

Statutory Financial Statements

31 December 2011



DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2011

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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 2011.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of life insurance, including investment-linked and annuity business, and all classes of general insurance business.

There have been no significant changes in the nature of the principal activities during the financial year.

CHANGE OF COMPANY NAME

On 30 April 2012, the Company changed its name from Malaysian Assurance Alliance Berhad to Zurich Insurance Malaysia Berhad to reflect its identity as a member of the Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd).

FINANCIAL RESULTS

	RM'000
Net loss for the financial year	(14,111)

There were no material transfers to or from reserves or provisions during the financial year other than as 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 item, transaction or event of a material and unusual nature.

DIVIDENDS

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

SHARE CAPITAL

On 20 December 2011, the Company increased its authorised share capital from RM500,000,000 to RM750,000,000 with the creation of 250,000,000 new ordinary shares of RM1.00 each. On 22 December 2011, the Company issued 429,000,000 ordinary shares for cash at par to meet the minimum capital adequacy ratio specified by Bank Negara Malaysia. The new ordinary shares issued during the financial year ranked pari passu in all respect with the existing ordinary shares of the Company.

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE

The Board is satisfied that, the Company has complied with all prescriptive requirements of, and adopts the Prudential Framework of Corporate Governance for Insurers (BNM/RH/GL/003-2), issued by Bank Negara Malaysia ("BNM"). The Board has continued its commitment in ensuring that the highest principles and best practices in corporate governance are practised as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Company.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight

The Board has an overall responsibility to lead the Company, including providing directions in term of the Company's corporate objectives and business strategies, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control and reporting procedures.

The Board currently comprises five Directors with skills and experience in a diverse range of business, financial, technical and public service background. The Board is represented by three non-executive Directors and two executive Directors. Of the three non-executive Directors, two of them are independent non-executive directors who participate fully in decision making of key issues regarding the Company. The roles and activities of the Chairman and the Chief Executive Officer are distinct and separate.

The Board meets at least six times a year with additional meetings being convened as necessary. For the financial year ended 31 December 2011, the Board met thirteen (13) times. All the Directors satisfied the minimum attendance of at least 75% of the Board meetings held during the financial year ended 31 December 2011.

The appointments to the Board were approved by BNM. All appointments and reappointments of Board members are subject to evaluation and review by the Nomination Committee, and approved by the Board before the applications are submitted to BNM for approval.

The principal responsibilities of the Board include reviewing and approving a strategic plan, overseeing the Company's business, formalising documentation on matters specifically reserved for its decision and ensuring that the Company's internal controls and reporting procedures are adequate.

The composition of the Board during the period since the date of the last report is as follows:

Tan Sri Ahmad bin Mohd Don	Chairman (Independent Non-Executive Director)
Dr. Zaha Rina Zahari	Member (Independent Non-Executive Director)
Cheong Chee Meng (appointed on 30.9.2011)	Member (Non-Independent Executive Director/ Chief Executive Officer)
Daniel Andre Reymond (appointed on 30.9.2011)	Member (Non-Independent Executive Director)
Geoffrey Martin Riddell (appointed on 30.9.2011)	Member (Non-Independent Non-Executive Director)
Muhamad Umar Swift (resigned on 30.9.2011)	
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	
Yeo Took Keat (resigned on 30.9.2011)	

The number of meetings attended by each member of the Board during the financial year ended 31 December 2011 is as follows:

Name of Directors	No. of Attendance
Tan Sri Ahmad bin Mohd Don	13/13
Dr. Zaha Rina Zahari	13/13
Cheong Chee Meng (appointed on 30.9.2011)	4/4
Daniel Andre Reymond (appointed on 30.9.2011)	4/4
Geoffrey Martin Riddell (appointed on 30.9.2011)	4/4
Muhamad Umar Swift (resigned on 30.9.2011)	9/9
Yeo Took Keat (resigned on 30.9.2011)	7/9
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	9/9

The Board has established a number of board committees and senior management committees.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Each committee operates within defined terms of reference. Board committees are the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee. Senior management committees include the Executive Committee ("EXCO"), the Risk-Based Capital ("RBC") Committee, the Asset Liability Management and Investment Committee ("ALMIC"), the Management Committee, the Human Resource Committee, the Information Technology Committee. The board committees are chaired by an independent non-executive Director while the senior management committees are chaired by the Chief Executive Officer.

Audit Committee

The members of the Audit Committee are as follows:

Dr. Zaha Rina Zahari (appointed as Chairman on 27.10.2011)	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (appointed on 27.10.2011)	Member (Non-Independent Non-Executive Director)
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	

The Audit Committee was established as a sub-committee of the Board of Directors with specific terms of reference that have been approved by the Board. The principal objectives are to assist the Board in discharging its statutory duties and responsibilities relating to accounting and reporting practices and internal control systems of the Company.

The Audit Committee functions on Terms of Reference approved by the Board. The principal duties and responsibilities of Audit Committee are:

- (i) To review and approve the external and internal auditors audit plan, scope and audit report on their evaluation of the system of internal controls of the Company;
- (ii) To review the results of the audit and whether or not appropriate action is taken on the recommendations given by the external and internal auditors;
- (iii) To evaluate the quality of the audits performed by the external auditors and make recommendations concerning their appointment, termination and remuneration and to consider the nomination of a person or persons as external auditors;
- (iv) To provide assurance that the financial information presented by management is relevant, reliable and timely;
- (v) To oversee compliance with relevant laws and regulations and observance of a proper code of conduct; and
- (vi) To determine the quality, adequacy and effectiveness of the company's internal control environment.

The Company has also instituted a whistle-blowing policy whereby staff, agents, suppliers, consultants, vendors, or Directors of the Company and/or the member of related companies may raise concerns about possible improprieties which may lead to incorrect or distorted financial reporting or other matter of confidence. The Audit Committee ensures that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

The Audit Committee meets at least three (3) times annually, or more frequently as circumstances dictate. During the financial year ended 31 December 2011, the Audit Committee held (5) meetings with senior management and internal audit management, and the external auditors to review the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance.

The number of meetings attended by each member of the Audit Committee during the financial year ended 31 December 2011 is as follows:

Name of Directors	No. of Attendance
Dr. Zaha Rina Zahari (appointed as Chairman on 27.10.2011)	5/5
Tan Sri Ahmad bin Mohd Don	5/5
Geoffrey Martin Riddell (appointed on 27.10.2011)	1/2
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	3/3

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Audit Committee (continued)

During the financial year ended 31 December 2011, apart from reviewing the quarterly results and annual financial statements, the Audit Committee also approved the annual internal audit plan. The plan is developed to cover key operational areas, financial activities and information systems and regulatory compliance audit that are significant to the overall performance of the Company on a cyclical basis.

