

Company No.

854686	K
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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

Company No.

854686	K
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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

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DANAJAMIN NASIONAL BERHAD

(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 31 December 2012.

PRINCIPAL ACTIVITY

The Company is principally engaged in providing financial guarantee insurance.

There were no significant changes in the nature of the principal activity during the financial year.

RESULTS

	RM'000
Profit before taxation	75,917
Taxation	<u>(56)</u>
Net profit for the financial year	<u>75,861</u>

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

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

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year. The Directors do not recommend any payment of dividend for the current financial year.

ISSUE OF SHARE CAPITAL

There were no issue of new ordinary shares during the financial year.

DIRECTORS

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

Dato' Sri Abdul Hamidy bin Abdul Hafiz

Abdul Kadir bin Md Kassim

Dato' Mohd Hanif bin Sher Mohamed

Dato' Albert Yeoh Beow Tit

Dato' Mohammed bin Haji Che Hussein

Philip Tan Puay Koon

Datuk Ahmad Badri bin Mohd Zahir

Ahmad Zulqarnain bin Che On (Managing Director ("MD")/Chief Executive Officer ("CEO"))

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DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)

DIRECTORS (CONTINUED)

Pursuant to Article 63 of the Company's Articles of Association, one third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one third, shall retire from office except for the MD/CEO in accordance with Article 91 of the Company's Articles of Association. At the annual general meeting of the Company held on 29 June 2012, Philip Tan Puay Koon and Datuk Ahmad Badri bin Mohd Zahir, who retired from office pursuant to Article 63 of the Company's Articles of Association and were eligible for re-election, were re-elected as Directors of the Company while Abdul Kadir bin Md Kassim, who retired from office pursuant to section 129(6) of the Companies Act 1965 and was eligible for re-appointment, was re-appointed as a Director of the Company.

DIRECTORS' BENEFITS AND INTERESTS

Neither at the end of financial year, nor at any time during that period, did there subsist any arrangement to which the Company was party, whereby the Directors might acquire benefits by means of 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 a benefit (other than Directors' remuneration, allowances and benefits-in-kind as disclosed in Note 19 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

According to the register of Directors' shareholdings, none of the Directors in office at the end of the financial year had any interest in shares in, or debentures of, the Company during the financial year.

CORPORATE GOVERNANCE STATEMENT

Introduction

The Company is the nation's first Financial Guarantee Insurer, licensed under the Insurance Act, 1996 and regulated and supervised by Bank Negara Malaysia ("BNM"). As a licensed entity, the Company complies with the requirements of, and adopts management practices that are consistent with the principles of BNM Guidelines on Corporate Governance for Licensed Institutions (BNM/RH/GL 01-1) and the Guidelines on Minimum Standards For Prudential Management of Insurers ("BNM/RH/GL 003-1").

Board responsibilities and oversight

The Board of Directors ("Board") acknowledges its overall responsibilities as set out in the BNM Guidelines and is committed in ensuring that the highest standards of governance are being practised in all aspects of the Company's operations.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board composition and balance

The structure and composition of the Board comply with both the Guidelines disclosed in BNM/RH/GL 01-1 and BNM/RH/GL 003-1 issued by BNM. The Board currently has eight (8) Directors comprising an Independent Non-Executive Chairman, four (4) Independent Non-Executive Directors, two (2) Non-Independent Non-Executive Directors and the Managing Director ("MD") /Chief Executive Officer ("CEO").

The Board has within it, professionals drawn from various backgrounds, bringing with them a wide range of skills, expertise and breadth of experience to provide direction and to support the Company's objectives and business operations.

A brief profile of each Director is presented as follows:

1. **Dato' Sri Abdul Hamidy bin Abdul Hafiz**
(56 years of age – Malaysian)
(Masters in Business Administration, Ohio University, United States of America)
(Independent Non-Executive Chairman)

Dato' Sri Hamidy was appointed as Independent Non-Executive Director on 14 May 2009 and has served as Chairman since then. He is also the Chairman of Board Underwriting Committee and Board Remuneration and Nomination Committee.

Dato' Sri Hamidy has over thirty (30) years of extensive banking experience in the fields of Commercial and Finance Banking, Investment Banking and Islamic Banking.

Dato' Sri Hamidy was formerly the Managing Director/Chief Executive Officer of Affin Bank Berhad. Prior to joining Affin Bank Berhad, Dato' Sri Hamidy was the Managing Director of Pengurusan Danaharta Nasional Berhad, the country's first national asset management company, established by the Government of Malaysia to resolve the issue of non-performing loans ("NPLs") in the banking sector during the 1998 Asian financial crisis.

Dato' Sri Hamidy is also the Chairman of Corporate Debt Restructuring Committee established by BNM.

Dato' Sri Hamidy was appointed Chairman of Credit Guarantee Corporation (Malaysia) Berhad on 22 November 2011. In addition, he sits on the Board of Sime Darby Industrial Holdings Sdn. Bhd., Sime Darby Motors Sdn. Bhd., Kuwait Finance House, ACE Jerneh Insurance Berhad and also a member of the Listing Committee of Bursa Malaysia Berhad.

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board composition and balance (continued)

2. **Abdul Kadir bin Md Kassim**
(72 years of age – Malaysian)
(Law Degree, University of Singapore, Singapore)
(Independent Non-Executive Director)

Abdul Kadir was appointed as an Independent Non-Executive Director on 14 May 2009. He is the Chairman of Board Investment Committee and a member of Board Underwriting Committee and Board Remuneration and Nomination Committee.

Abdul Kadir is a practising lawyer with over forty (40) years of experience. He is currently the Managing Partner of Messrs Kadir, Andri and Partners.

Abdul Kadir sits on the Board of various public listed and non-listed companies, including TIME dotcom Berhad Group of Companies and UEM Group of Companies. He also serves as Chairman of the Exchange Committee of the Labuan International Financial Exchange and Federation of Investment Managers Malaysia and is a member of the Investment Panel of the Lembaga Tabung Haji and the Corporate Debt Restructuring Committee.

3. **Dato' Mohd Hanif bin Sher Mohamed**
(61 years of age – Malaysian)
(Master in Business Administration, United Kingdom; Member of the Australian Management College, British Institute of Management and the Institute of Credit Management, United Kingdom)
(Non-Independent Non-Executive Director)

Dato' Mohd Hanif was appointed as Non-Independent Non-Executive Director on 14 May 2009. He is also a member of Board Remuneration and Nomination Committee and Board Risk Committee.

Dato' Mohd Hanif has over thirty (30) years of experience in the banking industry and prior to his retirement on 31 December 2000, he was the Chief Executive Officer of Credit Corporation (Malaysia) Berhad.

Dato' Mohd Hanif is a Director of several public companies, including Credit Guarantee Corporation (Malaysia) Berhad, Sivash Holdings Berhad and Protasco Berhad. Dato' Mohd Hanif is also the Chairman of Agensi Kaunseling and Pengurusan Kredit ("AKPK"), established by BNM.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board composition and balance (continued)

4. **Dato' Albert Yeoh Beow Tit**

(63 years of age – Malaysian)

(Master of Science in Management, University of Salford, Manchester, England; Fellowship of the Institute of Bankers Malaysia)

(Independent Non-Executive Director)

Dato' Albert Yeoh was appointed as an Independent Non-Executive Director on 14 May 2009. He is also a member of Board Remuneration and Nomination Committee, Board Risk Committee and Board Audit Committee.

Dato' Albert Yeoh was the Director-Corporate Banking Group for Citibank Berhad prior to joining OCBC Bank (Malaysia) Berhad in March 1996. He held various senior management positions within the OCBC Group, including the Chief Executive Officer of OCBC Bank (Malaysia) Berhad, a position which he held until his retirement on 31 July 2008.

Dato' Albert Yeoh also sits on the Board of Cagamas Berhad, Great Eastern Life Assurance (Malaysia) Berhad and Overseas Assurance Corporation (Malaysia) Berhad.

5. **Dato' Mohammed bin Haji Che Hussein (“Dato' Mohammed Hussein”)**

(62 years of age - Malaysian)

(Bachelor of Commerce Degree majoring in Accounting, University of Newcastle, New South Wales, Australia; Alumnus of the Advance Management Program, Harvard Business School, Boston, USA)

(Independent Non-Executive Director)

Dato' Mohammed Hussein was appointed as an Independent Non-Executive Director on 14 May 2009. He is the Chairman of Board Audit Committee and a member of Board Investment Committee and Board Underwriting Committee.

Dato' Mohammed Hussein served thirty-one (31) years in the Maybank Group, holding various senior management positions including Head of Corporate Banking, Head of Malaysian Operations and Managing Director of Aseambankers Malaysia Berhad (currently known as Maybank Investment Bank Berhad). The last position held prior to his retirement on 30 January 2008 was as the Deputy President/Chief Financial Officer of Maybank.

Dato' Mohammed Hussein serves as a Director of several private and public listed companies such as Hap Seng Consolidated Berhad, Quill Capita Management Sdn. Bhd., Capita Commercial Trust Management Ltd, Malaysia Commercial Development Fund Pte Ltd and PNB Commercial Sdn Bhd. He is also a member of Corporate Debt Restructuring Committee established by BNM and a Director of Universiti Malaysia Kelantan.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board composition and balance (continued)

6. Philip Tan Puay Koon

(56 years of age – Malaysian)

(B.A. (Honours) Degree in Business Studies (Accounting and Finance), North-East London Polytechnic, United Kingdom; Attended the Oxford International Executive Programme and Stanford-NUS Executive Programme)

(Independent Non-Executive Director)

Philip Tan was appointed as an Independent Non-Executive Director on 14 May 2009. He is the Chairman of Board Risk Committee and a member of Board Audit Committee and Board Investment Committee.

Philip Tan has more than twenty-five (25) years of experience in the field of banking and finance, principally in the areas of treasury and risk management. He was formerly a Managing Director and Chief Financial Officer of Emerging Market Sales and Trading, Asia-Pacific of Citigroup. He was also the Country Treasurer and Financial Market Head of Citibank Berhad from November 1999 to July 2001.

Philip Tan is currently a Director of Malaysian Electronic Clearing Corporation Sdn. Bhd. ("MyClear"), established by Bank Negara Malaysia and also serves on the Board of Cagamas Berhad and MIDF Amanah Investment Bank Berhad. He is a member of Corporate Debt Restructuring Committee established by BNM.

7. Datuk Ahmad Badri bin Mohd Zahir

(52 years of age – Malaysian)

(Masters in Business Administration, University of Hull, United Kingdom)

(Non-Independent Non-Executive Director)

Datuk Ahmad Badri was appointed as a Non-Independent Non-Executive Director on 25 June 2009. He is also a member of Board Remuneration and Nomination Committee, Board Investment Committee and Board Underwriting Committee.

Datuk Ahmad Badri is currently the Deputy Secretary of Loan Management, Financial Market and Actuary Division at the Ministry of Finance. He has served for more than twenty (20) years in the Ministry of Finance, holding several senior positions.

Datuk Ahmad Badri serves on the Board of KL International Airport Berhad, DanaInfra Nasional Berhad, Perbadanan Kemajuan Negeri Selangor and AmanahRaya-REIT Managers Sdn Bhd. He is also a member of the Corporate Debt Restructuring Committee established by BNM.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board composition and balance (continued)

8. **Ahmad Zulqarnain bin Che On**
(40 years of age – Malaysian)
(Bachelor of Arts in Economics, Harvard University, United States of America)
(Managing Director / Chief Executive Officer)

Ahmad Zulqarnain was appointed as a CEO on 14 August 2009 and MD on 8 October 2009.

Ahmad Zulqarnain started his career working with UBS Warburg as an Equity Research Analyst, recruited under the UBS's global Graduate Training Programme. Subsequently, he joined the Corporate Planning team in Pengurusan Danaharta Nasional Berhad, Malaysia's debt resolution agency established during the 1997 Asian Financial Crisis.

