>Shareholders'</u> <u>Fund</u> RM'000	<u>Family</u> <u>Takaful</u> <u>Fund</u> RM'000
(a) AFS				
<u>At fair value</u>				
Government Investment				
Issues	10,507	-	34,994	-
Unquoted Corporate Sukuks	51,289	-	38,384	-
Seed Money	11,122	-	10,350	-
Investment income due and accrued	673	-	643	-
	<u>73,591</u>	<u>-</u>	<u>84,371</u>	<u>-</u>
Current	673	-	643	-
Non-current	72,918	-	83,728	-
	<u>73,591</u>	<u>-</u>	<u>84,371</u>	<u>-</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

4 FINANCIAL INVESTMENTS

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
(b) FVTPL				
<u>At fair value</u>				
Government Investment				
Issues	-	15,777	-	3,859
Unquoted Corporate Sukuks	-	43,685	-	9,138
Unit trust	-	1,104	-	798
Shariah-approved shares	-	12,457	-	2,600
Investment income due and accrued	-	741	-	126
	-	73,764	-	16,521
Current	-	741	-	126
Non-current	-	73,023	-	16,395
	-	73,764	-	16,521
<u>Movement in carrying values</u>				
At 1 December	84,371	-	-	-
Purchases	12,151	-	92,153	-
Disposals	(24,118)	-	(10,302)	-
AFS reserve	1,234	-	1,929	-
Amortisation of premiums – net	(77)	-	(52)	-
Movement of investment income due and accrued	30	-	643	-
At 30 November	73,591	-	84,371	-

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

4 FINANCIAL INVESTMENTS (CONTINUED)

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
<u>Movement in carrying values</u>				
At 1 December	-	16,521	-	-
Purchases	-	71,717	-	21,138
Disposals	-	(16,212)	-	(4,984)
Fair value gain	-	1,171	-	242
Amortisation of premiums – net	-	(48)	-	(1)
Movement of investment income due and accrued	-	615	-	126
At 30 November	-	73,764	-	16,521

(c) The following table show financial investments recorded at fair value analysed by the different basis of fair value as follows:

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
<u>AFS</u>				
Quoted market price (Level 1)	11,122	-	10,350	-
Valuation techniques – market observable inputs (Level 2)	62,469	-	74,021	-
	73,591	-	84,371	-
<u>FVTPL</u>				
Quoted market price (Level 1)	-	13,561	-	3,398
Valuation techniques – market observable inputs (Level 2)	-	60,203	-	13,123
	-	73,764	-	16,521

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

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

4 FINANCIAL INVESTMENTS (CONTINUED)

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services. However, where prices have not been determined in an active market, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company's own models where majority of assumptions are market observable (Level 2).

Non-market observable inputs mean that fair values are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset class in this category is unquoted equity securities. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data (Level 3).

5 OTHER RECEIVABLES

	30.11.2012		30.11.2011	
	Shareholders' Fund	Family Takaful Fund	Shareholders' Fund	Family Takaful Fund
	RM'000	RM'000	RM'000	RM'000
Statutory deposit	300	-	300	-
Amount due from Family Takaful Fund/Shareholders	2,018	-	-	442
Other receivables	42	432	280	57
	<u>2,360</u>	<u>432</u>	<u>580</u>	<u>499</u>

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

6 CASH AND CASH EQUIVALENTS

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Cash and bank balances	507	4,718	103	2,611
Deposit with Islamic financial institutions	13,660	11,210	10,000	5,620
	<u>14,167</u>	<u>15,928</u>	<u>10,103</u>	<u>8,231</u>

7 FAMILY TAKAFUL CONTRACT LIABILITIES

The Family Takaful contract liabilities are further analysed as follows:

	30.11.2012			30.11.2011		
	Gross RM'000	Re-takaful RM'000	Net RM'000	Gross RM'000	Re-takaful RM'000	Net RM'000
Participants' Risk Fund:						
- Claim liabilities	945	-	945	66	-	66
- Actuarial liabilities	6,974	-	6,974	984	-	984
Net asset value attributable to participants under the participants' fund	75,165	-	75,165	22,544	-	22,544
Investment profit distributable to participants	1,016	-	1,016	-	-	-
	<u>84,100</u>	<u>-</u>	<u>84,100</u>	<u>23,594</u>	<u>-</u>	<u>23,594</u>

**Movement of Family Takaful
Contract Liabilities**

At 1 December 2011/

At the date of Incorporation	23,594	-	23,594	-	-	-
Increase in claims liabilities	879	-	879	66	-	66
Policy movement	5,990	-	5,990	984	-	984
Increase in net asset value attributable to participants' fund	52,621	-	52,621	22,544	-	22,544
Increase investment profit distributable to participants	1,016	-	1,016	-	-	-
	<u>83,084</u>	<u>-</u>	<u>83,084</u>	<u>23,594</u>	<u>-</u>	<u>23,594</u>

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

8 DEFERRED TAX LIABILITY

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 income tax relates to the same fiscal authority. The net deferred tax assets/liabilities shown in the Statement of Financial Position are determined after appropriate offsetting.