The Internal Audit Department also conducts audits on an ad-hoc basis based on special requests either by the Board of Directors or the Senior Management. It also works closely with the external auditors to resolve any internal control issues raised by them and assists in ensuring appropriate management-based actions are taken. The Audit Committee receives regular reports from the Head of the Internal Audit Department on the audit results.

Nomination Committee

The members of the Nomination Committee are as follows:

Tan Sri Ahmad bin Mohd Don (appointed as Chairman on 22.11.2011)	Chairman (Independent Non-Executive Director)
Dr. Zaha Rina Zahari	Member (Independent Non-Executive Director)
Cheong Chee Meng (appointed on 22.11.2011)	Member (Non-Independent Executive Director/ Chief Executive Officer)
Daniel Andre Reymond (appointed on 22.11.2011)	Member (Non-Independent Executive Director)
Geoffrey Martin Riddell (appointed on 22.11.2011)	Member (Non-Independent Non-Executive Director)
Muhamad Umar Swift (resigned on 30.9.2011)	
Yeo Took Keat (resigned on 30.9.2011)	
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	

The Nomination Committee is made up of a majority of whom are non-executive Directors. In considering the right candidate for appointment to the Board, the Nomination Committee takes into account the required mix of skills, experience and other core competencies that is necessary to enable the Company to achieve its corporate objectives and fulfil its fiduciary responsibilities. The Nomination Committee is also responsible for the annual review of the effectiveness of the Board and individual Directors.

The Nomination Committee functions on Terms of Reference approved by the Board. The principal duties and responsibilities of Nomination Committee are:

- (i) To establish minimum requirements for the board and the chief executive officer to perform their responsibilities effectively;
- (ii) To recommend and assess the nominees for directorship, the Directors to fill board committees, as well as nominees for the chief executive officer position. This includes assessing Directors and the chief executive officer proposed for appointment, before an application for approval is submitted to BNM;
- (iii) To oversee the overall composition of the board in terms of the appropriate size and skills, the balance between Executive Directors, non-executive and independent Directors, and mix of skills and other core competencies required, through annual reviews;
- (iv) To establish the mechanism for formal assessment and assessing the effectiveness of the board as a whole, the contribution by each Director to the effectiveness of the board, the contribution of the board's various committees and the performance of the chief executive officer;
- (v) To recommend to the board on the removal of a Director/chief executive officer if he is ineffective, errant or negligent in discharging his responsibilities;
- (vi) To ensure all directors undergo appropriate induction programmes and receive continuous training; and
- (vii) To oversee the appointment, management succession planning and performance evaluation of key senior officers and recommending to the board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Nomination Committee (continued)

The number of meetings attended by each member of the Nomination Committee during the financial year ended 31 December 2011 is as follows:

Name of Directors	No. of Attendance
Tan Sri Ahmad bin Mohd Don (appointed as Chairman on 22.11.2011)	4/4
Dr. Zaha Rina Zahari	4/4
Cheong Chee Meng (appointed on 22.11.2011)	-
Daniel Andre Reymond (appointed on 22.11.2011)	-
Geoffrey Martin Riddell (appointed on 22.11.2011)	-
Muhamad Umar Swift (resigned on 30.9.2011)	4/4
Yeo Took Keat (resigned on 30.9.2011)	3/4
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	4/4

In the opinion of the Nomination Committee, the Board has a balanced mix of skills and experience required for the business of the Company.

Remuneration Committee

The members of the Remuneration Committee are as follows:

Tan Sri Ahmad bin Mohd Don (appointed as Chairman on 22/11/2011)	Chairman (Independent Non-Executive Director)
Dr. Zaha Rina Zahari	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (appointed on 22/11/2011)	Member (Non-Independent Non-Executive Director)
Datuk Seri Razman Md Hashim (resigned on 30/9/2011)	

The Remuneration Committee is made of independent non-executive Directors.

It is responsible for developing a remuneration policy that is sufficient to attract and retain Directors and key senior officers of calibre needed to manage the Company successfully.

The Remuneration Committee functions on Terms of Reference approved by the Board. The principal duties and responsibilities of Remuneration Committee are as follows:

- (i) To recommend a framework of remuneration for Directors, chief executive officer and key senior officers. The remuneration policy shall:
 - (a) be documented and approved by the full board and any changes thereto should be subject to the endorsement of the full board;
 - (b) reflect the experience and level of responsibility borne by individual Directors, the chief executive officer and key senior officers;
 - (c) be sufficient to attract and retain Directors, chief executive officer and key senior officers of calibre needed to manage the company successfully; and
 - (d) be balanced against the need to ensure that the funds of the insurers are not used to subsidise excessive remuneration packages.
- (ii) To recommend specific remuneration packages for Directors, chief executive officer and key senior officers. The remuneration packages shall:
 - (a) be based on an objective consideration and approved by the full board;
 - (b) take due consideration of the assessments of the nominating committee of the effectiveness and contribution of the Director, chief executive officer or key senior officers concerned;
 - (c) not be decided by the exercise of sole discretion of any one individual or restricted individuals; and
 - (d) be competitive and is consistent with the insurer's culture, objective and strategy.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Remuneration Committee (continued)

The number of meetings attended by each member of the Remuneration Committee during the financial year ended 31 December 2011 is as follows:

Name of Directors	No. of Attendance
Tan Sri Ahmad bin Mohd Don (appointed as Chairman on 22.11.2011)	1/1
Geoffrey Martin Riddell (appointed on 22.11.2011)	-
Dr. Zaha Rina Zahari	1/1
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	1/1

Risk Management Committee

The members of the Risk Management Committee are as follows:

Dr. Zaha Rina Zahari	Chairman (Independent Non-Executive Director)
Tan Sri Ahmad bin Mohd Don (appointed on 27.10.2011)	Member (Independent Non-Executive Director)
Geoffrey Martin Riddell (appointed on 27.10.2011)	Member (Non-Independent Non-Executive Director)
Yeo Took Keat (resigned on 30.9.2011)	
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	

The Risk Management Committee is made up of non-executive Directors. It reviews the risk factors of the Company to ensure risks at all levels are managed effectively. It also formulates risk management policies, action plans and evaluates the adequacy of overall risk management policies and procedures.