He then joined the Investment Banking team at CIMB Investment Bank Berhad before being seconded to the Corporate Debt Restructuring Committee ("CDRC"). At CDRC, he was part of the five-man team which mediated the restructuring of RM29 billion corporate debt under the ambit of Bank Negara Malaysia. He had also held other positions previously including Director, Corporate Finance and Planning in the Symphony House Berhad responsible for the Group Corporate Finance and Strategic Planning and Executive Director at Bolton Berhad. Prior to his appointment as the CEO of the Company, he was the Chief Corporate Strategist at Affin Bank Berhad.

Board meetings

The Board meets at least once in every two months in a financial year and also at other times as and when Board meetings are required.

During the financial year ended 31 December 2012, the Board met eight (8) times (comprising six (6) scheduled and two (2) special meetings) to deliberate and consider a variety of significant matters that required its guidance and approval. Pursuant to the BNM/RH/GL 01-1, all Directors must attend at least 75% of the total Board meetings held during the financial year. For the financial year under review, all Directors have complied with this requirement.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board meetings (continued)

Details of attendance of each Director who was in office during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Sri Abdul Hamidy bin Abdul Hafiz	8/8	100%
Abdul Kadir bin Md Kassim	8/8	100%
Dato' Mohd Hanif bin Sher Mohamed	8/8	100%
Dato' Albert YeohBeow Tit	8/8	100%
Dato' Mohammed Hussein	8/8	100%
Philip Tan Puay Koon	8/8	100%
DatukAhmad Badri bin Mohd Zahir	7/8	88%
Ahmad Zulfarnain bin Che On	8/8	100%

The Board has full and unrestricted access to all information pertaining to the Company's business and affairs through the Senior Management and the Company Secretary to enable it to discharge its duties effectively.

For each Board meeting, an Agenda together with comprehensive information, documents and material ("Board Papers") for each Agenda item to be discussed will be forwarded to each Director at least five (5) days before the scheduled meeting date to give reasonable time for the Directors to review the Board Papers and to enable the Directors to obtain further clarification or explanation, where necessary. However, Board Papers for matters that are deemed urgent may still be submitted to the Company Secretary after the expiry of such deadline, subject to the approval of the Chairman.

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Roles and Responsibilities of the Chairman and the MD/CEO

The roles of both the Chairman and the MD/CEO are clearly separated with the position being held by two (2) different individuals to ensure that an appropriate balance of role and authority is maintained.

Chairman

The Chairman is responsible to ensure the smooth and effective functioning of the Board and the governance structure, inculcating positive culture in the Board, providing avenues for all Directors to participate openly in the discussion, providing leadership to the Board and is responsible for the development needs of the Board. He continues to demonstrate the highest standards of corporate governance practices and ensures that these practices are regularly communicated to the stakeholders.

MD/CEO

The MD/CEO is responsible for the implementation and execution of strategic goals as determined by the Board and to manage and oversee the day-to-day operations to ensure the smooth and effective running of the Company. He is also responsible for ensuring high management competency as well as the emplacement of an effective management succession plan to sustain continuity of operations. The MD/CEO, by virtue of his position as a Board member, also acts as an intermediary between the Board and Senior Management.

The duties and responsibilities of the Chairman and MD/CEO are distinct and separate to ensure a balance of power and authority towards the establishment of an effective Board.

Board Committees

The Board has established several Committees which operate within clearly defined Terms of Reference to assist the Board in executing its duties and responsibilities. Although the Board may delegate certain duties to its Committees, it remains ultimately responsible for the decisions of the Committees.

The Board has established the following Board Committees namely:

1. Board Remuneration and Nomination Committee;
2. Board Audit Committee;
3. Board Underwriting Committee;
4. Board Risk Committee; and
5. Board Investment Committee.

At its meeting on 15 May 2012, the Board had resolved to reorganise the composition of several committees of the Board both to ensure that the minimum number stipulated under the BNM Guidelines is met and at the same time, the Board took the opportunity to reshuffle the composition of the Board committees which changes became effective immediately.

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DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (Continued)

The functions and Terms of Reference of the Board Committees are clearly defined and in compliance with the relevant governing laws, regulations and guidelines among others the BNM/RH/GL 01-1 and BNM/RH/GL 003-1.

1. Board Remuneration and Nomination Committee ("BRNC")Members

- (i) Dato' Sri Abdul Hamidybin Abdul Hafiz (Chairman)
- (ii) Dato' Mohd HanifbinSher Mohamed
- (iii) Abdul Kadir bin Md Kassim
- (iv) Datuk Ahmad Badri Mohd Zahir (appointed as member of BRNC w.e.f. 15 May 2012)
- (v) Dato' Albert YeohBeow Tit (appointed as member of BRNC w.e.f. 15 May 2012)
- (vi) Philip Tan Puay Koon (ceased to be a member of BRNC w.e.f. 15 May 2012)

The details of attendance of each Member at the meeting of the BRNC during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)	4/4	100%
Dato' Mohd Hanif bin Sher Mohamed	4/4	100%
Abdul Kadir bin Md Kassim	4/4	100%
Datuk Ahmad Badri bin Mohd Zahir (appointed as member of BRNC w.e.f. 15 May 2012)	2/2	100%
Dato' Albert YeohBeow Tit (appointed as member of BRNC w.e.f. 15 May 2012)	2/2	100%
Philip Tan Puay Koon (ceased to be a member of BRNC w.e.f. 15 May 2012)	2/2	100%

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

1. Board Remuneration and Nomination Committee ("BRNC") (continued)

Objectives

- (i) To ensure that the Board has the appropriate balance and size, and the required mix of skills, experience and other core competencies.
- (ii) To ensure the Company can attract and retain high caliber executives needed to run and manage the Company successfully.

Composition

At least five (5) members, comprising a minimum of four (4) Non-Executive Directors.

Frequency of meetings

At least once every financial quarter. In the financial year 2012, the BRNC met four (4) times, once in every financial quarter.

Quorum

At least (2) members.

Voting

By majority, with casting vote to Chairman.

Secretary

Company Secretary.

Duties and responsibilities

- a. To review and recommend to the Board the compensation and benefits package and salary scale and terms and conditions for all levels of employees of the Company.
- b. To review and recommend to the Board the basis for the annual bonus and salary increment for all levels of employees of the Company.
- c. To consider and recommend suitable persons for appointment as Directors and MD/CEO.
- d. To review and recommend to the Board the compensation and benefits package and the terms and conditions of service of the MD/CEO.
- e. To review and recommend to the Board the remuneration for Non-Executive Directors of the Company.
- f. To review and approve the recruitment and remuneration package of Head of Divisions if the package exceeds the limits set by the Scheme of Service.
- g. To annually review performance of MD/CEO and Heads of Divisions.

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)**1. Board Remuneration and Nomination Committee (“BRNC”) (continued)**Duties and responsibilities (continued)

- h. To assess the effectiveness of the Board, the Committees of the Board and each individual Director.
- i. To consider and recommend measures to upgrade the effectiveness of the Board and Committees of the Board.
- j. To annually review the required mix of skills and experience and other qualities, including core competencies, which Non-Executive Directors should bring to the Board.
- k. To consider and recommend solutions on issues of conflict of interest affecting Directors.
- l. To approve the appointments of all Heads of Divisions.

2. Board Audit Committee (“BAC”)Members

- (i) Dato’ Mohammed Hussein (Chairman)
- (ii) Dato’ Albert Yeoh Beow Tit
- (iii) Philip Tan Puay Koon

The details of attendance of each Member at the meeting of the BAC during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato’ Mohammed Hussein (Chairman)	5/5	100%
Dato’ Albert Yeoh Beow Tit	5/5	100%
Philip Tan Puay Koon	5/5	100%

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

2. **Board Audit Committee (“BAC”) (Continued)**

Composition

The composition of the Audit Committee has conformed with the requirements as stipulated by the BNM's Guidelines for Audit Committees and Internal Audit Department.

Frequency of meetings

The Audit Committee shall meet at least once in every financial quarter.

Quorum

Quorum shall be at least two-third (2/3) of members, with Independent Directors forming the majority.

Secretary

Company Secretary.

Duties and responsibilities

- a. To review the Company's financial statements for submission to the Board and ensure compliance with disclosure requirements and any adjustments as suggested by the Auditors.
- b. To review the reports of the Internal Auditors, External Auditors, BNM Examiners and any other relevant parties, including obligatory reports to the BNM on matters covered under Section 82 of the Insurance Act 1996.
- c. To ensure the independence and effectiveness of the Internal Audit functions.
- d. To review the appropriateness of the risk assessment methodology employed and adequacy of the Company's internal controls.
- e. To be responsible for the appointment of the External Auditors and assessing the Auditors' objectivity, performance and independence.
- f. To review with the External Auditors the scope of the audit plan, the financial statements, changes in accounting policies and principles, compliance with laws and accounting standards, material variances or fluctuations, validity of going concern assumptions, system of internal accounting controls and any other relevant findings or concerns raised by the External Auditors.

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

2. Board Audit Committee (“BAC”) (continued)

Duties and responsibilities (continued)

- g. To make recommendations to the Board on the appointment of External Auditors.
- h. To meet with the External Auditors without the presence of management at least once per annum.
- i. To review and approve the annual audit plan and budget for the internal audit functions.
- j. To be directly responsible for the role and performance of the Head of Internal Audit functions and his or her remuneration scheme; to ensure the adequacy of resources for the carrying out of the internal audit functions.
- k. To report to the Board via minutes of meetings or special report on the findings of its meetings/activities.
- l. To carry out such other responsibilities as may be delegated by the Board from time to time.
- m. To ensure compliance with BNM’s Guidelines for Audit Committee and Internal Audit Department, and as may be amended from time to time.

Authority

The Audit Committee shall have unlimited access to all relevant records, information and documents, to the Internal and External Auditors and to senior management of the Company.

The Internal and External Auditors shall have free access to the Audit Committee and be allowed to attend and to be heard at the Committee meetings.

The Audit Committee is authorised by the Board to obtain outside independent professional advice, from time to time as it considers necessary.

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)**3. Board Underwriting Committee ("BUC")**Members

- (i) Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)
- (ii) Abdul Kadir bin Md Kassim
- (iii) Dato' Mohammed Hussein
- (iv) Datuk Ahmad Badri bin Mohd Zahir (appointed as member of BUC w.e.f. 15 May 2012)
- (v) Dato' Mohd Hanif bin Sher Mohamed (ceased to be member of BUC w.e.f. 15 May 2012)
- (vi) Dato' Albert Yeoh Beow Tit (ceased to be a member of BUC w.e.f. 15 May 2012)

The details of attendance of each Member at the meeting of the BUC during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Dato' Sri Abdul Hamidy bin Abdul Hafiz (Chairman)	13/14	93%
Abdul Kadir bin Md Kassim	14/14	100%
Dato' Mohammed Hussein	13/14	93%
Datuk Ahmad Badri Mohd Zahir (appointed as member of BUC w.e.f. 15 May 2012)	10/10	100%
Dato' Mohd Hanif bin Sher Mohamed (ceased to be a member of BUC w.e.f. 15 May 2012)	4/4	100%
Dato' Albert Yeoh Beow Tit (ceased to be a member of BUC w.e.f. 15 May 2012)	4/4	100%

DANAJAMIN NASIONAL BERHAD

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DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

3. Board Underwriting Committee (“BUC”) (continued)

Objective

To review and endorse (with power to veto) underwriting proposals approved by the Management Underwriting Committee.

Composition

At least four (4) Non-Executive Directors.

Frequency of meetings

At least once a month.

Quorum

At least three (3) members.

Voting

By majority, with casting vote to Chairman.

Secretary

Company Secretary.

Duties & Responsibilities

- a. To review and, if appropriate, endorse underwriting proposals that have been approved by the Management Underwriting Committee.
- b. Where an underwriting proposal has been approved by the Management Underwriting Committee and the Board Underwriting Committee disagrees with the proposal, to exercise the power of veto.
- c. To review and monitor reports on the underwriting performance of the Company.
- d. To approve acceleration redemption recommended by Management Underwriting Committee and thereafter, the decision to accelerate be tabled to the Board of Directors for notification.
- e. To approve any exception to the guidelines on Refinancing.