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Deferred tax assets	791	-	-	-
Deferred tax liabilities	(791)	(113)	(482)	(20)
	<u>-</u>	<u>(113)</u>	<u>(482)</u>	<u>(20)</u>

	Shareholders' Fund		Family Takaful Fund
	Gross deferred tax assets-unutilised tax losses RM'000	Gross deferred tax liabilities-financial assets RM'000	Gross/net deferred liabilities-financial assets RM'000
<u>2012</u>			
At 1 December 2011	-	(482)	(20)
Recognised in:			
Profit or loss (Note 18)	791	-	(93)
Other comprehensive income	-	(309)	-
At 30 November 2012	<u>791</u>	<u>(791)</u>	<u>(113)</u>
<u>2011</u>			
At the date of incorporation	-	-	-
Recognised in:			
Profit or loss (Note 18)	-	-	(20)
Other comprehensive income	-	(482)	-
At 30 November 2011	<u>-</u>	<u>(482)</u>	<u>(20)</u>

The Company has recognised deferred tax assets arising from the unutilised tax losses to the extent of the deferred tax liabilities recorded by the Company of RM 791,000, arising mainly from unrealised investment income in Shareholders' fund.

The amount of unutilised tax losses (which have no expiry date) for which no deferred tax asset is recognised in Statement of Financial Position of the Shareholders' fund is RM19,144,000 which considering fee and commission expenses is allowable for tax deduction as these expenses were incurred in earning *wakalah fee* income.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

9 OTHER PAYABLES

	30.11.2012		30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Amount due to immediate holding company	908	-	1,436	-
Amount due to Shareholders/Family Takaful Fund	-	2,018	442	-
Other payables and trade accruals	10,112	3,642	3,321	1,542
	<u>11,020</u>	<u>5,660</u>	<u>5,199</u>	<u>1,542</u>

10 SHARE CAPITAL

	30.11.2012		30.11.2011	
	Number of shares at RM1 each '000	Amount RM'000	Number of shares at RM1 each '000	Amount RM'000
<u>Authorised share capital</u>				
Ordinary shares of RM1 each:				
At 30 November/at the date of incorporation	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
<u>Issued and paid up</u>				
Ordinary shares of RM1 each:				
1 December 2011/at the date of incorporation	100,000	100,000	-*	-*
Issuance during the financial period	-	-	100,000	100,000
At 30 November	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

* Represents 2 subscribers' shares at date of incorporation.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

11 OPERATING REVENUE

	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
Gross earned contributions	98,879	31,165
Investment income:		
Shareholders' fund	3,127	2,963
Family Takaful fund	1,914	443
	<u>103,920</u>	<u>34,571</u>

12 INVESTMENT INCOME

	Financial year ended 30.11.2012		Financial period from 6.12.2010 (date of incorporation) to 30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Financial assets at fair value through profit or loss – designated upon initial recognition				
- profit income	-	1,427	-	260
- dividend/distribution income	-	287	-	120
- amortisation of premiums – net	-	(48)	-	(1)
Available-for-sale financial assets				
- profit income	2,788	-	2,100	-
- amortisation of premiums – net	(77)	-	(52)	-
Profit income of fixed deposits	421	280	918	64
Others - expenses	(5)	(32)	(3)	-
	<u>3,127</u>	<u>1,914</u>	<u>2,963</u>	<u>443</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

13 FAIR VALUE GAIN

	Financial year ended 30.11.2012		Financial period from 6.12.2010 (date of incorporation) to 30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Financial assets at fair value through profit or loss – designated upon initial recognition	-	1,171	-	242
	<u>-</u>	<u>1,171</u>	<u>-</u>	<u>242</u>

14 REALISED GAIN/(LOSSES)

Loss on disposal of property, plant and equipment	-	-	(3)	-
AFS financial asset – Government Investment Issues	698	-	105	-
FVTPL financial asset – Shariah-approved shares	-	69	-	(168)
Unquoted Corporate Sukuks	-	78	-	-
	<u>698</u>	<u>147</u>	<u>102</u>	<u>(168)</u>