The Risk Management Committee functions on Terms of Reference approved by the Board. The principal duties and responsibilities of Risk Management Committee are as follows:

- (i) To set up a risk management structure;
- (ii) To review and recommend risk management strategies, policies and risk tolerance to the board for approval;
- (iii) To review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks;
- (iv) To ensure that there are adequate infrastructure, resources and systems in place for an effective risk management; and
- (v) To review the management's periodic reports on risk exposure, risk portfolio composition and risk management activities.

The number of meetings attended by each member of the Risk Management Committee during the financial year ended 31 December 2011 is as follows:

Name of Directors	No. of Attendance
Dr. Zaha Rina Zahari	4/4
Tan Sri Ahmad bin Mohd Don (appointed on 27.10.2011)	1/1
Geoffrey Martin Riddell (appointed on 27.10.2011)	0/1
Yeo Took Keat (resigned on 30.9.2011)	3/3
Datuk Seri Razman Md Hashim (resigned on 30.9.2011)	3/3

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Management accountability

The Company has an organisation structure showing all reporting lines as well as clearly documented job description for all management and executive employees. The officers of the Company have knowledge of their respective authority and operating limits, which are documented in the Company's Internal Control Procedures.

The human resource procedures of the Company provide for the setting of goals and training of each staff. The Company conducts formal appraisals for each staff on an annual basis.

The Company has established procedures to avoid and to deal with any conflict of interest situation. None of the Directors and senior management of the Company have, in any circumstances, conflict of interest referred to in Sections 54 and 55 of the Insurance Act, 1996.

The Board has approved a communication policy that is applicable to all levels of staff of the Company.

Corporate independence

The Company has complied with the requirements of BNM's guidelines on Related Party Transactions (BNM/RH/GL/003-3) in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, the Board's prior approval for the transaction has also been obtained. All material related party transactions have been disclosed in the financial statements.

Internal controls

The responsibility of maintaining a system of internal controls rests with the Board. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest.

Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner. The internal audit function reports directly to the Board through the Audit Committee, and its findings and recommendations are communicated to Senior Management and all levels of staff concerned. The Chief Internal Auditor has unrestricted access to the Chairman and members of the Audit Committee and the internal audit function performs their duties within the ambit of the Audit Charter approved by the Audit Committee and the Board.

The Information Technology ("IT") Committee is responsible for establishing effective information technology and information systems plans, authorising IT related expenditure based on authority limits, and monitoring the progress of approved projects. The Company has increased the security controls for the IT systems and has in place business resumption and contingency plans to ensure continued operation of mission critical functions. The requirements of BNM's Guidelines on Management of IT Environment (GPIS-1) and Guidelines on Business Continuity Management (BNM/RH/GL/013-3) have been complied.

Risk management

The Risk Management Committee ("RMC") meets regularly, at least every quarter in a financial year, to review risk management reports of the Company. The RMC has categorised risks into nine key risk factors affecting the Company namely product risk, human risk, regulatory risk, operational risk, financial risk, external risk, customer risk, integrity risk and supplier risk ("key risk factors").

The Company has established, within its risk management framework, a structural approach to enterprise-wide risk management. The process involves risk identification and assessment process whereby all department heads of the Company are required to assess their operations and identify risks affecting their operations, identify existing controls in place to mitigate those risks and the probability of the risks occurring and its impact severity.

DIRECTORS' REPORT (CONTINUED)

PRUDENTIAL FRAMEWORK OF CORPORATE GOVERNANCE (CONTINUED)

Board responsibilities and oversight (continued)

Public accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff and agents of the Company are required to comply with the Code of Ethics and Conduct.

Financial reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at the Board, Executive Committee and Management Committee meetings. Financial statements and reports are lodged with the regulatory and supervisory authorities, and annual financial statements prepared in accordance with applicable regulations and approved accounting standards are audited.

DIRECTORS

The names of the Directors of the Company in office since the date of the last report and at the date of this report are as follows:

Tan Sri Ahmad bin Mohd Don	
Dr. Zaha Rina Zahari	
Cheong Chee Meng	(appointed on 30.9.2011)
Geoffrey Martin Riddell	(appointed on 30.9.2011)
Daniel Andre Reymond	(appointed on 30.9.2011)
Muhamad Umar Swift	(resigned on 30.9.2011)
Yeo Took Keat	(resigned on 30.9.2011)
Datuk Seri Razman Md Hashim	(resigned on 30.9.2011)

Cheong Chee Meng, Daniel Andre Reymond and Geoffrey Martin Riddell retire pursuant to Article 109 of the Company's Articles of Association and being eligible, offer themselves for election.

Dr. Zaha Rina Zahari retires pursuant to Article 103 of the Company's Articles of Association and being eligible, offers herself for re-election.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors or the fixed salary of a full-time employee of the Company as shown in Note 26 the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

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

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 action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business 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 which would render:
- (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets 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 financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As 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.
- (f) In the opinion of the Directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet its obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

For the purpose of paragraphs (e) and (f), contingent and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

- (g) Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital Framework for insurers issued by BNM.

SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 18 August 2011, the holding company of the Company, MAA Group Berhad ("MAAG") (formerly known as MAA Holdings Berhad), signed a Sales and Purchase Agreement with Zurich Insurance Company Ltd. ("Zurich") to dispose of its 100% equity interest in the Company for a total cash consideration of RM344 million to Zurich pursuant to Section 67 of the Insurance Act 1996. Included in the sale to Zurich were Zurich Property Services Malaysia Sdn Bhd (formerly known as Malaysian Alliance Property Services Sdn Bhd), Zurich Technology Services Malaysia Sdn Bhd (formerly known as Maagnet Systems Sdn Bhd), Zurich Technology Malaysia Sdn Bhd (formerly known as Maagnet-SSMS Sdn Bhd) and Zurich Roadside Assistance Malaysia Sdn Bhd (formerly known as Multioto Services Sdn Bhd). The sale was completed on 30 September 2011. Consequently, MAAG ceased to be the Company's ultimate holding company.

DIRECTORS' REPORT (CONTINUED)

ULTIMATE HOLDING COMPANY

The Directors regard MAA Group Berhad (formerly known as MAA Holdings Berhad), a company incorporated in Malaysia, as the ultimate holding company of the Company until 30 September 2011. From 1 October 2011, the Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd). Both companies are incorporated in Switzerland.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 30 April 2012.