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DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)**4. Board Risk Committee (“BRC”)**Members

- (i) Philip Tan Puay Koon (appointed as Chairman of BRC w.e.f. 15 May 2012)
- (ii) Dato' Mohd Hanif bin Sher Mohamed (appointed as a member of BRC w.e.f. 15 May 2012)
- (iii) Dato' Albert Yeoh Beow Tit (appointed as a member of BRC w.e.f. 15 May 2012)
- (iv) Datuk Ahmad Badri bin Mohd Zahir (ceased to be a member of BRC w.e.f. 15 May 2012)

The details of attendance of each Member at the meeting of the BRC during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Philip Tan Puay Koon (Chairman)	4/4	100%
Dato' Mohd Hanif bin Sher Mohamed (appointed as a member of BRC w.e.f. 15 May 2012)	3/3	100%
Dato' Albert Yeoh Beow Tit (appointed as a member of BRC w.e.f. 15 May 2012)	3/3	100%
Datuk Ahmad Badri bin Mohd Zahir (ceased to be a member of BRC w.e.f. 15 May 2012)	1/1	100%

Objective

To ensure the risk management functions and practices of the Company are conducted and discharged effectively to ensure management and mitigation of key risks.

Composition

At least three (3) members, comprising Non-Executive Directors who are not members of the Board Underwriting Committee.

Frequency of meetings

At least four (4) times each financial year, on a quarterly basis.

Quorum

At least two (2) members.

Voting

By majority, with casting vote to Chairman.

Secretary

Company Secretary.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Board Committees (continued)**4. Board Risk Committee (“BRC”) (continued)**Duties and responsibilities

- a. To review the risk-taking strategies and risk management policies of the Company.
- b. To review the overall risk profile of the Company, including market risks and credit risks within the portfolio.
- c. To set the risk appetite appropriate for the Company.
- d. To review the performance of the risk management function of the Company.
- e. To approve contingency plans for dealing with potential high-impact risk events.
- f. To ensure a culture of risk-awareness and risk-mitigation in the Company.

5. Board Investment Committee (“BIC”)Members

- (i) Abdul Kadir bin Md Kassim (Chairman)
- (ii) Dato’ Mohammed Hussein
- (iii) Philip Tan Puay Koon
- (iv) Datuk Ahmad Badribin Mohd Zahir

The details of attendance of each Member at the meeting of the BIC during the financial year ended 31 December 2012 are as follows:

<u>Name of Directors</u>	<u>Number of Meetings and Attendance</u>	<u>Percentage of Attendance</u>
Abdul Kadir bin Md Kassim (Chairman)	4/4	100%
Dato’ Mohammed Hussein	4/4	100%
Philip Tan Puay Koon	4/4	100%
Datuk Ahmad Badri bin Mohd Zahir	4/4	100%

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Committees (continued)

5. **Board Investment Committee (“BIC”) (continued)**

Objective

To ensure the Company invests and manages its capital resources in a professional and prudent manner, achieves the targeted returns while assuming an appropriate level of risk, maintain a sufficient level of liquidity for claim events and maintain conformity with all regulatory requirements.

Composition

At least three (3), comprising Non-Executive Directors.

Frequency of meetings

At least four (4) times each financial year, on a quarterly basis, and from time to time, for the deliberation of specific investment proposals.

Quorum

Two (2) members.

Voting

By majority, with casting vote to Chairman.

Secretary

Company Secretary.

Duties and responsibilities

- a. To review and, if appropriate, approve proposals for all investments and divestments of assets other than short-term term deposits, short-term money market instruments and low risk assets that are more than RM25 million .
- b. To review the performance of the portfolio of capital resources.
- c. To determine from time to time the asset allocation target for the portfolio of capital resources.

Internal Controls

The Board has the primary responsibility to ensure that the Company maintains an adequate system of internal controls and that the Company has effective and efficient operations and risk management policies to ensure compliance with relevant laws and regulations. The Company has in place formal policies which govern the management and control of financial and non-financial risks. The adoption of these policies enables a consistent approach to the management of risks throughout the Company.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Internal Controls (continued)

The Directors and Senior Management of the Company are committed to maintaining a risk-conscious culture in the Company. One of the building blocks used to identify and evaluate significant risks is the Enterprise Risk Management (“ERM”) Framework which was implemented in early 2010 and is continuously enhanced to reflect best practices. The ERM framework establishes systematic monitoring and reporting requirements of each division within the Company and is aimed at embedding sound risk management culture within the Company to ensure that the Company continues to expand its business with the right risk management culture, discipline and practices.

The Board Risk Committee will oversee the management of key risk areas by the Senior Management to ensure that the risk management framework and processes are functioning effectively. The Internal Audit Division will provide an independent assurance by evaluating and improving the effectiveness of risk management, control and governance process.

Concentration Risk

Excessive exposure in a single industry or business sector and to a single Group is managed under the Portfolio Concentration Policy, which sets out maximum allowed Group exposure and maximum allowed exposure under each industry or business sector. Industry exposure and aggregated Group exposure is monitored regularly by the Senior Management and reported to the Board Risk Committee on a regular basis.

Credit Risk

Management of credit risk is through a set of stringent underwriting standards and comprehensive credit risk policies. All underwriting proposals are subject to robust credit evaluation process and dual-level approval process through a Management Underwriting Committee and Board Underwriting Committee, to ensure that the shareholders' capital and the Company's rating is protected.

The Company practices credit risk reporting and controlling framework through regular reporting of each obligor's performance via the credit risk dashboards. These risk dashboards provides transparency and early warning indicators to Senior Management with regard to the risk profile of each underwritten commitments.

Internal Audit and Internal Control Activities

The Company has an in-house group internal audit function which is guided by its Audit Charter and reports to the Board Audit Committee. Its primary role is to assist the Board Audit Committee in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Company's risk management, internal control and governance processes.

The Internal Auditors perform regular reviews of the Company's operational processes and system of internal controls. Auditable units of priority and frequency of review are determined by adopting a risk-based approach, and the annual internal audit plan is reviewed and approved by the Board Audit Committee. Results of the audits conducted by the Internal Auditors are reported to the Board Audit Committee while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the Management via the Management Committee which comprises senior management of the Company.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**Internal Audit and Internal Control Activities (continued)

The Board Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as well as regulatory authorities on the state of the Company's internal control system. The minutes of the Board Audit Committee meetings are subsequently tabled to the Board for notation. In addition to audit assignments, the Internal Audit Division is invited to participate on a consultative basis in the development of new products and systems, and information technology related initiatives as well as in the review of operational manuals and guidelines.

RATING BY EXTERNAL RATING AGENCIES

Details of the Company's ratings are as follows:

<u>Rating agency</u>	<u>Date</u>	<u>Rating/classification</u>	<u>Rating received</u>
RAM Rating Services Berhad ("RAM")	28 September 2012	Long-term Financial Enhancement Rating Short-term Financial Enhancement Rating Outlook	AAA P1 Stable
Malaysian Rating Corporation Berhad ("MARC")	8 February 2013	Insurer Financial Strength Rating Outlook	AAA Stable

DESCRIPTION OF THE RATINGS ACCORDEDRAM Rating Services Berhad

Long-term Financial Enhancements Rating

AAA A financial guarantee insurance company rated AAA has a superior capacity to meet its financial obligations to policy/contract holders. This is the highest long-term financial enhancement rating assigned by RAM.

Short-term Financial Enhancements Rating

P1 A financial guarantee insurance company rated P1 has a strong capacity to meet its short-term financial obligations to policy/contract holders. This is the highest short-term financial enhancement rating assigned by RAM.

Malaysian Rating Corporation Berhad

Insurer Financial Strength Rating

AAA An institution rated AAA has an exceptionally strong capacity to meet its financial commitments and exhibits a high degree of resilience to adverse developments in the economy, and in business and other external conditions. These institutions typically possess a strong balance sheet and superior earnings record.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

OTHER STATUTORY INFORMATION

- (a) Before the financial statements of the Company were made out, the Directors took reasonable steps:
- (i) To ascertain that proper actions have 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 have been written off and adequate allowance had been made for doubtful debts; and
 - (ii) To ensure that any current assets which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Company had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render:
- (i) The amount 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; and
 - (ii) The values attributed to current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) 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.
- (e) At the date of this report, there does not exist:
- (i) Any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) Any contingent liability of the Company which has arisen since the end of the financial year other than those arising in the normal course of business of the Company.
- (f) In the opinion of the Directors:
- (i) 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 will or may affect the ability of the Company to meet their obligations as and when they fall due; and
 - (ii) For the purpose of this section, contingent or other liabilities do not include liabilities arising from contracts of financial guarantee insurance underwritten in the ordinary course of business of the Company.

SIGNIFICANT AND SUBSEQUENT EVENTS

There has not been any significant event during the financial year and there is no significant adjusting event after the statements of financial positions date up to the date when the financial statements are authorised for issue.

Company No.

854686

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 28 February 2013.



DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
CHAIRMAN



AHMAD ZULQARNAIN BIN CHE ON
MANAGING DIRECTOR/ CHIEF
EXECUTIVE OFFICER

Kuala Lumpur, Malaysia

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS

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

We, **Dato' Sri Abdul Hamidy bin Abdul Hafiz** and **Ahmad Zulqarnain bin Che On**, being two of the Directors of Danajamin Nasional Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 27 to 85 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of its financial performance and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 28 February 2013.

DATO' SRI ABDUL HAMIDY BIN ABDUL HAFIZ
CHAIRMAN

AHMAD ZULQARNAIN BIN CHE ON
MANAGING DIRECTOR/ CHIEF
EXECUTIVE OFFICER

Kuala Lumpur, Malaysia

STATUTORY DECLARATION

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

I, **Mohd Amri Mohd Sofian**, being the officer primarily responsible for the financial management of Danajamin Nasional Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 27 to 85 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly
declared at Kuala Lumpur
in the Federal Territory
on 28 February 2013

Before me,

COMMISSIONER FOR OATHS

Kuala Lumpur, Malaysia

84, Tingkat Bawah, Jalan Tuba,
Off Jalan Kampung Attap,
50460 Kuala Lumpur



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD**
(Incorporated in Malaysia)
(Company no: 854686 K)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Danajamin Nasional Berhad, which comprise the statement of financial position as at 31 December 2012, statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 85.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965. The Directors are also responsible 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 judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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



**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF DANAJAMIN NASIONAL BERHAD (CONTINUED)**
(Incorporated in Malaysia)
(Company no: 854686 K)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

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

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

1. As stated in Note 1.1 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statements of comprehensive income, changes in equity and cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.
2. 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

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/14 (J))
Chartered Accountant

Kuala Lumpur
28 February 2013

Company No.

854686	K
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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
ASSETS				
Property, plant and equipment	2	1,620	2,094	2,642
Intangible assets	3	624	1,358	907
Available-for-sale securities	4	491,601	590,380	489,308
Insurance receivables	5	447,485	293,529	11,857
Reinsurance assets	6	9,191	2,899	-
Deferred tax assets	7	1,189	962	-
Other assets	8	874	814	1,609
Deposits and placements with licensed banks		689,304	505,623	531,306
Cash and cash equivalents		79	240	174
Total assets		1,641,967	1,397,899	1,037,803
LIABILITIES				
Premium liabilities	9	487,758	322,753	13,924
Insurance payables	10	7,614	4,818	-
Other liabilities	11	7,020	5,845	3,300
Total liabilities		502,392	333,416	17,224
EQUITY				
Share capital	12	1,000,000	1,000,000	1,000,000
Retained earnings	13	119,895	51,309	18,862
Contingency reserve	14	18,972	11,697	507
Available-for-sale fair value reserve		708	1,477	1,210
Total equity		1,139,575	1,064,483	1,020,579
Total liabilities and shareholders' equity		1,641,967	1,397,899	1,037,803

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

DANAJAMIN NASIONAL BERHAD*(Incorporated in Malaysia)***STATEMENT OF COMPREHENSIVE INCOME**
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Operating revenue	15	98,768	58,526
Gross earned premiums	16 (a)	59,598	22,899
Premiums ceded to reinsurance	16 (b)	(1,057)	(196)
Net earned premiums		58,541	22,703
Net gain on disposal of available-for-sale securities		13	-
Investment income	17	39,170	35,627
Other operating income	18	5,138	7,658
Total revenue		102,862	65,988
Management expenses	19	(26,945)	(23,832)
Profit before taxation		75,917	42,156
Taxation	20	(56)	1,481
Net profit for the financial year		75,861	43,637
Other comprehensive income:			
Available-for-sale fair value reserve:			
Unrealised net (loss)/gain on revaluation		(1,065)	784
Net transfer to income statement on disposal/maturity		13	2
Income tax relating to available-for-sale securities		283	(519)
Other comprehensive(loss)/income for the financial year, net of tax		(769)	267
Total comprehensive income for the financial year		75,092	43,904
Basic earnings per share (sen)	21	7.59	4.36

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

Company No.