15 OTHER OPERATING REVENUE

Certificate admin fee income	281	-	209	-
Fund management fee income	238	-	-	-
Others	10	-	-	-
	<u>529</u>	<u>-</u>	<u>209</u>	<u>-</u>

16 OTHER OPERATING EXPENSES

Certificate admin fee expense	-	281	-	209
Others	-	182	-	95
	<u>-</u>	<u>463</u>	<u>-</u>	<u>304</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

17 MANAGEMENT EXPENSES

Shareholders' Fund

	Financial year ended <u>30.11.2012</u> RM'000	Financial period from 6.12.2010 (date of incorporation) to <u>30.11.2011</u> RM'000
Advertising	1,176	1,134
Auditors' remuneration	70	65
Staff salaries & bonuses	7,167	4,957
Staff benefits	1,325	871
Share-based payment	320	-
Travelling expenses	952	362
Printing and stationery	279	400
Postage	270	147
Directors' remuneration and other emoluments	363	183
Shariah Supervisory Council committee members' related expenses	150	155
Depreciation	330	48
EDP expenses	354	184
Entertainment	267	121
Marketing	10,171	1,113
Legal expenses	27	42
Management fees	7,454	5,422
TGSF levy	433	127
Repairs and maintenance	708	389
Training expenses	187	102
Other expenses	1,919	1,029
	<u>33,922</u>	<u>16,851</u>

Total staff cost of the Company is RM8,812,000 (2011: RM5,828,000).

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

17 MANAGEMENT EXPENSES (CONTINUED)

(i) The Directors' remuneration and other emolument is as follows:

	Financial year ended 30.11.2012 RM'000	Financial period from 6.12.2010 (date of incorporation) to 30.11.2011 RM'000
Non-executive directors - fees	323	167
- allowances	40	16
	<u>363</u>	<u>183</u>

(ii) The Shariah Advisory Committee's remuneration and other expenses is as follows:

Shariah Advisory Committee - fees	126	137
- allowances	20	14
- other expenses	4	4
	<u>150</u>	<u>155</u>

(iii) The Chief Executive Officer remuneration is as follows:

	RM'000	RM'000
Chief Executive Officer - remuneration	1,083	720
	<u>1,083</u>	<u>720</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

18 TAXATION

	Financial year ended 30.11.2012		Financial period from 6.12.2010 (date of incorporation) to 30.11.2011	
	Shareholders' Fund RM'000	Family Takaful Fund RM'000	Shareholders' Fund RM'000	Family Takaful Fund RM'000
Tax expenses / (benefits)				
- current	-	33	-	15
- deferred (Note 8)	(791)	93	-	20
	<u>(791)</u>	<u>126</u>	<u>-</u>	<u>35</u>

The income tax for shareholders is calculated based on the tax rate of 25% of the estimated assessable profit for the financial year. The income tax for Family Takaful fund is calculated based on tax rate 8% of the assessable investment income net of allowable deductions for the financial year.

A reconciliation of income tax expenses applicable to loss before taxation at statutory income tax rate to income tax expense at the effective income tax rate of the company are as follows :

	Shareholders' Fund	
	2012 RM'000	2011 RM'000
Loss before taxation	(11,692)	(10,992)
Taxation at Malaysian statutory tax rate of 25% (2011: 25%)	(2,923)	(2,748)
Expenses not deductible for tax purposes	-	1,262
Deductible temporary difference not recognized	2,132	1,486
Tax benefits for the financial year/period	<u>(791)</u>	<u>-</u>

19 CAPITAL COMMITMENTS

	Shareholders' Fund	
	2012 RM'000	2011 RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	-	1,036
Information technology	-	27
	<u>-</u>	<u>1,063</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

20 CONTINGENT LIABILITY

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

21 RISK MANAGEMENT FRAMEWORK

(a) Risk management framework

The managed acceptance of risk is fundamental to the Company's Takaful business model. The Company's risk management framework seeks to effectively manage, rather than eliminate, the risks the Company faces. The risk management framework requires all operations to establish processes for identifying, evaluating and managing the key risks faced by the organisation. The risk management framework encompasses an established risk governance structure with clear oversight and assignment of responsibility for monitoring and management of financial, operational, Shariah non-compliance and strategic risks.

(b) Capital management objectives, policies and approach

The Company manages its capital by maintaining a capital adequacy level available in the shareholders' fund and Takaful funds to support the total capital required for the Takaful business.

The Company's capital management objective is to maintain effective capital management processes and a prudent level of capital resources, consistent with the risk appetite agreed by the Board from time to time. It is designed to provide the principles to ensure the efficient management of capital where capital resources must be managed in a way which optimises returns to shareholders, stakeholders and meets the expectation of the regulator.