CHEONG CHEE MENG
DIRECTOR



TAN SRI AHMAD BIN MOHD DON
DIRECTOR

Kuala Lumpur
30 April 2012

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

We, Cheong Chee Meng and Tan Sri Ahmad bin Mohd Don, two of the Directors of ZURICH INSURANCE MALAYSIA BERHAD (formerly known as MALAYSIAN ASSURANCE ALLIANCE BERHAD), state that, in the opinion of the Directors, the financial statements set out on pages 16 to 109 are drawn up in accordance with the Financial Reporting Standards in Malaysia, being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965, so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of the financial performance and the cash flows of the Company for the financial year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 30 April 2012.



CHEONG CHEE MENG
DIRECTOR



TAN SRI AHMAD BIN MOHD DON
DIRECTOR

Kuala Lumpur
30 April 2012

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

I, Cheong Chee Meng, being the Director primarily responsible for the financial management of ZURICH INSURANCE MALAYSIA BERHAD (formerly known as MALAYSIAN ASSURANCE ALLIANCE BERHAD), do solemnly and sincerely declare that the accompanying financial statements set out on pages 16 to 109 are, in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



CHEONG CHEE MENG

Subscribed and solemnly declared by the
abovenamed Cheong Chee Meng at Kuala Lumpur
in Wilayah Persekutuan
on 30 April 2012.

Before me,
COMMISSIONER FOR OATHS



TENGU FARIDDUDIN BIN TENGKU SULAIMAN

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
ZURICH INSURANCE MALAYSIA BERHAD
(formerly known as MALAYSIAN ASSURANCE ALLIANCE BERHAD)
(Company No. 8029 A)**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of ZURICH INSURANCE MALAYSIA BERHAD (formerly known as MALAYSIAN ASSURANCE ALLIANCE BERHAD), which comprise the statement of financial position as at 31 December 2011 of the Company, the statements of income, comprehensive income, changes in equity and cash flow of the Company for the financial year then ended, and a summary of significant policies and explanatory notes, as set out on pages 16 to 109.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996, and comply with the provisions of the Companies Act, 1965 and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Approved Standards on Auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF
ZURICH INSURANCE MALAYSIA BERHAD
(formerly known as MALAYSIAN ASSURANCE ALLIANCE BERHAD)
(Company No. 8029 A)**

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

REPORTING ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur, Malaysia
30 April 2012

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	2011 RM'000	2010 RM'000
Assets			
Property, plant and equipment	4	259,537	279,584
Intangible assets	5	3,023	4,595
Investment properties	6	363,108	512,287
Investments	7	5,462,026	5,791,497
Available-for-sale financial assets		3,733,153	3,790,913
Financial assets at fair value through profit or loss		1,111,444	1,100,706
Loans and receivables	8	617,429	899,878
Reinsurance assets	9	213,845	222,343
Insurance receivables	10	79,707	77,151
Other receivables	11	60,853	43,990
Tax recoverable		51,353	26,936
Deferred tax assets	12	22,702	1,900
Cash and cash equivalents		1,404,373	619,275
Total assets		7,920,527	7,579,558
Equity, policyholders' funds and liabilities			
Share capital	13	579,000	150,000
Retained earnings	14	88,429	102,540
Other reserves	14	10,696	12,334
Total equity		678,125	264,874
Insurance contract liabilities	15	6,076,613	6,185,763
Deferred tax liabilities	12	28,303	15,477
Other liabilities	16	167,469	232,610
Insurance payables	17	934,556	843,991
Provision for life agents' retirement benefits	18	1,096	2,703
Current tax liabilities		34,365	34,140
Total liabilities		7,242,402	7,314,684
Total equity, policyholders' fund and liabilities		7,920,527	7,579,558

The accompanying notes form an integral part of the financial statements

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 RM'000	2010 RM'000
Operating revenue	19	1,757,021	1,825,073
Gross earned premiums	20(a)	1,427,721	1,517,583
Premiums ceded to reinsurers	20(b)	(88,397)	(170,116)
Net earned premiums		1,339,324	1,347,467
Investment income	21	329,300	307,490
Realised gains and losses	22	67,878	42,399
Fair value gains and losses	23	(151,788)	173,152
Fee and commission income	24	35,870	45,447
Other revenue		281,260	568,488
Gross benefits and claims paid	25(a)	(1,554,168)	(1,628,987)
Claims ceded to reinsurers	25(b)	109,581	83,968
Gross change to contract liabilities	25(c)	202,402	143,006
Change in contract liabilities ceded to reinsurers	25(d)	(30,582)	(10,944)
Net claims		(1,272,767)	(1,412,957)
Fee and commission expense		(164,726)	(170,099)
Management expenses	26	(184,835)	(177,089)
Other operating income/(expenses) - net	27	38,528	(1,669)
Other expenses		(311,033)	(348,857)
Surplus/profit before taxation		36,784	154,141
Taxation of life insurance fund	28	(3,520)	(36,140)
Surplus after taxation/profit before taxation		33,264	118,001
Surplus retained in life insurance fund		(42,988)	(59,500)
(Loss)/profit before taxation		(9,724)	58,501
Taxation	28	(4,387)	(14,689)
(Loss)/profit for the financial year		(14,111)	43,812
(Loss)/earnings per share (sen)	30	(0.1)	29.2

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

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 RM'000	2010 RM'000
(Loss)/profit for the financial year		(14,111)	43,812
Other comprehensive income:			
Available-for-sale fair value reserves:			
Net gain arising during the financial year		2,872	9,185
Net realised gain transferred to Income Statement		(5,645)	(642)
Asset revaluation reserves:			
Net gain arising during the financial year		589	-
		(2,184)	8,543
Tax effects thereon	12	546	(2,136)
		(1,638)	6,407
Total comprehensive (loss)/income for the financial year		(15,749)	50,219

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

Note	Issued and fully paid ordinary shares of RM1 each		Non-distributable				Distributable	
	Number of Shares	Nominal value	Available- for-sale fair value reserves	Asset revaluation reserves	Total reserves		Retained earnings	Total
	'000	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000
At 1 January 2011	150,000	150,000	12,334	-	12,334		102,540	264,874
Issuance of shares	13	429,000	429,000	-	-	-	-	429,000
Total comprehensive (loss)/income for the financial year		-	-	(2,080)	442	(1,638)	(14,111)	(15,749)
At 31 December 2011	579,000	579,000	10,254	442	10,696		88,429	678,125
At 1 January 2010	150,000	150,000	5,927	-	5,927		58,728	214,655
Total comprehensive income for the financial year		-	-	6,407	-	6,407	43,812	50,219
At 31 December 2010	150,000	150,000	12,334	-	12,334		102,540	264,874