854686	K
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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Non-distributable			Distributable	Total RM'000
	Share capital RM'000	Available-for- sale fair value reserve RM'000	Contingency reserve RM'000	Retained earnings RM'000	
At 1 January 2012	1,000,000	1,477	11,697	51,309	1,064,483
Net profit for the financial year	-	-	-	75,861	75,861
Available-for-sale fair value reserve:					
Unrealised net loss on revaluation	-	(1,065)	-	-	(1,065)
Net transfer to income statement on disposal	-	13	-	-	13
Income tax relating to available-for-sale securities	-	283	-	-	283
Transfer to contingency reserve	-	-	7,275	(7,275)	-
At 31 December 2012	1,000,000	708	18,972	119,895	1,139,575
At 1 January 2011	1,000,000	1,210	507	18,862	1,020,579
Net profit for the financial year	-	-	-	43,637	43,637
Available-for-sale fair value reserve:					
Unrealised net gain on revaluation	-	784	-	-	784
Net transfer to income statement on maturity	-	2	-	-	2
Income tax relating to available-for-sale securities	-	(519)	-	-	(519)
Transfer to contingency reserve	-	-	11,190	(11,190)	-
At 31 December 2011	1,000,000	1,477	11,697	51,309	1,064,483

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

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	2012	2011
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	75,917	42,156
Adjustments for:		
Depreciation of property, plant and equipment	865	882
Loss on disposal of property, plant and equipment	-	2
Amortisation of intangible assets	815	525
Net gain from disposal of available-for-sale securities	(13)	-
Net amortisation of premiums for available-for-sale securities	1,562	1,914
Interest income	(40,731)	(37,541)
	<u>38,415</u>	<u>7,938</u>
Purchase of available-for-sale securities	(119,876)	(111,375)
Proceeds from disposal of available-for-sale securities	10,038	-
Proceeds from maturity of available-for-sale securities	205,000	10,000
(Increase)/decrease in deposits and placements with licensed banks	(182,635)	26,483
Increase in other liabilities	1,175	2,545
Increase in premium liabilities	165,005	308,829
Increase in reinsurance assets	(6,292)	(2,899)
Increase in premium payables	2,796	4,818
Increase in premium receivables	(153,956)	(281,672)
(Increase)/decrease in other assets	(27)	838
Interest income received	40,701	35,917
Net cash inflow from operating activities	<u>344</u>	<u>1,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(407)	(413)
Purchase of intangible assets	(98)	(943)
Net cash outflow from investing activities	<u>(505)</u>	<u>(1,356)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(161)	66
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	240	174
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	<u>79</u>	<u>240</u>
Cash and cash equivalents comprise:		
Cash and cash equivalents	<u>79</u>	<u>240</u>

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

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012**1 A ACCOUNTING POLICIES**

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

1.1 Basis of preparation

The financial statements of the company have been prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies below. The financial statements comply with Malaysian Financial Reporting Standards (“MFRS”) and the provisions of the Companies Act, 1965.

In addition, the financial statements comply with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

The financial statements are presented in Ringgit Malaysia (“RM”) and rounded to the nearest thousand (RM’000) unless otherwise stated.

The preparation of financial statements in conformity with the MFRS requires the use of certain accounting estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company’s accounting policies. Although these estimates are based on the Directors’ best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement and complexity are disclosed in Note 1B.

- (a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective
- (i) On 1 January 2012, the Company adopted the following MFRSs mandatory for financial year beginning on or after 1 January 2012:
- MFRS 1 “First time Adoption of Malaysian Financial Reporting Standards”
 - Amendment to MFRS 1 “First-time Adoption of Fixed Dates and Hyperinflation”
 - Amendments to MFRS 7 “Financial Instruments: Disclosures on Transfers of Financial Assets”
 - Amendment to MFRS 112 “Income Taxes”
 - MFRS 116 “Property, Plant and Equipment
 - MFRS 117 “Leases”
 - MFRS 124 “Related Party Disclosures”

The adoption of the above standards, amendments to published standards and interpretations to existing standards does not give rise to any material impact to the Company.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.1 Basis of preparation (continued)

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

(ii) Financial year beginning on/after 1 January 2013**MFRS 9 "Financial Instruments - Classification and Measurement of Financial Assets and Financial Liabilities"**

The revised standard 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 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 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 13 "Fair Value Measurement"

The standard 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 requirement and disclosure requirements for use across MFRS. 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.

Amendment to MFRS 101 "Presentation of Items of Other Comprehensive Income ("OCI")"

The Standard requires entities to separate items presented in 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 amendment does not address which items are presented in OCI.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies

(a) Property, plant and equipment and depreciation

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

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation of property, plant and equipment is computed on a straight-line basis over its estimated useful life at the following rates:

Motor vehicles	60 months
Renovation	60 months
Computer hardware	30 months
Furniture and fittings	60 months
Office equipment	60 months

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(a) Property, plant and equipment and depreciation (continued)

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustment arising from review that would render disclosure in the financial statements.

At the end of the reporting period, the Company assesses whether there is any indication of impairment. If such indications exist, the carrying amount is written down to its recoverable amount. Refer to accounting policy Note 1.2(c) on impairment of assets.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the income statement.

(b) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the income statement in the financial year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year-end.

Computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Computer software are amortised on a straight line basis over their estimated useful lives of thirty (30) months.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(c) Impairment of assets

(i) Impairment of financial assets other than investments

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial asset is impaired. A financial asset or a group of financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(ii) Impairment of available-for-sale securities

The cumulative loss that had been recognised directly in equity will be removed from equity and recognised in the income statement even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

If, in subsequent periods, the fair value of a debt instruments classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss will be reversed in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale will not be reversed through the income statement.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(c) Impairment of assets (continued)

(iii) Impairment of non-financial assets

The Company assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. Impairment losses are charged to the income statement immediately.

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

(d) Investments

Available-for-sale securities are investments that are not classified as held-for-trading or held-to-maturity and are measured at fair value. Interest from the available-for-sale investments (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statement, while dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payment is established.

Except for impairment losses and foreign exchange gains and losses, any gain or loss arising from a change in the fair value will be recognised directly in equity (i.e. available-for-sale fair value reserve) through the statement of changes in equity.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in equity will be recognised in the income statement.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(e) Fair value of financial instruments

The fair value for investments traded in an active market is based on quoted market price at the end of the reporting date. Where current market prices are not available, the price of the most recent transaction may be used provided that there has not been significant change in economic circumstances since the time of the transaction. If conditions have changed, the price will be adjusted to reflect the change in conditions by reference to current prices for similar financial instruments.

If the market for the investments is not active, fair value may be established by using a valuation technique, which includes but is not limited to using recent arm's length market transactions between knowledgeable, willing parties, if available, references to the current fair value for another instrument that is substantially the same, discounted cash flow analysis and option pricing models. A valuation technique should, where possible, incorporate observable market data about market conditions and other factors that are likely to affect the investments' fair value.

(f) Guarantee fee and security

The Company provides financial guarantee insurance over bond and sukuk issuances by companies incorporated in Malaysia.

Bond issuers will pay a guarantee fee to Danajamin in return for the Company's guarantee to meet the coupon and principal payments due to bondholders should the bond issuer default. The guarantee fee is calculated based on a percentage of the nominal value of each insured issuance, and is paid annually in advance.

To reduce the risk the Company's exposed to, the financial guarantee insurance ("FGI") facility agreement has the following features:

- Security is provided to the Company;
- Various accounts must be established and controlled by an appointed Facility/Security Agent. The proceeds from bond issues, asset sales, operating income must be paid into these accounts. Withdrawals from these accounts are subject to strict conditions;
- Covenants are imposed on the bond issuer. These include financial and non-financial covenants; and
- In the event of a financial or non-financial covenant being breached, the Company has the right to impose additional covenants, increase the frequency of reporting, request additional security, withhold any unutilised amount of the guarantee facility, appoint auditors, monitoring accountants and/or independent consultants to assess the financial position of the bond issuer and exercise the Power of Attorney over the bond issuer in whatever way the Company deems appropriate.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(g) Financial guarantee insurance results

The financial guarantee insurance results are determined after taking into account commissions, unearned premiums and claims incurred.

Gross premiums

Gross premiums are recognised in a financial year in respect of risks assumed during the financial year. No insurers licensed under the Insurance Act, 1996 are allowed to accept reinsurance of the Company's FGI risks.

Unearned premium reserve

Unearned premium reserve ("UPR") in respect of FGI policy is determined as an amount calculated on the basis that the premiums written are earned in proportion with the expiration of the exposure. This method is applied consistently to premiums, reduced by the percentage of accounted gross direct commission expenses to corresponding premiums.

Claim liabilities

Claims liabilities relate to the FGI's obligation, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at the valuation date, with appropriate allowance for direct and indirect claims-related expenses that the FGI expects to incur when settling these claims. Upon receipt of a notice of claim, the FGI is obligated to make relevant payments of interest and principal, to investors, in respect of a guaranteed debt obligation. The amount of this obligation, including allowance for appropriate related expenses the FGI expects to incur when paying the interest and principal, determines the claim liabilities.

(h) Premium receivables

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the process as described in Note 1.2(c).

(i) Reinsurance

The Company cedes insurance risk in the normal course of business for some of its financial guarantees. Reinsurance assets represent balances due from companies where the insurance risks are ceded. Amounts recoverable from reinsurers are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangement does not relieve the Company from its obligation to bondholders. Premiums are presented on a gross basis for ceded reinsurance.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(i) Reinsurance (continued)

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

(j) Financial guarantee insurance liabilities

FGI liabilities are recognised when contracts are entered into and premiums are charged. The FGI liabilities refer to the claims and premium liabilities of the Company's business, associated with the uncertainty of claims and unexpired risks (with respect to unexpired FGI policies), resulting from the risks of increased claims losses and under-estimation of premiums.

The value of the FGI liabilities is the aggregate of the values of the premium liabilities and the claim liabilities.

Premium liabilities

Premium liabilities refer to the greater of:

- The aggregate of the unearned premium reserve ("UPR"); and
- The best estimate value of the unexpired risk reserve ("URR") at the valuation date and a provision of risk margin for adverse deviation ("PRAD"). The URR is the reserve required to cover for future claims and associated expenses that are expected to emerge during the unexpired period of the FGI guarantee. It is an estimate of the future obligations of the FGI taking into account the likelihood and amount of the interest and principal that the FGI expects to pay in the event of a default of an obligation with allowance for expenses, including overheads and any cost of reinsurance expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and the timing of the payments.

Valuation of financial guarantee insurance liabilities shall provide for reserves at a specified level of adequacy with explicit prudential margins. In particular, the liability valuation should aim to secure an overall level of sufficiency of reserves at the 75% confidence level. To secure this level of adequacy, the Company calculates the best estimate value of its FGI liabilities and apply a PRAD.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(j) Financial guarantee insurance liabilities (continued)

Claims liabilities

Claims liabilities relate to expired periods of exposure and earned premiums. Claim liabilities are obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at the valuation date, with appropriate allowance for expected claims-related expenses.

The claims liability consists of two reserves. These being:

- A reported but not admitted (“RBNA”) claims reserve, which is the reserve held in respect of claims notified to the Company which they have not accepted; plus
- An incurred but not reported (“IBNR”) claims reserve, which is the reserve held in respect of defaults that have occurred, but where the Company has not been notified of the default.

The financial positions of the companies insured are monitored on an ongoing basis and any default would be highlighted immediately.

Details on the methodologies and assumptions in the valuation of FGI liabilities are outlined in note 1B.