On a half-yearly basis, the Company performs stress testing based on several adverse scenarios and stress levels as part of the pro-active measures in monitoring and managing the capital position. The report will be presented to the Risk Management Committee and Board of Directors.

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

21 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(c) Operational Risks

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, from either internal or external events. Consequences from such control inadequacies or failures may cause one or a combination of the following: financial loss, operational disruption, damage to reputation, risk to employees as well as legal and regulatory implications. This includes Shariah non-compliance risk arising from failure to comply with Shariah rules and principles prescribed by Shariah Advisory Council and Shariah Committee.

The Company performs operational risk management to manage operational risk via the process of:

- (i) pro-actively identifying operational risks;
- (ii) ensuring transparency through a sustainable framework for assessing and measuring such risks; and
- (iii) providing decision-making methodologies and tools for mitigating risk exposure and improving business processes.

A holistic risk governance and reporting structure has been established encompassing the Board, Shariah Committee, Management and operational functions, providing oversight of the operational risk management activities within the Company to ensure operational risk management policies and programmes are implemented appropriately, timely and consistently.

Company No.	
924363	W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22

FINANCIAL RISKS

The Company are exposed to a range of financial risks, including credit risk, liquidity risk and market risk. The Company apply a consistent risk management philosophy that is embedded in management processes and controls such that both existing and emerging risk are considered and addressed.

Financial risks of investment-linked investments are not further provided and analysed as the financial risks in respect of investment-linked investments are generally wholly borne by our customer, and do not directly affect the profit for the financial year before tax. Furthermore, investment-linked participants are responsible for allocation of their policy values amongst investment options offered by the Company. Although profit for the financial year before tax is not affected by investment-linked investments, the investment return from such financial investments is included in the Company's profit for the financial year before tax, as the company has selected the fair value option for all investment-linked investments with corresponding change in Takaful contract liabilities for investment-linked contract.

(a) Credit risk

Credit risk represents the loss that would be recognised if counter parties to Takaful, reTakaful and investment transactions failed to perform as contracted and the decrease in the value of financial instruments due to deterioration in credit quality. The key areas where the Company is exposed to credit risk include repayment risk in respect of:

- cash and cash equivalents;
- investments in Islamic debt securities; and
- Family Takaful receivables;

Credit risk exposures are monitored and controlled through various means such as robust credit evaluation process; credit limits; having independent credit evaluation on issuers and counterparties; and regular credit reviews, taking into consideration credit ratings assigned by rating agencies. The Company also actively manages its product and counterparty limits and mix to ensure that there is no significant concentration of credit risk.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)	Investment grade RM'000	Not rated RM'000	Not subject to credit risks RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Investment- Linked RM'000	Total RM'000
(a) Credit risk (continued)							
<u>Shareholders' Fund</u>							
<u>30 November 2012</u>							
Available-for-sale financial assets							
Government Investment Issues	18,939	10,507	-	-	-	-	29,446
Unquoted corporate Sukuks	30,307	2,043	-	-	-	-	32,350
Unit Trust	-	11,122	-	-	-	-	11,122
Investment income due and accrued	552	121	-	-	-	-	673
Other receivable	-	2,360	-	-	-	-	2,360
Cash and cash equivalents	-	14,167	-	-	-	-	14,167
	49,798	40,320	-	-	-	-	90,118
<u>Family Takaful Fund</u>							
<u>30 November 2012</u>							
Fair value through profit or loss financial assets							
Government Investment Issues	1,011	20,308	-	-	-	99	21,418
Unquoted corporate Sukuks	25,427	3,064	-	-	-	9,553	38,044
Unit trust	-	47	-	-	-	1,057	1,104
Shariah-approved shares	-	3,261	-	-	-	9,196	12,457
Investment income due and accrued	338	232	-	-	-	171	741
Other receivable	-	-	-	-	-	432	432
Cash and cash equivalents	-	15,244	-	-	-	684	15,928
	26,776	42,156	-	-	-	21,192	90,124