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

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 RM'000	2010 RM'000
Operating Activities			
Cash from/(utilised) in operating activities	31	89,287	(89,560)
Dividend/distribution income received		40,001	33,476
Interest/profit income received		238,496	218,239
Rental income on investment properties received		18,120	16,168
Income tax paid		(37,735)	(23,421)
Net cash inflow from operating activities		348,169	154,902
Investing Activities			
Proceeds from disposal of property, plant and equipment		13,281	67,198
Purchase of property, plant and equipment		(4,382)	(70,307)
Purchase of intangible assets		(970)	(2,151)
Net cash inflow/(outflow) from investing activities		7,929	(5,260)
Financing Activities			
Issuance of shares		429,000	-
Net cash inflow from financing activities		429,000	-
Net increase in cash and cash equivalents		785,098	149,642
Cash and cash equivalents at beginning of financial year		619,275	469,633
Cash and cash equivalents at end of financial year		1,404,373	619,275
Cash and cash equivalents comprise:			
Call deposits (with maturity of less than three months):			
Licensed financial institutions		753,235	606,355
Cash and bank balances		651,138	12,920
		1,404,373	619,275

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011

1. PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

The Company is an unquoted public limited liability company, incorporated and domiciled in Malaysia. The registered office and principal place of business of the Company are as follows:

Registered office

Suite 20.03, 20th Floor
Menara Zurich
12, Jalan Dewan Bahasa
50460 Kuala Lumpur

Principal place of business

11th Floor, Menara Zurich
12, Jalan Dewan Bahasa
50460 Kuala Lumpur

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

The immediate and ultimate holding company of the Company was MAA Group Berhad (formerly known as MAA Holdings Berhad), which is a company incorporated and listed in Malaysia, and produces financial statements available for public use, until 30 September 2011. From 1 October 2011, the Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd). Both companies are incorporated in Switzerland.

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 April 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements comply with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards for Entities Other than Private Entities in Malaysia, as modified by the Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965.

The financial statements of the Company have also been prepared on a historical cost basis, except for self-occupied properties, investment properties and those financial instruments that have been measured at their fair values, and insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework for insurers issued by BNM.

The Company has met the minimum capital requirements as prescribed by the RBC Framework as at the date of the statement of financial position.

At the beginning of the current financial year, the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2011 as described fully in Note 2(b) to the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

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

(b) Standards and amendments to published standards and interpretations

- (i) Standards, and relevant amendments to published standards and interpretations to existing standards that are applicable and effective to the Company

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's current financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time Adoption of Financial Reporting Standards"
- Revised FRS 3 "Business combinations"
- Revised FRS 127 "Consolidated and separate financial statements"
- Amendment to FRS 2 "Share-based payment - Group cash-settled share-based payment transactions"
- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- Amendments to FRS 1 "First-time adoption of financial reporting standards"
- Amendment to FRS 132 "Financial instruments: Presentation – Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 12 "Service concession arrangements"
- IC Interpretation 16 "Hedges of a net investment in a foreign operation"
- IC Interpretation 17 "Distribution of non-cash assets to owners"
- Improvements to FRSs (2010)

The adoption of the new accounting standards, amendments and improvements to published standards and interpretations do not have any significant impact on the financial statements of the Company other than enhanced disclosures.

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

For financial periods commencing 1 January 2012, the Company will be adopting the new IFRS-Compliance framework, MFRS. The Company will be required to prepare an opening statement of financial position and restate comparative financial information retrospectively as if the requirements of MFRS, have always been applied by the Company from the transition date of 1 January 2011. MFRS 1 "First-Time Adoption of Malaysian Financial Reporting Standard" provides certain mandatory exceptions and optional exemptions for first-time adoption of MFRS.

In addition, subsequent to the financial year end, BNM issued a revised BNM Guideline (BNM/RH/GL/003-28) on Financial Reporting for Insurers.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Standards and amendments to published standard and interpretations (continued)

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

In the planning stage, the Company has completed its review of the MFRS requirements. Critical conversion issues were identified and methodologies were designed to address those issues. The Company is now progressing to the implementation of the identified changes and will complete the process prior to the release of the interim results of the Company for the financial period ending 30 June 2012.

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

a. Financial year beginning on/after 1 January 2012

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
 - The name of the government and the nature of their relationship;
 - The nature and amount of each individually significant transactions; and
 - The extent of any collectively significant transactions, qualitatively or quantitatively.

The amended definition of 'related party' means that some entities will be required to make additional disclosures. For example, a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

The Company will apply this standard from financial periods beginning on 1 January 2012.

- Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial periods beginning on 1 January 2012.
- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss. The Company will apply this standard from financial periods beginning on 1 January 2012.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Standards and amendments to published standard and interpretations (continued)

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

b. Financial year beginning on/after 1 January 2013

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones. The Company will apply this standard from financial periods beginning on 1 January 2013.
- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial periods beginning on 1 January 2013.
- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in other comprehensive income in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in other comprehensive income. The Company will apply this standard from financial periods beginning on 1 January 2013.
- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The Company will apply this standard from financial periods beginning on 1 January 2013.
- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributed to the acquisition of the asset. Land and buildings are shown at fair value, based on a periodic, but at least once every five years, valuation by external independent valuers, less subsequent depreciation and impairment losses. The Company may perform additional valuations during the intervening periods where market conditions indicate that the carrying values of the revalued assets are materially higher than the market value.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less depreciation and impairment loss.

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

Surplus arising on revaluation is credited to the statement of comprehensive income and shown as a separate component of equity, except that for life business, such revaluation surplus are reported as a separate component of insurance contract liabilities. Deficits that offset previous increases of the same assets are charged to the statement of comprehensive income and debited against its component in equity, except that for the life business, deficits that offset such previous increases are debited against its component in insurance contract liabilities. In all other cases, decreases are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated as it has an infinite life. Other property, plant and equipment are depreciated on a straight line basis to write off the cost of the assets, or their revalued amounts, to their residual values over their estimated useful lives.

Leasehold land is amortised in equal instalments over the period of their respective leases or earlier if the expected useful life is lower than the leasehold period.

The annual depreciation rates are as follows:

Leasehold land	Over the remaining leasehold period
Buildings	2%
Furniture, fittings and equipment	10% - 20%
Motor vehicles	10%
Renovation	10%

The residual values and useful life of assets are reviewed and adjusted if appropriate at date of the statement of financial position.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the income statement. On disposal of revalued assets, any amounts in asset revaluation reserve account relating to those assets are transferred to the statement of comprehensive income and/or shown as a separate component in insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

Leases in which significant risks and rewards 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 a straight line basis over the period of the lease.