Contingency reserves

As a FGI, the Company is required to establish and maintain Contingency Reserves as a buffer against the risk of excessive losses occurring during adverse economic cycles, in the manner prescribed in the Insurance (FGI) Regulations 2001 issued by BNM. The provision of this Contingency Reserves is shown via a movement/transfer within the Statement of Changes in Equity.

(k) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income on investments is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

Interest income on fixed and call deposits is recognised on an accrual basis.

Dividends from investments are recognised when the shareholders’ right to receive payment is established.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(l) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place.

(m) Income taxes

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax is provided on a temporary difference at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (i) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- (i) Where the deferred tax assets relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(m) Income taxes (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liabilities is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised as income or an expense and included in the income statement for the financial year, except when it arises from a transaction which is recognised directly in equity, the deferred tax is also recognised in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(n) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses, social security contributions and non-monetary benefits are recognised as expense in the financial year in which the associated services are rendered by employees of the Company.

(ii) Defined contribution plans

As required by law, the Company make contribution to the Employees' Provident Fund ("EPF"). The Company's contributions to the EPF are charged to the income statement in the financial year to which they relate. Once contributions have been made, the Company has no further payment obligations.

(o) Cash and cash equivalents

For the purpose of cashflow statement, cash and cash equivalents consist of cash and bank balances, excluding deposits and placements with licensed banks.

(p) Provisions for liabilities

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

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(p) Provisions for liabilities (continued)

Where the Company expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value is material, the amount of the provision is the present value of the expenditure expected to settle the obligation.

(q) Share capital

(i) Classification

Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(ii) Share issue cost

Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

(iii) Dividend distribution

Distributions to holders of an equity instrument is debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

(r) Contingent liabilities and contingent assets

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

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

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1 A ACCOUNTING POLICIES (CONTINUED)

1.2 Summary of significant accounting policies (continued)

(s) Earnings per share

The Company presents basic earnings per share (“EPS”) data for its ordinary shares. EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

(t) Fee receivables

Fee receivables are amounts due from obligors for services rendered in the ordinary course of business. Fee receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(u) Deferred income

Interest/profit received upfront from the deposits and placements with licensed banks are presented as deferred income and recognised in profit or loss on straight line basis over the useful lives of the deposits and placements made.

(v) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

DANAJAMIN NASIONAL BERHAD

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**1B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In the application of the Company's accounting policies, which are described in note 1A, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

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

Valuation of financial guarantee insurance liabilities

The Company is subject to BNM's Guidelines in valuing its FGI liabilities that is further described in 1.2(j).

The FGI liabilities comprise:

- The best estimate value of the claim liabilities;
- The best estimate value of the premium liabilities; and
- The PRAD for each of the above best estimate values.

The best estimate value should reflect the statistical central estimate of the underlying distribution of the FGI liabilities. The statistical central estimate is equal to the mean of reasonable expected outcomes.

The calculation of the best estimate claims liabilities and premium liabilities are subject to considerations of materiality.

(i) Best estimate of claim liabilities

The claims liability consists of two reserves; reported but not admitted ("RBNA") claims reserve and an incurred but not reported ("IBNR") claims reserve as described in 1.2(j).

The RBNA reserve is calculated by determining the reserve for each reported claim and then aggregating the individual reserves. The reserve in respect of each reported claim is determined by calculating the best estimate of future payments net of expected future recoveries, allowing for claims related expenses.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(ii) Best estimate of premium liabilities

Premium liabilities relate to unexpired periods of exposure and unearned premiums. The best estimate premium liabilities amount is the higher of:

- the unearned premium reserve (“UPR”); and
- the best estimate value of the unexpired risk reserve (“URR”) at the valuation date plus the PRAD for unexpired risks.

Unearned premium reserve(i) Methodology

- The UPR established reflect premiums received to date, plus future premiums receivable under the FGI policies issued at the valuation date.
- The UPR reserve is amortised over the term of the FGI policies.
- A premium receivable is established in respect of future premiums receivable under the FGI policies issued at the valuation date.

(ii) Assumptions

- The claims profile of the portfolio is approximately uniform over the contract term.

Unexpired risk reserve(i) Methodology

- The URR is calculated using a stochastic credit reserving model.
- For each FGI policy, a transition matrix is used to randomly simulate changes in the credit ratings of the issuer on a yearly basis.
- The probability of the issuer defaulting over a one year period is assigned based on the risk rating of the issuer.
- The model then randomly simulates on the issuer defaulting in the remaining term of the issuance using the risk ratings and the corresponding probabilities of default.
- The loss incurred is randomly simulated should the issuer default and the present value is determined.
- The steps are repeated for each FGI policy and the present value of future defaults for each FGI policy is accumulated to determine the portfolio losses.
- The simulation is repeated 5000 times to construct a distribution of portfolio losses and the average outcome is calculated to determine the URR.

The best estimate URR reflects the aggregate value of expected claim on each FGI policy over the period from the valuation date until the expiry of that policy.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

1B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

(ii) Best estimate of premium liabilities (continued)

Unexpired risk reserve (continued)(ii) Assumptions

The following assumptions have been adopted:

- Multiple FGI policies can be issued under the one FGI facility agreement.
- The calculation of URR does not allow for FGI policies that are expected to be issued in the future.
- Correlation between the bond issuer ratings is allowed for using a Asset Value Model approach.
- The recovery rate is assumed to be described by the Beta distribution.
- Correlation between the recovery rates on the different FGI facilities is not allowed.
- The model assumes the average recovery rate is partially sensitive to the level of security provided.
- The facility is assumed to be fully drawn down at the next policy date.
- The allowance for policy administration expenses is made outside the model. The policy administration allowance is determined by multiplying the policy administration expense assumption by the UPR.
- Claim handling expenses are implicitly allowed via the recovery rate assumption adopted.

(iii) Best estimate of the provision of risk margin for adverse deviation (“PRAD”)

(i) Methodology

- PRAD is determined for claims liability and the URR separately and added together to form the total PRAD.
- The claims liability PRAD depends on nature of claims notified. There has not been any claims to date.
- The URR PRAD is determined using the distribution of portfolio losses calculated by the credit risk reserving model and has been set at the 75% confidence level.
- The approach for determining the URR PRAD will be reviewed as the size of the FGI portfolio grows. Volatility in the PRAD as a percentage of the best estimate is expected at this stage in operations.

(ii) Assumptions

- The PRAD calculation does not allow for future FGI policies signed at the valuation date.

(iv) Reinsurance

The FGI liabilities is determined gross of reinsurance, with a reinsurance asset held on the statement of financial position of the Company.

(i) Methodology

- The methodology for determining is consistent with that adopted for the FGI liabilities.

(ii) Assumption

- No adjustment is made to the reinsurance asset to reflect the risk of the reinsurer defaulting as it is not considered material to the Company’s operations.

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DANAJAMIN NASIONAL BERHAD

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

1C GENERAL INFORMATION

Danajamin Nasional Berhad (“the Company”) is a public limited liability company, incorporated and domiciled in Malaysia.

The Company is principally engaged in providing financial guarantee insurance (“FGI”). There were no significant change in the nature of the principal activity during the financial year.

The address of the registered office and the principal place of business of the Company are Level 25, The Gardens North Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2013.

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

2 PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles RM'000	Renovation RM'000	Computer hardware RM'000	Furniture and fittings RM'000	Office equipment RM'000	Total RM'000
Cost						
At 1 January 2012	418	1,036	936	1,299	144	3,833
Additions	-	137	177	86	7	407
Reclassification during the financial year	-	-	26	-	(26)	-
Disposal/write-offs	-	-	(2)	-	-	(2)
At 31 December 2012	418	1,173	1,137	1,385	125	4,238
Accumulated depreciation						
At 1 January 2012	133	410	631	514	51	1,739
Charge for the financial year	82	211	289	258	25	865
Charge borne by a related party	1	4	4	6	1	16
Reclassification during the financial year	-	-	11	-	(11)	-
Disposal/write offs	-	-	(2)	-	-	(2)
At 31 December 2012	216	625	933	778	66	2,618
Net book value at 31 December 2012	202	548	204	607	59	1,620

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DANAJAMIN NASIONAL BERHAD

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

2 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Motor vehicles RM'000	Renovation RM'000	Computer hardware RM'000	Furniture and fittings RM'000	Office equipment RM'000	Total RM'000
Cost						
At 1 January 2011	418	1,032	775	1,139	117	3,481
Additions	-	62	217	106	28	413
Reclassification during the financial year	-	(55)	-	55	-	-
Reclassification to intangible asset (Note 3)	-	-	(56)	-	-	(56)
Disposal/write-offs	-	(3)	-	(1)	(1)	(5)
At 31 December 2011	418	1,036	936	1,299	144	3,833
Accumulated depreciation						
At 1 January 2011	49	208	295	261	26	839
Charge for the financial year	82	199	332	245	24	882
Charge borne by a related party	2	6	10	7	2	27
Reclassification during the financial year	-	(2)	-	2	-	-
Reclassification to intangible asset (Note 3)	-	-	(6)	-	-	(6)
Disposal/write offs	-	(1)	-	(1)	(1)	(3)
At 31 December 2011	133	410	631	514	51	1,739
Net book value at 31 December 2011	285	626	305	785	93	2,094
Net book value at 1 January 2011	369	824	480	878	91	2,642

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

3 INTANGIBLE ASSETS

	Computer software RM'000	Software under development RM'000	Total RM'000
Cost			
At 1 January 2012	2,125	-	2,125
Addition	98	-	98
At 31 December 2012	2,223	-	2,223
Accumulated amortisation			
At 1 January 2012	767	-	767
Amortisation for the financial year	815	-	815
Amortisation borne by a related party	17	-	17
At 31 December 2012	1,599	-	1,599
Net book value at 31 December 2012	624	-	624
Cost			
At 1 January 2011	854	272	1,126
Addition	943	-	943
Reclassification from property, plant and equipment (Note 2)	328	(272)	56
At 31 December 2011	2,125	-	2,125
Accumulated amortisation			
At 1 January 2011	219	-	219
Amortisation for the financial year	525	-	525
Amortisation borne by a related party	17	-	17
Reclassification from property, plant and equipment (Note 2)	6	-	6
At 31 December 2011	767	-	767
Net book value at 31 December 2011	1,358	-	1,358
Net book value at 1 January 2011	635	272	907

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

4 AVAILABLE-FOR-SALE SECURITIES

<u>At fair value</u>	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Government Investment Issues ("GII")	268,142	365,740	366,741
Corporate debt securities	223,459	224,640	122,567
	<u>491,601</u>	<u>590,380</u>	<u>489,308</u>

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
The following instruments mature after 12 months:			
Available-for-sale securities	<u>221,024</u>	<u>378,420</u>	<u>474,057</u>

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values are based on broker quotes.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different level have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 Dec 2012	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Government Investment Issues ("GII")	-	268,142	-	268,142
Corporate debt securities	-	223,459	-	223,459
Total available-for-sale securities	<u>-</u>	<u>491,601</u>	<u>-</u>	<u>491,601</u>

31 Dec 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Government Investment Issues ("GII")	-	365,740	-	365,740
Corporate debt securities	-	224,640	-	224,640
Total available-for-sale securities	<u>-</u>	<u>590,380</u>	<u>-</u>	<u>590,380</u>

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4 AVAILABLE-FOR-SALE SECURITIES (CONTINUED)

1 Jan 2011	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Government Investment Issues ("GII")	-	366,741	-	366,741
Corporate debt securities	-	122,567	-	122,567
Total available-for-sale securities	-	489,308	-	489,308

5 INSURANCE RECEIVABLES

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Premium receivables	444,447	293,529	11,857
Fee receivables	3,038	-	-
	<u>447,485</u>	<u>293,529</u>	<u>11,857</u>

6 REINSURANCE ASSETS

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Reinsurance assets	<u>9,191</u>	<u>2,899</u>	<u>-</u>

7 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets and current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting are shown in the balance sheet:

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Deferred tax assets	<u>1,189</u>	<u>962</u>	<u>-</u>

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

7 DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year are as follows:

	Property, plant and equipment RM'000	Intangible assets RM'000	AFS securities RM'000	AFS reserve RM'000	Other liabilities RM'000	Total RM'000
Balance as at 1 Jan 2012	(128)	(335)	708	(519)	1,236	962
Credited/(charged) to income statement	85	187	(207)	-	(121)	(56)
Credited to equity	-	-	-	283	-	283
Balance as at 31 Dec 2012	(43)	(148)	501	(236)	1,115	1,189
Balance as at 1 Jan 2011	(185)	(151)	(70)	-	406	-
Credited/(charged) to income statement	57	(184)	778	-	830	1,481
Charged to equity	-	-	-	(519)	-	(519)
Balance as at 31 Dec 2011	(128)	(335)	708	(519)	1,236	962
Balance as at 1 January 2011	(185)	(151)	(70)	-	406	-

The amount of deductible temporary differences for which no deferred tax assets are recognised in the balance sheet are as follows:

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Deductible temporary differences	-	-	1,240

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

8 OTHER ASSETS

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Deposits	398	380	380
Prepayments	442	399	351
Amount due from a related party	-	-	867
Other receivables	34	35	11
	<u>874</u>	<u>814</u>	<u>1,609</u>

The amount due from a related party was unsecured, interest-free and had no fixed terms of repayment.