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(a)	Credit risk (continued)	Investment grade RM'000	Not rated RM'000	Not subject to credit risks RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Investment- Linked RM'000	Total RM'000
	<u>Shareholders' Fund</u>							
	<u>30 November 2011</u>							
	Available-for-sale financial assets	-	34,994	-	-	-	-	34,994
	Government Investment Issues	8,441	29,943	-	-	-	-	38,384
	Unquoted corporate Sukuks	-	10,350	-	-	-	-	10,350
	Unit trust	-	512	-	-	-	-	643
	Investment income due and accrued	131	580	-	-	-	-	580
	Other receivable	-	10,103	-	-	-	-	10,103
	Cash and cash equivalents	-	-	-	-	-	-	-
		8,572	86,482	-	-	-	-	95,054
	<u>Family Takaful Fund</u>							
	<u>30 November 2011</u>							
	Fair value through profit or loss financial assets	-	2,024	-	-	-	1,835	3,859
	Government Investment Issues	498	2,708	-	-	-	5,932	9,138
	Unquoted corporate Sukuks	-	-	-	-	-	798	798
	Unit trust	-	-	-	-	-	2,600	2,600
	Shariah-approved shares	-	-	-	-	-	101	126
	Investment income due and accrued	2	23	-	-	-	-	499
	Other receivable	-	499	-	-	-	-	499
	Cash and cash equivalents	-	5,305	-	-	-	2,926	8,231
		500	10,559	-	-	-	14,192	25,251

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- Linked RM'000	Total RM'000
Shareholders' Fund							
30 November 2012							
Available-for-sale financial assets							
Government Investment Issues	18,939	-	-	-	10,507	-	29,446
Unquoted corporate Sukuks	19,891	10,416	-	-	2,043	-	32,350
Unit Trust	-	-	-	-	11,122	-	11,122
Investment income due and accrued	392	160	-	-	121	-	673
Other receivable	-	-	-	-	2,360	-	2,360
Cash and cash equivalents	-	-	-	-	14,167	-	14,167
	<u>39,222</u>	<u>10,576</u>	<u>-</u>	<u>-</u>	<u>40,320</u>	<u>-</u>	<u>90,118</u>

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- Linked RM'000	Total RM'000
<u>Family Takaful Fund</u> <u>30 November 2012</u>							
Fair value through profit or loss financial assets							
Government Investment Issues	1,011	-	-	-	20,308	99	21,418
Unquoted corporate Sukuks	20,032	5,395	-	-	3,064	9,553	38,044
Unit trust	-	-	-	-	47	1,057	1,104
Shariah-approved shares	-	-	-	-	3,261	9,196	12,457
Investment income due and accrued	279	59	-	-	232	171	741
Other receivable	-	-	-	-	-	432	432
Cash and cash equivalents	-	-	-	-	15,244	684	15,928
	<u>21,322</u>	<u>5,454</u>	<u>-</u>	<u>-</u>	<u>42,156</u>	<u>21,192</u>	<u>90,124</u>

The carrying amount of assets included in the above tables represents the maximum exposure.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- Linked RM'000	Total RM'000
<u>Shareholders' Fund</u>							
<u>30 November 2011</u>							
Available-for-sale financial assets	-	-	-	-	34,994	-	34,994
Government Investment Issues	3,225	5,216	-	-	29,943	-	38,384
Unquoted corporate Sukuks	-	10,350	-	-	-	-	10,350
Unit trust	17	114	-	-	512	-	643
Investment income due and accrued	-	-	-	-	580	-	580
Other receivable	-	-	-	-	10,103	-	10,103
Cash and cash equivalents	-	-	-	-	-	-	-
	<u>3,242</u>	<u>15,680</u>	<u>-</u>	<u>-</u>	<u>76,132</u>	<u>-</u>	<u>95,054</u>

Company No.	
924363	W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Investment- Linked RM'000	Total RM'000
<u>Family Takaful Fund</u>							
<u>30 November 2011</u>							
Fair value through profit or loss financial assets							
Government Investment Issues	-	-	-	-	2,024	1,835	3,859
Unquoted corporate Sukuks	498	-	-	-	2,708	5,932	9,138
Unit trust	-	-	-	-	-	798	798
Shariah-approved shares	-	-	-	-	-	2,600	2,600
Investment income due and accrued	2	-	-	-	23	101	126
Other receivable	-	-	-	-	499	-	499
Cash and cash equivalents	-	-	-	-	5,305	2,926	8,231
	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,559</u>	<u>14,192</u>	<u>25,251</u>

The carrying amount of assets included in the above tables represents the maximum exposure.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

Liquidity risk primarily refers to the possibility of having insufficient cash available to meet the payment obligations to counterparties when they become due. This can arise when internal funds are insufficient to meet cash outflow obligations and where the Company is unable to obtain funding at market rates or liquidate assets at fair value resulting in the forced liquidation of assets at depressed prices. The Company is exposed to liquidity risk in respect of Takaful contracts that permit surrender, withdrawal or other forms of early termination for a cash surrender value specified in the contractual terms and conditions.