(e) Investment properties

Investment properties, comprising principally of land and buildings, are held for long term rental yields or for capital appreciation or both, and are not occupied by the Company.

Investment properties are initially stated at cost including related and incidental expenditure incurred and are subsequently carried at fair value. Fair value is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially higher than the fair values.

Gains or losses arising from changes in fair values of investment properties are recognised in the income statement in the year in which they arise.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long term yields and is not occupied by the Company. The initial cost of the property is the lower of the fair value of the property and the present value of the maximum lease payments. The property is carried at fair value after initial recognition.

On disposal of an investment property or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it is derecognised (eliminated from the statement of financial position). The difference between net proceeds and the carrying amount is recognised in the income statement in the financial year of the retirement or disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in the asset revaluation reserve account as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in the asset revaluation reserve account is transferred to the statement of comprehensive income and/or shown as a separate component in insurance contract liabilities.

(f) Intangible assets

Computer software

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investments and other financial assets

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

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

The Company classifies investments acquired for the purpose of selling in the short-term as held-for-trading. Derivatives are also classified as held-for-trading unless they are designated as hedges.

Investments held by investment-linked funds are designated at fair value through profit or loss at inception as they are managed and evaluated on a fair value basis, in accordance with the respective investment strategy and mandate.

These investments are initially recorded at fair value and transaction costs are expensed in the income statement. Subsequent to initial recognition, these assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

(ii) Loans and receivables

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

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

Refer to Note 2(k) to the financial statements for further details on the accounting policy on loans.

(iii) Available-for-sale financial assets

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

Fair value gains and losses of monetary and non-monetary financial assets are reported in the statement of comprehensive income and reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired, except for the life insurance business, where such fair value gains or losses are reported as a separate component insurance contract liabilities. Fair value gains and losses of monetary instruments denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the instrument and other changes in the carrying amount of the instrument. The translation differences on monetary instruments are recognised in income statement; translation differences on non-monetary instruments are reported in the statement of comprehensive income and shown as a separate component of equity except for the life insurance business, where such fair value gains or losses are reported as a separate component of insurance contract liabilities until the investment is derecognised, as prescribed under BNM's Guidelines on Financial Reporting for Insurers.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Fair value of financial instruments

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

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

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

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

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

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

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

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of financial assets

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

(a) Financial assets carried at amortised cost

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

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

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

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

(b) Available-for-sale financial assets

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

(k) Loans

Loans are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method, less allowance for impairment. An allowance for impairment of loan is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amounts and the present value of estimated future cash flows discounted at the effective interest rates. This includes interest that is suspended and/or recognised to the extent of the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Loans (continued)

The amount of specific allowance also takes into account the collateral value and recoverable amount of interest due, which may be discounted to reflect the impact of recovery process. The recovery process is estimated to be between one to five years, depending on default condition of the loan, type of collateral and whether under litigation. The amount of the allowance is recognised in the income statement.

Where the collateral is property, the net realisable value of the property is determined by using its fair value which is based on open market value by independent property valuers, adjusted if necessary, for any difference in the nature, location or condition of the specific asset, while for shares, it is based on the last transacted price. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets, adjusted if necessary, for any difference in nature, location or condition of specific asset or discounted cash flow projections. The sensitivity analysis is described in the Note 8 to the financial statements.

Consistent with previous years, loans are classified as non-performing when repayments or interests are in arrears for more than six months from the first day of default or after maturity date.

(l) Insurance receivables

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

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 objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(k) to the financial statements.

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(m) to the financial statements, have been met.

(m) Financial instruments - derecognition of financial assets

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

(n) Equity instruments

Ordinary Share Capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributed to the issue of these shares are recognised in equity, net of tax.

Dividends on Ordinary Share Capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Product classification

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

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

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

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

Insurance and investment contracts are further classified as being either with or without discretionary participation features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - the profit or loss of the company, fund or other entity that issues the contract.

Under the terms of the contracts, surpluses in the DPF funds can be distributed on a 90/10 basis to the policyholders and the shareholders respectively. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within insurance or investment contract liabilities, as appropriate.

Under the Risk Based Capital Framework for Insurers, statutory liabilities are calculated based on the Gross Premium Valuation ("GPV") method which takes into consideration not only the guaranteed but also the discretionary benefits in the case of Participating products and the underlying assumptions are based on the Company's actual experience.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through the income statement.

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

The Company defines insurance risk to be significant when the ratio of the insurance risk over the deposit component is not less than 105% of the deposit component at any point of the insurance contract in force. Based on this definition, all policy contracts issued by the Company are considered insurance contracts as at the date of this statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Reinsurance

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

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

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

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

The Company also assumes reinsurance risk in the normal course of business for life insurance and general (non-life) insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

(q) Life insurance underwriting results

The surplus transferable from the Life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term insurance contract liabilities to policyholders. In the event the actuarial valuation indicates that a transfer is required from the shareholders' fund, the transfer from the income statement to the life insurance fund is made in the financial year of the actuarial valuation.

Premium Income

Premium income includes premium recognised in the life fund and the investment-linked fund.

Premium income of the life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when due.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Life insurance underwriting results (continued)

At the end of the financial year, all due premiums are accounted to the extent that they can be reliably measured.

Premium income of the investment-linked fund includes creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

Reinsurance Premiums

Gross reinsurance premium are recognised as an expense when payable or on the date on which the policy is effective.

Benefits, Claims and Expenses

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

Benefits and claims, including settlement costs, are accounted for using the case-by-case method and for this purpose; the amounts payable under a policy are recognised as follows:

- maturity and other policy benefit payments due on specified dates are treated as claims payable on the due dates;
- death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered; and
- bonus on DPF policy upon its declaration.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contracts.

Commission and Agency Expenses

Gross commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, and income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the income statement in the period in which they are incurred.

(r) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

Gross Premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of insurance policies. Premiums in respect of risks incepted for which insurance policies have not been raised as of the date of the statement of financial position are accrued at that date.