9 PREMIUM LIABILITIES

	Gross RM'000	Reinsurance RM'000	Net RM'000
Unearned premium reserve			
At 1 January 2012	322,753	(2,899)	319,854
Premiums written in the financial year	224,603	(7,349)	217,254
Premiums earned during the financial year	(59,598)	1,057	(58,541)
At 31 December 2012	<u>487,758</u>	<u>(9,191)</u>	<u>478,567</u>
	Gross RM'000	Reinsurance RM'000	Net RM'000
Unearned premium reserve			
At 1 January 2011	13,924	-	13,924
Premiums written in the financial year	331,728	(3,095)	328,633
Premiums earned during the financial year	(22,899)	196	(22,703)
At 31 December 2011	<u>322,753</u>	<u>(2,899)</u>	<u>319,854</u>
At 1 January 2011	<u>13,924</u>	<u>-</u>	<u>13,924</u>

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

10 PREMIUM PAYABLES

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Reinsurance premium payable	7,614	2,161	-
Premium received in advance	-	2,657	-
	<u>7,614</u>	<u>4,818</u>	<u>-</u>

11 OTHER LIABILITIES

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Provision for unutilised leave	100	93	107
Provision for loan interest subsidy	110	292	484
Provision for audit fees	66	120	105
Provision for bonus and related EPF	4,212	4,621	2,273
Amount due to a related party	141	111	-
Accrued expenses	1,524	478	236
Deferred income	703	-	-
Other payables	164	130	95
	<u>7,020</u>	<u>5,845</u>	<u>3,300</u>

The amount due to a related party is unsecured, interest-free and has no fixed terms of repayment.

12 SHARE CAPITAL

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Authorised:			
Ordinary shares of RM1 each:			
At the beginning and end of financial year	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid up:			
Ordinary shares of RM1 each:			
At the beginning and end of financial year	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>

In addition to the above issued and fully paid up share capital, there is an additional RM1,000,000,000 capital on call from the Government of Malaysia.

13 RETAINED EARNINGS

Under the single-tier tax system which comes into effect from the year of assessment 2009, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

The Company can distribute all of its retained earnings as at 31 December 2012 as single-tier dividends.

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

14 CONTINGENCY RESERVE

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Contingency reserve	<u>18,972</u>	<u>11,697</u>	<u>507</u>

Pursuant to paragraph 44(6) of Insurance (Financial Guarantee Insurance) Regulatory 2001, the Company is required to maintain contingency reserves in respect of every policy which is in force at the end of the financial year, computed based on a prescribed formula.

15 OPERATING REVENUE

	2012 RM'000	2011 RM'000
Gross earned premiums (Note 16a)	59,598	22,899
Investment income (Note 17)	<u>39,170</u>	<u>35,627</u>
	<u>98,768</u>	<u>58,526</u>

16 NET EARNED PREMIUMS

	2012 RM'000	2011 RM'000
16(a) Gross earned premiums		
Gross written premium	224,603	331,728
Change in gross unearned premium reserve	<u>(165,005)</u>	<u>(308,829)</u>
	<u>59,598</u>	<u>22,899</u>
16(b) Premiums ceded to reinsurance		
Gross written premium ceded	(7,349)	(3,095)
Change in ceded unearned premium reserve	<u>6,292</u>	<u>2,899</u>
	<u>(1,057)</u>	<u>(196)</u>
Net earned premiums	<u>58,541</u>	<u>22,703</u>

17 INVESTMENT INCOME

	2012 RM'000	2011 RM'000
Interest income from available-for-sale securities	19,626	21,001
Net amortisation of premiums	(1,562)	(1,914)
Interest income from deposits and placements with licensed banks	<u>21,106</u>	<u>16,540</u>
	<u>39,170</u>	<u>35,627</u>

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

18 OTHER OPERATING INCOME

	2012	2011
	RM'000	RM'000
Policyholder administration fee	10	110
Guarantee related fee	5,127	7,550
Loss on disposal of property, plant and equipment	-	(2)
Other income	1	-
	<u>5,138</u>	<u>7,658</u>

19 MANAGEMENT EXPENSES

	Note	2012	2011
		RM'000	RM'000
Staff costs	19(a)	18,055	17,162
Directors' remuneration	19(b)	1,748	1,752
Auditors' remuneration	19(c)	148	142
Depreciation of property, plant and equipment	2	865	882
Amortisation of intangible assets	3	815	525
Rental of office		1,189	1,198
Repairs and maintenance		410	311
Postage, telephone and telefax		97	101
Printing and stationery		107	113
Professional consultant fees		2,423	591
Other expenses		1,088	1,055
		<u>26,945</u>	<u>23,832</u>

(a) Staff costs

	2012	2011
	RM'000	RM'000
Salaries and bonus	12,558	12,063
SOCSSO contributions	47	43
EPF contributions	2,269	2,187
Training expenses	645	342
Other benefits (inclusive of interest subsidy and unutilised leave)	2,536	2,527
	<u>18,055</u>	<u>17,162</u>

Included in staff costs are the remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year which amounted to RM1,469,794(2011:RM1,349,140).

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

19 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The details of remuneration receivable by the Directors during the financial year are as follows:

	2012	2011
	RM'000	RM'000
Non-Executive Directors:		
- Fees and allowances	1,545	1,578
- Benefits in kind	160	125
- Others	43	49
	<u>1,748</u>	<u>1,752</u>

(c) Auditor's remuneration

	2012	2011
	RM'000	RM'000
Statutory audit	140	128
Tax submission and compliance	8	14
	<u>148</u>	<u>142</u>

20 TAXATION

The Company is exempted from income tax at the statutory level, except for dividend income pursuant to Section 127(3A) of the Income Tax Act, 1967. The exemption is for a period of five years effective from the years of assessment 2009 to 2013.

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

	2012	2011
	RM'000	RM'000
Profit before tax	<u>75,917</u>	<u>42,156</u>
Taxation at Malaysian statutory tax rate of 25%	18,979	10,539
Tax effects of:		
Statutory income exempted from tax	(20,195)	(9,182)
Expenses not deductible	763	352
Recognition of previously unrecognised deductible temporary differences	509	(3,190)
Tax expense for the financial year	<u>56</u>	<u>(1,481)</u>

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012 (CONTINUED)**21 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year:

	2012	2011
	RM'000	RM'000
Profit attributable to ordinary equity holders	75,861	43,637
Weighted average number of shares in issue	1,000,000	1,000,000
Basic earnings per share (sen)	<u>7.59</u>	<u>4.36</u>

There has been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

22 OPERATING LEASE ARRANGEMENTS

The Company (as lessee) has entered into non-cancellable operating lease arrangements. These leases have remaining non-cancellable lease terms of between 1 and 5 years.

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

	31 Dec 2012	31 Dec 2011	1 Jan2011
	RM'000	RM'000	RM'000
Not later than 1 year	1,442	1,034	1,367
Later than 1 year and not later than 5 years	<u>2,192</u>	<u>235</u>	<u>1,184</u>
	<u>3,634</u>	<u>1,269</u>	<u>2,551</u>

23 COMMITMENTS AND CONTINGENCIES

	31 Dec 2012	31 Dec 2011	1 Jan2011
	RM'000	RM'000	RM'000
Capital expenditure			
Approved and contracted for:			
Property, plant and equipment:			
Furniture & fittings	75	-	-
Renovation	17	-	-
Computer hardware	-	181	-
Intangible assets-computer software	<u>-</u>	<u>-</u>	<u>633</u>
	<u>92</u>	<u>181</u>	<u>633</u>

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

24 SIGNIFICANT RELATED PARTY DISCLOSURES

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

<u>Related parties</u>	<u>Relationship</u>
Credit Guarantee Corporation Malaysia Berhad	Shareholder
Minister of Finance (Incorporated)	Shareholder
Bank Negara Malaysia	Related party of shareholder
Key management personnel	The key management personnel of the Company consists of the Chief Executive Officer and senior management

Key management personnel are those people defined as having authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

(a) Significant related party balance

In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year:

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Other assets (Note 8)			
Amount due from a related party	-	-	867
Other liabilities (Note 11)			
Amount due to a related party	<u>141</u>	<u>111</u>	<u>-</u>

(b) Key management personnel's remuneration

	31 Dec 2012 RM'000	31 Dec 2011 RM'000
Salaries and benefits	6,144	5,214
Employer's EPF contributions	<u>1,011</u>	<u>869</u>
	<u>7,155</u>	<u>6,083</u>

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

25 RISK MANAGEMENT FRAMEWORK

The ERM framework is to ensure that the Company operates within the risk appetite set by the Board of Directors and to ensure that managing risk becomes an integral part of the Company's risk culture. The Risk Management Division spearheads the development and implementation of the ERM framework for the company with input from the respective divisions.

(a) Capital Management Framework

Although the Company is not governed by the Risk-based Capital Framework for the insurance industry, the Company's capital management policy is to maintain a strong capital position with sufficient buffer to meet its guaranteed obligations and regulatory requirements. The Company is also governed by the capital requirements as measured by the local rating agencies to maintain its "AAA" rating and works closely with the local rating agencies on the capital requirements to ensure that the "AAA" rating is maintained. To ensure that the capital requirements are met, the underwriting capacity is governed and managed by taking into account the Company's capital base.

(b) Governance Framework and Asset Liability Management Framework

The Board Risk Committee provides the oversight on the risk management initiatives. In managing the Company's risk management framework, the following Management Committees comprising the Chief Executive Officer and key members of the Senior Management team are being instituted:-

- * Management Committee ("MC")
- * Management Investment Committee ("MIC")
- * Information Technology Steering Committee ("ITSC")
- * Management Underwriting Committee ("MUC")
- * Management Risk Committee ("MRC")

The MC is responsible for providing leadership, direction and strategic oversight with regard to all matters of the Company. The MIC is responsible for the Company's investment decisions and managing the Company's balance sheet position through reviewing and formulating investment framework, liquidity management and to ensure compliance against the Company's Investment Policy. The ITSC is responsible for matters relating information technology covering all areas ranging from system requirements, resources and security. The MRC is responsible to oversee all risk management functions and practices of the Company. The MIC, MRC and ITSC report to the MC. The MUC oversees the credit risk aspects by evaluating the risk profile of all underwriting proposals and ensuring rewards commensurate with any risk taken.

(c) Regulatory Framework

The Company is governed by the Malaysian Insurance Act and Regulations, 1996as well as guidelines from BNM. All company's policies are approved by the BRC and other Board Committee and endorsed by the Board of Directors.

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

25 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(d) Credit Risk

Credit risk is the potential loss arising from claims on the financial guarantee insurance covers provided by the Company resulting from the defaults by obligors or counterparties in meeting their contractual obligations on a timely basis. Credit risk arises not only from obligors but also from investments in private debt securities undertaken by the Company. In mitigating this credit risk, the Company has instituted a set of credit and investment policies governing the underwriting and investment criteria and a robust credit evaluation and approval process.

The credit risk objectives of the Company are set by the Board and are implemented and monitored within a structured approval process, including adherence to credit policies, maximum group exposure limits, maximum industry limits and portfolio monitoring.