The Company's liquidity position is monitored in compliance with regulatory and internal requirements in combination with maturity gap analyses. To manage liquidity risk, the Company has implemented a variety of measures, including emphasising flexible Takaful product design so that it can retain the greatest flexibility to adjust contract pricing or crediting rates.

The Company continually seeks to match, to the extent possible and appropriate, the duration of its investment assets with the duration of Takaful contracts issued. The Company constantly monitors its liquidity position and has in place several contingency sources of liquidity in order to minimise the impact of any liquidity risk.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	No maturity date RM'000	Total RM'000
<u>Shareholders' Fund</u>							
<u>30 November 2012</u>							
Available-for-sale financial assets	73,591	22	5,645	3,792	79,658	11,124	100,241
Other receivables	2,360	-	-	-	-	2,360	2,360
Cash and cash equivalents	14,167	13,660	-	-	-	507	14,167
Total assets	90,118	13,682	5,645	3,792	79,658	13,991	116,768
Other payables	11,020	11,020	-	-	-	-	11,020
Total liabilities	11,020	11,020	-	-	-	-	11,020

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	No maturity date RM'000	Total RM'000
<u>Family Takaful Fund</u>							
<u>30 November 2012</u>							
Fair value through profit and loss financial assets	73,764	1,140	2,088	629	93,479	13,534	110,870
Other receivables	432	-	-	-	-	432	432
Cash and cash equivalents	15,928	11,210	-	-	-	4,718	15,928
Total assets	90,124	12,350	2,088	629	93,479	18,684	127,230
Takaful contract liabilities	84,100	5,271	1,992	89	76,748	-	84,100
Takaful payable	224	224	-	-	-	-	224
Other payables	5,660	5,660	-	-	-	-	5,660
Total liabilities	89,984	11,155	1,992	89	76,748	-	89,984

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	No maturity date RM'000	Total RM'000
<u>Shareholders' Fund</u>							
<u>30 November 2011</u>							
Available-for-sale financial assets	84,371	3,864	6,442	19,395	78,171	10,350	118,222
Other receivables	580	240	-	-	-	340	580
Cash and cash equivalents	10,103	10,001	-	-	-	102	10,103
Total assets	<u>95,054</u>	<u>14,105</u>	<u>6,442</u>	<u>19,395</u>	<u>78,171</u>	<u>10,792</u>	<u>128,905</u>
Other payables	5,199	5,199	-	-	-	-	5,199
Total liabilities	<u>5,199</u>	<u>5,199</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,199</u>

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (continued)

Family Takaful Fund
30 November 2011

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	>5 years RM'000	No maturity date RM'000	Total RM'000
Fair value through profit and loss financial assets	16,521	343	2,490	1,508	10,737	2,600	17,678
Other receivables	505	505	-	-	-	340	845
Cash and cash equivalents	8,231	5,620	-	-	-	2,611	8,231
Total assets	25,257	6,468	2,490	1,508	10,737	5,551	26,754
Takaful contract liabilities	23,594	-	-	-	9,279	14,315	23,594
Takaful payable	85	85	-	-	-	-	85
Other payables	1,542	1,542	-	-	-	-	1,542
Total liabilities	25,221	1,627	-	-	9,279	14,315	25,221

Company No.

924363

W

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

(c) Market risk

Market risk arises from the possibility of financial loss caused by changes in financial instruments' fair values or future cash flows due to fluctuations in profit rate. The Company manages the risk of market-based fluctuations in the value of the Company's investments, as well as liabilities with exposure to market risk.

Policies on asset allocation, portfolio limit structure and diversification benchmark have been set in line with the Company's risk management policy after taking cognizance of the regulatory requirements in respect of maintenance of assets and solvency.

(i) Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market profit yield.

Floating yield instruments expose the Company to cash flow profit risk, whereas yield instruments expose the Company to fair value profit risk.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

22 FINANCIAL RISKS (CONTINUED)

- (c) Market risk (continued)
- (i) Profit rate risk (continued)

The Company manages the risk by maintaining an appropriate mix of variable and yield instruments. It also requires the Company to manage the maturities of Islamic financial assets and its corresponding liabilities.

	2012		2011	
	Impact on Takaful Contract Liability RM'000	Impact on Equity RM'000	Impact on Takaful Contract Liability RM'000	Impact on Equity RM'000
<u>Shareholders' Fund</u>				
<u>Change in variable</u>				
+50 basis points shift in yield curves	-	(1,666)	-	(2,130)
-50 basis points shift in yield curves	-	1,758	-	2,248
<u>Family Takaful Fund</u>				
<u>Change in variable</u>				
+50 basis points shift in yield curves	(2,192)	-	(176)	-
-50 basis points shift in yield curves	2,358	-	184	-

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

23 RELATED PARTY DISCLOSURES

In addition to related party disclosures mentioned else where in the financial statements, set out below are other significant related party transactions.