Reinsurance Premiums

Inwards facultative reinsurance premiums are recognised in the financial period in respect of the facultative risks assumed during that particular financial period, as in the case of direct policies, following the individual risks' inception dates.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) General insurance underwriting results (continued)

Reinsurance Premiums (continued)

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inception dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties. In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

Premium Liabilities

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves ("UPR").
or
- (ii) the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the provision of risk margin for adverse deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

UPR represents the portion of the net premiums of general insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

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

- 25% method for marine and aviation cargo, and transit business;
- 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claims and Expenses

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the date of the statement of financial position.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at date of the statement of financial position, using a mathematical method of estimation.

Acquisition Costs

The gross costs of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums are recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Insurance contract liabilities

(i) Life actuarial liabilities

Life actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of policies of a participating insurance contract is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at the contract level derived as stated above.

In the case of a life policy where a part of, or the whole of the premiums are accumulated in a fund, the accumulated amount, as declared to the policy owners, are set as the liabilities if the accumulated amount is higher than the figure as calculated using the prospective actuarial valuation method.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

In the case of a 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the liability for such life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Company.

Adjustments to the liabilities at each reporting date are recorded in the income statement. Profits that originate from margins of adverse deviations on run-off contracts, are recognised in the income statement over the life of the contract, whereas losses are fully recognised in the income statement during the first year of run-off. The liability is derecognised when the contract expires, is discharged or is cancelled.

As the valuation methods used to value liabilities is in accordance with the RBC Framework for Insurers, the Company is deemed to have complied with the requirements of a liability adequacy test under FRS 4 Insurance Contracts.

(ii) Surplus in insurance contracts

Surpluses in DPF are distributable to policyholders and shareholders in accordance with the relevant terms under the Insurance Act, 1996. The Company, however, has the discretion over the amount and timing of these surpluses to policyholders and shareholders. Surpluses on non-DPF are attributable wholly to the shareholders, and the amount and timing of the distribution to the shareholders is subject to the advice of the Company's appointed actuary.

As required under the BNM (BNM/RH/GL/003-28) Guideline on Financial Reporting for Insurers issued in 2010, the unallocated surpluses of the DPF and non-DPF funds, where the amount of surplus allocation attributable to either policyholders or shareholders has yet to be determined at the end of the financial year, are held within the insurance contract liabilities.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Insurance contract liabilities (continued)

(iii) General (Non-life) insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities comprise outstanding claims provision and premium liabilities.

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

Premium liabilities represent premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. The Company engaged an independent external actuary to perform the claims liabilities estimation. A number of methods were employed initially in the estimation of ultimate claims reserves using the Company's own historical experience and other relevant market quantitative and qualitative information. The valuation methods used include the Incurred Claim Development method, the Paid Claim Development method, the Bornhuetter-Ferguson Method, the Mack's Method and Stanard-Buhlmann's Method. The final estimates were selected after due consideration was given to the strengths and weaknesses of the various methods used and the information available at hand. To mitigate the potential effect of uncertainty, a risk margin was also incorporated into the ultimate claims estimates. The provision for adverse deviation is set at 75 per cent confidence level as required by BNM.

(t) Other revenue recognition

Interest Income

Interest income is recognised on an accrual basis using the effective yield method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the investment and continues unwinding the discount as interest income.

Other interest income including the amount of amortisation of premiums and accretion of discounts is recognised on a time proportion basis that takes into account the effective yield of the assets.

Dividend Income

Dividend income is recognised as investment income when the Company's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Other revenue recognition (continued)

Rental Income

Rental income on self-occupied and investment property is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

Lease rental income net of payment of lease rental expenses made under operating lease of the same properties is recognised on straight line basis over the lease term.

Realised Gains and Losses on Investments

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets and investment properties. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost, and are recorded on occurrence of the sale transaction.

Fees and Commission Income

Insurance contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then, they are deferred and recognised over those future periods.

(u) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the date of the statement of financial position. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

(v) Income taxes

Income tax on the profit or loss for the financial year comprises current and deferred tax.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the tax authorities. The tax rates used to compute the amount are those that are enacted or substantively enacted at the date of the statement of financial position.

Current tax are recognised in the income statement except to the extent that the tax relates to items recognised outside the income statement, either in other comprehensive income or directly in equity.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Income taxes (continued)

Deferred Tax

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position 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 date of the statement of financial position and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the date of the statement of financial position.

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

Deferred tax is recognised in the income statement except to the extent that the tax relates to items recognised outside the income statement, either in other comprehensive income or directly in equity.

Deferred tax is also provided in the Life insurance contract liabilities for the shareholders' portion of the unallocated surpluses.

(w) Provisions

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

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

(x) Employee benefits

Short Term Employee Benefits

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

Defined Contribution Plans

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

A defined contribution plan is a pension plan under which the Company pays fixed contributions or variable contributions as determined yearly, into a separate entity ("a fund"), and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to the employee service in the current and preceding financial years.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Employee benefits (continued)

The Company's contributions to defined contribution plans, including the Employees' Provident Fund, are recognised as an expense in the income statement as incurred. Once the contributions have been paid, the Company has no further payment obligations.

(y) Provision for life agents' retirement benefits

The Company operates a retirement benefits scheme for its eligible life agents, calculated in accordance with the terms and conditions as per the respective Agent Retirement Plan Arrangement.

The retirement benefits earned by the eligible life agents on and subsequent to 2001 were funded through investments in an investment-linked fund managed by the Company.

The retirement benefits earned by the eligible life agents who opted to remain in the scheme prior to 2001 were unfunded and have been recorded as provision for life agents' retirement benefits.

In accordance with the requirements of the FRS 119 - Employee Benefits, the scheme is treated as a funded defined benefit scheme or an unfunded defined benefit scheme as appropriate.

(z) Other financial liabilities and insurance payables

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

A financial liability and an insurance payable are derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(aa) Contingent liabilities and contingent assets

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

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

(ab) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits held at call with original maturity of three months or less that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ac) Financial instruments

Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised in the statement of financial position is disclosed in the individual accounting policy note associated with each item.

(ad) Segment reporting

For management purposes, the Company is organised into operating segments based on their products and services. The management regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would be available to an unrelated third party. Segment revenue, expenses and results include transfers between business segments.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Critical accounting estimates and assumptions

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

(i) Valuation of life insurance contract liabilities

The liability for life insurance contracts is based on current assumptions, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate. Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

Discount rate for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies accord a level of guarantee which is no less certain than that accorded by a Malaysian Government Security ("MGS"). In the case of the total benefits liabilities of participating policies, the discount rate is based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund.