The credit risk management framework exists to provide a structured and disciplined process to support these objectives. The integrity of the credit risk function is maintained by the independence of the credit chain and is supported by comprehensive risk analysis and monitoring process.

(e) Operational risk

The Company manages operational risk via the establishment and implementation of procedures for each respective divisions approved by the Chief Executive Officer. These respective divisions' procedures are subjected to Internal Audit, who will evaluate and improve the effectiveness of risk management, control and governance process.

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

26 INSURANCE RISK

Concentration of financial guarantee insurance contracts

Concentration of insurance exposure to any industry sector is managed under the Portfolio Concentration Policy, which sets out the maximum allowed exposure under each industry based on the underwriting capability of Danajamin. This ensures that the Company's portfolio is well diversified.

Concentration of financial guarantee contracts portfolio based on sector and approved underwriting limit is tabulated as follows:

Sector	Guaranteed amount	Facility amount
	RM'000	RM'000
31 December 2012		
Agriculture	160,000	250,000
Airports and ports	335,000	470,000
Healthcare	50,000	200,000
Power	850,000	850,000
Education	240,000	240,000
Consumer products	185,000	500,000
Water	500,000	500,000
Oil & gas	380,000	380,000
Real Estate	969,000	1,119,000
Industrial products	300,000	300,000
Property development	425,000	505,000
	<u>4,394,000</u>	<u>5,314,000</u>

Sector	Guaranteed amount	Facility amount
	RM'000	RM'000
31 December 2011		
Agriculture	155,000	250,000
Healthcare	50,000	200,000
Power	350,000	350,000
Education	240,000	240,000
Consumer products	105,000	500,000
Water	500,000	500,000
Oil & gas	380,000	380,000
Real Estate	540,000	700,000
Industrial products	300,000	300,000
Property development	435,000	505,000
	<u>3,055,000</u>	<u>3,925,000</u>

Sector	Guaranteed amount	Facility amount
	RM'000	RM'000
1 January 2011		
Agriculture	105,000	150,000
Property development	185,000	735,000
	<u>290,000</u>	<u>885,000</u>

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

26 INSURANCE RISK (CONTINUED)

Sensitivity analysis

Sensitivity analysis to the URR and URR PRAD by the parameters as at 31 December 2012 are computed based on the following key assumptions:

Change in assumptions	Impact on gross URR RM'000	Impact on gross/net premium liabilities* RM'000	Impact on profit before tax* RM'000
31 December 2012			
Increase in credit rating by 1 grade	(44,000)	-	-
Decrease in credit rating by 1 grade	54,900	-	-
Increase in recovery rate by 5%	(31,100)	-	-
Decrease in recovery rate by 5%	37,100	-	-

Change in assumptions	Impact on gross URR RM'000	Impact on gross/net premium liabilities* RM'000	Impact on profit before tax* RM'000
31 December 2011			
Increase in credit rating by 1 grade	(30,600)	-	-
Decrease in credit rating by 1 grade	42,300	-	-
Increase in recovery rate by 5%	(20,700)	-	-
Decrease in recovery rate by 5%	23,500	-	-

Change in assumptions	Impact on gross URR RM'000	Impact on gross/net premium liabilities* RM'000	Impact on profit before tax* RM'000
1 January 2011			
Increase in credit rating by 1 grade	(1,800)	-	-
Decrease in credit rating by 1 grade	4,200	-	-
Increase in recovery rate by 5%	(1,300)	-	-
Decrease in recovery rate by 5%	1,700	-	-

* There are no impact on the gross/net premium liabilities and profit before tax as the aggregate gross/net UPR as at 31 December 2012 of RM487.8 million is higher than the URR and URR PRAD with the key sensitivity analysis factors listed above.

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

27 FINANCIAL RISKS

Financial risk management objectives and policies

The risks which the Company is exposed to are credit risk, liquidity risk and market risk. The Company carried out its financial risk management through internal control procedures, standard operating procedures, investment strategy and adherence to all rules and regulations as stipulated by the guidelines for investments issued by BNM.

a) Credit risk

Credit exposure

The table below shows the maximum exposure to credit risk.

	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Available-for-sale securities:			
Government Investment Issues	268,142	365,740	366,741
Corporate debt securities	223,459	224,640	122,567
Premium receivables	447,485	293,529	11,857
Reinsurance assets	9,191	2,899	-
Other assets	874	814	1,609
Deposits and placements with licensed banks	689,304	505,623	531,306
Cash and cash equivalents	79	240	174
	<u>1,638,534</u>	<u>1,393,485</u>	<u>1,034,254</u>

Credit exposure by credit rating

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

	Neither past-due nor impaired		
	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Available-for-sale securities:			
Government Investment Issues	268,142	365,740	366,741
Corporate debt securities	223,459	224,640	122,567
Premium receivables	447,485	293,529	11,857
Reinsurance assets	9,191	2,899	-
Other assets	874	814	1,609
Deposits and placements with licensed banks	689,304	505,623	531,306
Cash and cash equivalents	79	240	174
	<u>1,638,534</u>	<u>1,393,485</u>	<u>1,034,254</u>

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit exposure of the Company by classifying assets according to the latest available Rating Agency of Malaysia's ("RAM") credit ratings of counterparties. AAA is the highest possible rating.

	Weighted average	AAA RM'000	AA1 RM'000	AA2 RM'000	AA3 RM'000	A1 RM'000	Government guaranteed RM'000	Unrated RM'000	Total RM'000
31 December 2012									
Available-for-sale securities:									
Government									
Investment Issues	3.23%	-	-	-	-	-	268,142	-	268,142
Corporate debt securities	3.66%	203,274	-	-	-	-	20,185	-	223,459
Premium receivables	-	447,485	-	-	-	-	-	-	447,485
Reinsurance assets	-	-	-	-	9,191	-	-	-	9,191
Other assets	-	-	-	-	-	-	-	874	874
Deposits and placements with licensed banks	3.52%	22,647	116,212	266,947	-	283,498	-	-	689,304
Cash and cash equivalents	-	55	-	-	-	24	-	-	79
		<u>673,461</u>	<u>116,212</u>	<u>266,947</u>	<u>9,191</u>	<u>283,522</u>	<u>288,327</u>	<u>874</u>	<u>1,638,534</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Credit exposure by credit rating (continued)

	Weighted average	AAA RM'000	AA1 RM'000	AA2 RM'000	AA3 RM'000	A1 RM'000	Government guaranteed RM'000	Unrated RM'000	Total RM'000
31 December 2011									
Available-for-sale securities:									
Government									
Investment Issues	3.45%	-	-	-	-	-	365,740	-	365,740
Corporate debt securities	3.91%	204,380	-	-	-	-	20,260	-	224,640
Premium receivables	-	293,529	-	-	-	-	-	-	293,529
Reinsurance assets	-	-	-	-	2,899	-	-	-	2,899
Other assets	-	-	-	-	-	-	-	814	814
Deposits and placements with licensed banks	3.84%	-	3,901	107,703	-	394,019	-	-	505,623
Cash and cash equivalents	-	216	-	-	-	24	-	-	240
		<u>498,125</u>	<u>3,901</u>	<u>107,703</u>	<u>2,899</u>	<u>394,043</u>	<u>386,000</u>	<u>814</u>	<u>1,393,485</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Credit exposure by credit rating (continued)

	Weighted average	AAA RM'000	AA1 RM'000	AA2 RM'000	AA3 RM'000	A1 RM'000	Government guaranteed RM'000	Unrated RM'000	Total RM'000
1 January 2011									
Available-for-sale securities:									
Government									
Investment Issues	3.00%	-	-	-	-	-	366,741	-	366,741
Corporate debt securities	3.20%	102,289	-	-	-	-	20,278	-	122,567
Premium receivables	-	11,857	-	-	-	-	-	-	11,857
Other assets	-	-	-	-	-	-	-	1,609	1,609
Deposits and placements with licensed banks	2.73%	153,369	60,049	-	-	317,888	-	-	531,306
Cash and cash equivalents	-	150	-	-	-	24	-	-	174
		<u>267,665</u>	<u>60,049</u>	<u>-</u>	<u>-</u>	<u>317,912</u>	<u>387,019</u>	<u>1,609</u>	<u>1,034,254</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

a) Credit risk (continued)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs impairment valuation, when applicable.

Market value Nature of collateral	31 Dec 2012 RM'000	31 Dec 2011 RM'000	1 Jan 2011 RM'000
Commercial Land	388,807	349,307	302,752
Residential Land	62,771	72,771	62,771
Industrial Land	74,025	33,000	-
Oil Palm plantation/Agricultural Land	262,620	282,620	262,620
Commercial Property	269,415	359,415	106,000
Residential Property	16,999	16,999	16,999
Industrial Property	77,510	77,510	-
Plant & Machinery	1,437,112	431,800	-
	<u>2,589,259</u>	<u>1,623,422</u>	<u>751,142</u>

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DANAJAMIN NASIONAL BERHAD

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk

Liquidity risk arises when the Company does not have the availability of funds to honour all cash outflow commitments as they fall due.

The Company's funds shall be managed and invested with prudence. The tenor of investments chosen shall always take into consideration the timing and size of any potential claim liabilities and adjusted for the liquidity requirements of the Company at all times. The Company's portfolio of investments shall always conform to the limits and regulations as may be determined by BNM for financial guarantee insurers from time to time.

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DANAJAMIN NASIONAL BERHAD

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining contractual obligations, including interest/profit payable and receivable. Unearned premiums has been excluded from the analysis as they are not contractual obligations.

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2012						
Available-for-sale securities:						
Government Investment Issues	268,142	177,177	-	90,965	-	268,142
Corporate debt securities	223,459	91,221	102,006	30,232	-	223,459
Premium receivables	447,485	65,094	112,127	93,856	176,408	447,485
Reinsurance assets	9,191	1,818	3,084	1,911	2,378	9,191
Other assets	874	874	-	-	-	874
Deposits and placements with licensed banks	689,304	689,304	-	-	-	689,304
Cash and cash equivalents	79	79	-	-	-	79
	<u>1,638,534</u>	<u>1,025,567</u>	<u>217,217</u>	<u>216,964</u>	<u>178,786</u>	<u>1,638,534</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2012						
Premium liabilities	487,758	65,990	119,575	99,089	203,104	487,758
Premium payables	7,614	1,818	2,346	1,911	1,539	7,614
Other liabilities	7,020	7,020	-	-	-	7,020
Total liabilities	<u>502,392</u>	<u>74,828</u>	<u>121,921</u>	<u>101,000</u>	<u>204,643</u>	<u>502,392</u>
				Current RM'000	Non- current RM'000	Total RM'000
31 December 2012						
Property, plant and equipment				-	1,620	1,620
Intangible assets				-	624	624
Available-for-sale securities:						
Government Investment Issues				177,177	90,965	268,142
Corporate debt securities				91,221	132,238	223,459
Premium receivables				65,094	382,391	447,485
Reinsurance assets				1,818	7,373	9,191
Deferred tax assets				1,189	-	1,189
Other assets				874	-	874
Deposits and placements with licensed banks				689,304	-	689,304
Cash and cash equivalents				79	-	79
Total assets				<u>1,026,756</u>	<u>615,211</u>	<u>1,641,967</u>

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	Current RM'000	Non- current RM'000	Total RM'000
31 December 2012			
Premium liabilities	65,990	421,768	487,758
Premium payables	1,818	5,796	7,614
Other liabilities	7,020	-	7,020
Total liabilities	74,828	427,564	502,392

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2011						
Available-for-sale securities:						
Government Investment Issues	365,740	187,854	177,886	-	-	365,740
Corporate debt securities	224,640	20,283	204,357	-	-	224,640
Premium receivables	293,529	46,738	76,766	53,155	116,870	293,529
Reinsurance assets	2,899	863	2,036	-	-	2,899
Other assets	814	814	-	-	-	814
Deposits and placements with licensed bank	505,623	505,623	-	-	-	505,623
Cash and cash equivalents	240	240	-	-	-	240
	1,393,485	762,415	461,045	53,155	116,870	1,393,485