In the normal course of business, the Company undertake on agreed terms and prices, various transactions with the immediate holding company.

(a) Significant related party transactions

	Note	Shareholders' Fund	
		2012 RM'000	2011 RM'000
Immediate holding company			
- Computer services paid	(i)	3,372	2,584
- Outsourcing service fee paid	(ii)	3,638	1,972
- Others	(iii)	-	2,140
- Rental paid	(iv)	694	350
- Secretarial, human resource and investment related services	(v)	441	319
		<u>8,145</u>	<u>7,365</u>

- (i) Computer services provided include email facilities, IT services and data processing. The computer services rendered to related companies include data processing and private automatic branch exchange telephone charge.
- (ii) Group service fee is paid to immediate holding company for services rendered to the Company, which include management, human resource, operations, actuary and other services.
- (iii) Others include human resource related expenses paid for other services provided by related parties.
- (iv) Rental expenses is paid to related companies on properties rented for usage of office. Including utilities, repair & maintenance.
- (v) Secretarial, human resource and investments related services charges arising from support in the respective function provided by related parties.

Administrative support is provided in those related functions mentioned above.

(b) Key management personnel

The total share-based compensation paid to the Company's key management personnel are as follows:

	2012 RM'000	2011 RM'000
Employee Share Purchase Plan ("ESPP")	5	-
Restricted Share Unit Scheme ("RSU")	315	-
	<u>320</u>	<u>-</u>

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

24 TAKAFUL RISK

(i) Family Takaful contracts

The Takaful risk of Family Takaful contracts consists of mortality/longevity and calamity risks. Mortality/longevity risk represents the risk of loss attributable to positive or negative changes in the assumed medical prognosis for life expectancy, occupational disability, illness and the need for long-term care as well as underestimation of these probabilities. Calamity risk represents the risk of loss because of strong short-term fluctuation in the mortality rate, for example as a result of war or epidemics.

The table below shows the breakdown of Family Takaful contract liabilities by type of certificate.

	<u>2012</u>	<u>2011</u>
	RM'000	RM'000
Endowment	2	-
Temporary – others	1,887	136
Medical and health	(193)	42
Riders	(19)	80
Other provisions:		
Unearned contribution reserve	459	151
Claim reserve	864	201
Other reserve:		
Capital allocation for RBC	1,479	-
Others	2,495	374
Total Family Takaful	<u>6,974</u>	<u>984</u>

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

24 TAKAFUL RISK (CONTINUED)

(i) Family Takaful contracts (continued)

Mortality, Total Permanent Disability and Critical Illness

Mortality, total permanent disability and critical illness assumption was derived based on past experience, and expectation of current and future experience. In the absence of credible experience, reference has been made to pricing assumptions.

Expenses

Expenses assumption was based on 100% of expense unit cost factors as derived in the current expense analysis and expense inflation rate was based on expectation of long-term consumer price index. In the absence of credible experience, reference has been made to pricing assumptions.

Lapse and surrender rates

Lapse rate assumption was derived based on past experience and best estimate of current and future experience. Lapse rate assumptions vary by certificate year and product type with different rates for regular and single contribution products. Where experience for a particular product was not credible enough to allow any meaningful analysis to be performed, experience for similar products was used as a basis for future persistency experience assumptions. In the case of surrenders, the valuation assumes that current surrender value bases will continue to apply in the future.

Discount rate

The risk-free discount rate was derived from a yield curve, as follows:

- 1 for certificate duration of less than 15 years: zero-coupon spot yields of Government Investment Issues (GII) with matching duration; and
- 2 for certificate duration of 15 years or more: zero-coupon spot yields of GII with 15 years term to maturity.

AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

24 TAKAFUL RISK (CONTINUED)

(i) Family Takaful contracts (continued)

Sensitivities

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

		2012	
	<u>Change in assumption</u> %	Impact on gross/net liabilities RM'000	Impact on Qard RM'000
Discount rate	-0.5	7	-
Discount rate	+0.5	(2)	-
Expenses	+10.0	-	-
Lapse rates	+10.0	15	-
Mortality	+10.0	615	-
			2011
	<u>Change in assumption</u> %	Impact on gross/net liabilities RM'000	Impact on Qard RM'000
Discount rate	-0.5	6	-
Discount rate	+0.5	(5)	-
Expenses	+10.0	-	-
Lapse rates	+10.0	(8)	-
Mortality	+10.0	243	186

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

25 SHARE-BASED PAYMENT

During the year, the AIA Group made further grants restricted share units and restricted share purchase units to certain employees, directors and officers of the Company under the Restricted Share Unit (“RSU”) Scheme, Employee Stock Purchase Plan (“ESPP”) and Share Option (“SO”) Scheme.