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
31 December 2011						
Premium liabilities	322,753	46,723	83,693	60,719	131,618	322,753
Premium payables	4,818	3,520	1,298	-	-	4,818
Other liabilities	5,845	5,845	-	-	-	5,845
Total liabilities	333,416	56,088	84,991	60,719	131,618	333,416
				Current RM'000	Non- current RM'000	Total RM'000
31 December 2011						
Property, plant and equipment				-	2,094	2,094
Intangible assets				-	1,358	1,358
Available-for-sale securities:						
Government Investment Issues				187,854	177,886	365,740
Corporate debt securities				20,283	204,357	224,640
Premium receivables				46,738	246,791	293,529
Reinsurance assets				863	2,036	2,899
Deferred tax assets				962	-	962
Other assets				814	-	814
Deposits and placements with licensed banks				505,623	-	505,623
Cash and bank balances				240	-	240
Total assets				763,377	634,522	1,397,899

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	Current RM'000	Non- current RM'000	Total RM'000
31 December 2011			
Premium liabilities	46,723	276,030	322,753
Premium payables	3,520	1,298	4,818
Other liabilities	5,845	-	5,845
Total liabilities	<u>56,088</u>	<u>277,328</u>	<u>333,416</u>

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
1 January 2011						
Available-for-sale securities:						
Government Investment Issues	366,741	-	366,741	-	-	366,741
Corporate debt securities	122,567	10,156	112,411	-	-	122,567
Premium receivables	11,857	3,380	5,605	2,210	662	11,857
Other assets	1,609	1,609	-	-	-	1,609
Deposits and placements with licensed banks	531,306	531,306	-	-	-	531,306
Cash and cash equivalents	174	174	-	-	-	174
	<u>1,034,254</u>	<u>546,625</u>	<u>484,757</u>	<u>2,210</u>	<u>662</u>	<u>1,034,254</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk (continued)

	Carrying value RM'000	Up to a year RM'000	2 – 3 years RM'000	4 – 5 years RM'000	More than 5 years RM'000	Total RM'000
1 January 2011						
Premium liabilities	13,924	3,380	6,392	3,038	1,114	13,924
Other liabilities	3,300	3,300	-	-	-	3,300
Total liabilities	<u>17,224</u>	<u>6,680</u>	<u>6,392</u>	<u>3,038</u>	<u>1,114</u>	<u>17,224</u>

	Current RM'000	Non- current RM'000	Total RM'000
1 January 2011			
Property, plant and equipment	-	2,642	2,642
Intangible assets	-	907	907
Available-for-sale securities:			
Government Investment Issues	-	366,741	366,741
Corporate debt securities	10,156	112,411	122,567
Premium receivables	3,380	8,477	11,857
Other assets	1,609	-	1,609
Deposits and placements with licensed banks	531,306	-	531,306
Cash and bank balances	174	-	174
Total assets	<u>546,625</u>	<u>491,178</u>	<u>1,037,803</u>

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

b) Liquidity risk(continued)

	Current RM'000	Non- current RM'000	Total RM'000
1 January 2011			
Premium liabilities	3,380	10,544	13,924
Other liabilities	3,300	-	3,300
Total liabilities	<u>6,680</u>	<u>10,544</u>	<u>17,224</u>

c) Market risk

(i) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates.

Investment decisions shall always take into consideration the appropriate and prevailing risk adjusted returns available in the marketplace. The focus on maximising returns shall always be bounded by a tempered approach to risk that is acceptable for the Company's funds. There shall be no over concentration of investments in single counterparties and appropriate diversification across industries and there shall be appropriate investment diversification across industries to mitigate these risk.

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

c) Market risk (continued)

(i) Interest rate risk (continued)

The following tables provide the sensitivity analysis, showing the impact on the profit before tax and equity given the change in variables.

31 December 2012 Change in variable	Impact on profit before tax RM'000	Impact on Equity		Total RM'000
		Up to a year RM'000	1 - 3 years RM'000	
+ 25 basis points	-	(219)	(1,585)	(1,804)
- 25 basis points	-	219	1,603	1,822
+ 50 basis points	-	(402)	(3,189)	(3,591)
- 50 basis points	-	438	3,223	3,661

31 December 2011 Change in variable	Impact on profit before tax RM'000	Impact on Equity		Total RM'000
		Up to a year RM'000	1 - 3 years RM'000	
+ 25 basis points	-	(374)	(1,529)	(1,903)
- 25 basis points	-	375	1,538	1,913
+ 50 basis points	-	(747)	(3,049)	(3,796)
- 50 basis points	-	752	3,083	3,835

1 January 2011 Change in variable	Impact on profit before tax RM'000	Impact on Equity		Total RM'000
		Up to a year RM'000	1 - 3 years RM'000	
+ 25 basis points	-	(4)	(2,271)	(2,275)
- 25 basis points	-	6	2,350	2,356
+ 50 basis points	-	(9)	(4,560)	(4,569)
- 50 basis points	-	11	4,683	4,694

DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

27 FINANCIAL RISKS (CONTINUED)

c) Market risk (continued)

(ii) Foreign currency risk

The Company is currently not exposed to any currency risk as all transactions were transacted in Ringgit Malaysia denominated currency.

(iii) Price risk

The Company is currently not exposed to any equity and properties thus not affected by price risk.

d) Underwriting risk

Underwriting risk arises when the Company is exposed to claims higher than expected from the Company's underwriting of financial guarantee insurance covers and also more than the premiums earned.

In minimising the underwriting risk, the Company's portfolio is spread over a diversified mix of businesses and the Company observes specific guidelines governing the prudential limits on exposure to a single company/group and to an industry or business sector.

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The risk is managed through established operational risk management processes, proper monitoring and reporting of the business units' adherence to established risk policies, procedures and limits by independent control and support units, and oversight provided by the management and the Board.

The operational risk management processes encompass appropriate documentation of processes and procedures within the framework of system of internal controls, regular disaster recovery and business continuity planning and simulations, self-compliance audit and internal audit.

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DANAJAMIN NASIONAL BERHAD

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

28 INSURANCE FUNDS

The Company's activities are organised by funds and segregated into, Shareholders, Islamic and Conventional funds in accordance with the Insurance Act, 1996 and Insurance regulations, 1996.

The Company's statement of financial position and statement of comprehensive income have been further analysed by funds and the Shareholders, Islamic and Conventional has been presented together as one fund.

Statement of Financial Position

	Shareholders' Fund			Conventional Fund			Islamic Fund			Total		
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS												
Property, plant and equipment	81	103	132	567	628	714	972	1,363	1,796	1,620	2,094	2,642
Intangible assets	32	69	46	218	407	244	374	882	617	624	1,358	907
Available-for-sale securities	20,346	40,691	50,934	106,593	88,889	61,522	364,662	462,800	376,852	491,601	590,380	489,308
Government Investment Issues	20,346	20,408	20,366	25,432	25,510	-	222,364	319,822	346,375	268,142	365,740	366,741
Corporate debt securities	-	20,283	30,568	81,161	61,379	61,522	142,298	142,978	30,477	223,459	224,640	122,567
Premium receivables	-	-	-	125,326	55,293	8,465	322,159	238,236	3,392	447,485	293,529	11,857
Reinsurance assets	-	-	-	9,191	2,899	-	-	-	-	9,191	2899	-
Deferred tax assets	(16)	19	-	386	190	-	819	753	-	1,189	962	-
Other assets	44	41	80	306	245	436	524	528	1,093	874	814	1,609
Deposits and placements with licensed banks	24,729	7,116	1,200	336,252	251,188	218,974	328,323	247,319	311,132	689,304	505,623	531,306
Cash and cash equivalents	49	214	148	13	9	9	17	17	17	79	240	174
Total assets	45,265	48,253	52,540	578,852	397,748	290,364	1,017,850	951,898	694,899	1,641,967	1,397,899	1,037,803

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

28 INSURANCE FUNDS (CONTINUED)

Statement of Financial Position

	Shareholders' Fund			Conventional Fund			Islamic Fund			Total		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY												
Share capital	1,000,000	1,000,000	1,000,000	-	-	-	-	-	-	1,000,000	1,000,000	1,000,000
Retained earnings	13,835	13,468	12,772	39,070	15,587	2,283	66,990	22,254	3,807	119,895	51,309	18,862
Contingency reserve	-	-	-	5,916	2,625	363	13,056	9,072	144	18,972	11,697	507
Amount due (from)/to Shareholders' / Insurance funds Available-for-sale fair value reserve	(968,924)	(965,628)	(960,550)	379,889	306,058	276,587	589,035	659,570	683,963	-	-	-
	34	96	153	162	340	230	512	1,041	827	708	1,477	1,210
Total equity	44,945	47,936	52,375	425,037	324,610	279,463	669,593	691,937	688,741	1,139,575	1,064,483	1,020,579
LIABILITIES												
Premium liabilities	-	-	-	143,992	66,916	10,010	343,766	255,837	3,914	487,758	322,753	13,924
Premium payables	-	-	-	7,614	4,818	-	-	-	-	7,614	4,818	-
Deferred income	-	-	-	-	-	-	703	-	-	703	-	-
Other liabilities	320	317	165	2,209	1,404	891	3,788	4,124	2,244	6,317	5,845	3,300
Total liabilities	320	317	165	153,815	73,138	10,901	348,257	259,961	6,158	502,392	333,416	17,224
Total equity and liabilities	45,265	48,253	52,540	578,852	397,748	290,364	1,017,850	951,898	694,899	1,641,967	1,397,899	1,037,803

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DANAJAMIN NASIONAL BERHAD

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

28 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income

	Shareholders' Fund		Conventional Fund		Islamic Fund		Total	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Operating revenue	1,766	1,837	36,182	24,439	60,820	32,250	98,768	58,526
Gross earned premiums	-	-	21,749	6,781	37,849	16,118	59,598	22,899
Premium ceded	-	-	(1,057)	(196)	-	-	(1,057)	(196)
Net earned premiums	-	-	20,692	6,585	37,849	16,118	58,541	22,703
Net gain on disposal of available-for-sale securities	-	-	13	-	-	-	13	-
Investment income	1,766	1,837	14,433	17,658	22,971	16,132	39,170	35,627
Other operating income	1	-	939	2,750	4,198	4,908	5,138	7,658
Total revenue	1,767	1,837	36,077	26,993	65,018	37,158	102,862	65,988
Management expenses	(1,343)	(1,193)	(9,432)	(11,736)	(16,170)	(10,903)	(26,945)	(23,832)
Profit before taxation	424	644	26,645	15,257	48,848	26,255	75,917	42,156
Taxation	(57)	52	130	309	(129)	1,120	(56)	1,481
Net profit for the financial year	367	696	26,775	15,566	48,719	27,375	75,861	43,637

Company No.

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

28 INSURANCE FUNDS (CONTINUED)

Statement of Comprehensive Income

	Shareholders' Fund		Conventional Fund		Islamic Fund		Total	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Net profit for the financial year	367	696	26,775	15,566	48,719	27,375	75,861	43,637
Other comprehensive income								
Available-for-sale fair value reserve:								
Unrealised net (loss)/gain on revaluation	(83)	(16)	(258)	244	(724)	556	(1,065)	784
Net transfer to income statement on disposal/maturity	-	-	13	2	-	-	13	2
Income tax relating to available-for-sale securities	22	(33)	66	(119)	195	(367)	283	(519)
Other comprehensive (loss)/income for the financial year, net of tax	(61)	(49)	(179)	127	(529)	189	(769)	267
Total comprehensive income for the financial year	306	647	26,596	13,431	48,190	18,636	75,092	43,904
Basic earnings per share (sen)	0.03	0.06					7.59	4.36

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DANAJAMIN NASIONAL BERHAD

(Incorporated in Malaysia)

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

28 INSURANCE FUNDS (CONTINUED)

Information on Cash Flows by Funds

	Shareholders' Fund		Conventional Fund		Islamic Fund		Total	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash flows from:								
Operating activities	(141)	132	181	479	304	811	344	1,422
Investing activities	(25)	(66)	(177)	(479)	(303)	(811)	(505)	(1,356)
Net increase in cash and cash equivalents	(166)	66	4	-	1	-	(161)	66
At beginning of the financial year	214	148	9	9	17	17	240	174
At end of the financial year	48	214	13	9	18	17	79	240