(a) Restricted Share Unit (“RSU”) Scheme

Under the RSU Scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares. The maximum number of shares that can be granted under this scheme is 301,100,000 representing 2.5 per cent of the number of shares in issue of AIAGL at 30 November 2012.

Movement:

	<u>2012</u>	<u>2011</u>
	Number of shares	Number of shares
Restricted Shares Unit		
Outstanding at beginning of financial year/period	-	-
Granted	110,345	-
	<u> </u>	<u> </u>
Outstanding at end of financial year/period	<u>110,345</u>	<u> </u>

(b) Employee Stock Purchase Plan (“ESPP”)

Under the plan, eligible employees of the Company can purchase ordinary shares of AIAGL with qualified employee contributions and the AIA Group will award one matching restricted share purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 5% of the annual basic salary subject to a maximum. For the year ended 30 November 2012, eligible employees of the Company paid RM27,000 to purchase 2,572 ordinary shares of AIAGL.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

25 SHARE-BASED PAYMENT (CONTINUED)

Valuation methodology

The Company utilises a binomial lattice model to calculate the fair value of the share options grants, a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU, and ESPP, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the AIAGL's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The expected life of the options is derived from the output of the valuation model and is calculated based on an analysis of expected exercise behaviour of the Company's employees. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

Assumptions Company	2012	
	Restricted Shares Units	ESPP Restricted Shares Purchase Units
Risk free interest rate	0.36%*	N/A
Volatility	30%	N/A
Dividend yield	1.2%	N/A
Option life (in years)	N/A	N/A
Exercise price (HK\$)	N/A	N/A
Expected life (in years)	N/A	N/A
Weighted average fair value per option/unit at measurement date (HK\$)	23.75	N/A

* *Applicable to RSU with market condition.*

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU Scheme and ESPP by the Company for the year ended 30 November 2012 is RM 320,000.

(c) Share Option ("SO") Scheme

The objectives of the SO Scheme are to align eligible participants' interests with those of the shareholders of the Company by allowing eligible participants to share in the value created at the point they exercise their options. SO grants are vested either entirely after a specific period of time or in tranches over the vesting period, during which, the eligible participants are required to remain in employment with the AIA Group. If the SO grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognizing the expenses over the vesting period. The granted share options expire ten years from the date of grant. As at 30 November 2012, none of the Company's employees were granted any share option under this scheme.

Company No.

924363	W
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AIA AFG TAKAFUL BHD.
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 30 NOVEMBER 2012 (CONTINUED)

26 INVESTMENT-LINKED TAKAFUL FUNDS

	<u>2012</u> RM'000	<u>2011</u> RM'000
ASSETS		
Fair value through profit or loss financial assets	20,075	11,266
Receivables	440	163
Cash and cash equivalents	684	2,926
	<hr/>	<hr/>
Total assets	21,199	14,355
	<hr/>	<hr/>
LIABILITIES		
Payables	305	168
Deferred tax liabilities	70	20
Current tax liabilities	41	12
	<hr/>	<hr/>
Total liabilities	416	200
	<hr/>	<hr/>
Represented by:		
Net asset value of funds	20,783	14,155
	<hr/> <hr/>	<hr/> <hr/>
Value of units	19,227	13,800
Undistributed income carried forward	1,556	355
	<hr/>	<hr/>
Net asset value of funds	20,783	14,155
	<hr/> <hr/>	<hr/> <hr/>
INCOME STATEMENT FOR INVESTMENT-LINKED TAKAFUL FUNDS FOR THE FINANCIAL YEAR ENDED 30 NOVEMBER 2012		
Investment income	660	399
Realised loss	180	(168)
Fair value gains	625	250
	<hr/>	<hr/>
	1,465	481
Other expenses	(181)	(94)
	<hr/>	<hr/>
Profit before taxation	1,284	387
Taxation	(83)	(32)
	<hr/>	<hr/>
Profit after taxation	1,201	355
Undistributed income brought forward	355	-
	<hr/>	<hr/>
Undistributed income carried forward	1,556	355
	<hr/> <hr/>	<hr/> <hr/>