(ii) Valuation of general insurance contract liabilities

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

Provision is made for the estimated cost of claims incurred but not settled at the date of the statement of financial position, whether reported or not, together with a risk margin for adverse deviation ("PRAD"). PRAD is an additional component to the liability value aimed at ensuring that the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. The estimated cost of claims also includes both direct and indirect expenses that are expected to be incurred in settling those claims.

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, incurred but not reported claims form the majority of the liability in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(ii) Valuation of general insurance contract liabilities (continued)

The Company engaged an independent external actuary to perform the claims liabilities estimation. A number of methods were employed initially in the estimation of ultimate claims reserves using the Company's own historical experience and other relevant market quantitative and qualitative information. The final estimates were selected after due consideration was given to the strengths and weaknesses of the various methods used and the information available at hand. To mitigate the potential effect of uncertainty, a risk margin was also incorporated into the ultimate claims estimates.

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

(iii) Impairment assessment on non-performing loans

Judgement is applied in determining the amount that may be recovered from long outstanding non-performing loans via the disposal of collateral pledged to those loans. Management had previously applied a 20% discount on the open market value of prime-located collateral and for non-prime located collateral, the forced sale value as provided by independent external valuers was used. The assigned values as determined for the non-performing loans were then discounted over two to four years depending on the recovery process.

For the current financial year, the Company has re-assessed the non-performing loans individually for impairment and changed its basis of assessing the value of those collaterals to the expected realisable value as provided by independent external valuers. Management is of the view that these values are reflective of the location and/or conditions of the specific collaterals and the extent of recovery possible. The assigned values as determined for the non-performing loans are discounted over one to three years depending on the recovery process. Subsequently, the change has resulted in additional impairment of loans amounting to RM28 million to be recognised in the current financial year.

The actual amounts that will be recovered from these non-performing loans are largely dependent on the values that those collaterals can fetch should foreclosure take place or if the borrowers agree to settlements with the Company, and lastly the time taken to complete the recovery of these loans. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain that the actual results as explained above may not develop exactly as projected and may vary significantly from the projections.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(iv) Fair value of investment properties

The Company's investment properties are stated at fair value, as stated in Note 2(e) of the significant accounting policies to the financial statements.

During the financial year, the Company commissioned an exercise to obtain updated valuations on all properties. The Company has adopted the investment yield method as opposed to the comparison method used in the previous financial year, to determine the fair value of the investment properties as it intends to hold the investment properties for rental and/or capital appreciation. All the valuations are done by external independent valuer.

The change in the basis of valuation to investment yield basis as opposed to the comparison basis for certain properties has resulted in a total fair value loss of RM120 million.

Included in the fair value loss of RM120 million above, is an impairment loss of RM40 million in respect of two parcels of vacant land for development in Hulu Kelang.

In the previous financial year, the Hulu Kelang land was valued at RM160 million based on an updated valuation and a legal opinion on the validity of the development order granted to the Company. However, during the current financial year, the Company had re-assessed the validity of the development order, taking into consideration the revocation order and validity period, and had taken the view that the property should be valued without the Company development order. Consequently, the change in view has resulted in the Company recognising a fair value loss of RM40 million in the current financial year.

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

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

The Directors are of the view that there are no accounting policies which require significant judgement to be exercised.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold and leasehold land RM'000	Freehold and leasehold buildings RM'000	Furniture, fittings and equipment RM'000	Motor vehicles RM'000	Renovation RM'000	Total RM'000
Cost/Valuation						
At 1 January 2010	63,661	263,933	62,990	3,896	50,966	445,446
Additions	14,543	49,111	2,836	1,148	2,669	70,307
Transfer from non-current assets held for sale	-	-	7,722	2,533	3,604	13,859
Disposals	(15,392)	(61,455)	(70)	(2,906)	(698)	(80,521)
At 31 December 2010	62,812	251,589	73,478	4,671	56,541	449,091
Additions	2,144	274	1,736	17	802	4,973
Transfer to investment property	(2,745)	(3,243)	-	-	-	(5,988)
Disposals	(7,451)	(5,280)	(13,822)	(1,806)	(3,066)	(31,425)
At 31 December 2011	54,760	243,340	61,392	2,882	54,277	416,651
Accumulated depreciation						
At 1 January 2010	660	26,069	56,106	3,826	40,331	126,992
Charge for the financial year	35	5,038	2,986	318	3,121	11,498
Transfer from non-current assets held for sale	-	-	5,699	1,398	2,803	9,900
Disposals	-	(6,559)	(49)	(2,186)	(332)	(9,126)
At 31 December 2010	695	24,548	64,742	3,356	45,923	139,264
Charge for the financial year	32	4,955	2,755	281	2,298	10,321
Transfer to investment property	-	(517)	-	-	-	(517)
Disposals	(206)	(825)	(8,979)	(1,336)	(2,293)	(13,639)
At 31 December 2011	521	28,161	58,518	2,301	45,928	135,429
Accumulated impairment loss						
At 1 January 2010	138	34,836	-	-	-	34,974
Disposals	-	(4,731)	-	-	-	(4,731)
At 31 December 2010	138	30,105	-	-	-	30,243
Charge/(writeback) for the financial year	526	(9,084)	-	-	-	(8,558)
At 31 December 2011	664	21,021	-	-	-	21,685
Net carrying amount:						
At 31 December 2010	61,979	196,936	8,736	1,315	10,618	279,584
At 31 December 2011	53,575	194,158	2,874	581	8,349	259,537

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company's land and buildings were revalued in the current financial year by independent valuers where the fair values were determined by reference to observable prices in an active market or recent market transactions on arm's length terms, adjusted if necessary, for any differences in the nature, location or condition of the specific asset.

Had the freehold and leasehold land, as well as the freehold and long term leasehold buildings been carried at historical cost less accumulated depreciation and impairment, the carrying amounts that would have been included in the financial statements at the end of the year are as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
Freehold land	49,540	57,462
Leasehold land	2,398	3,522
Freehold buildings	183,239	187,529
Leasehold buildings	4,114	7,255
	<u>239,291</u>	<u>255,768</u>

As at 31 December 2011, the titles to certain properties amounting to RM27,000,000 (2010: RM24,905,000), are in the process of being transferred to the Company. Risks, rewards and effective titles to these properties have been passed to the Company upon unconditional completion of the acquisition of those properties. The Company has submitted the relevant documents to the authorities for transfer of legal titles and is awaiting the process and finalisation of these transfers to be completed.

5. INTANGIBLE ASSETS

	31.12.2011	31.12.2010
	RM'000	RM'000
Cost		
At 1 January	18,644	11,477
Additions from internal developments	2,415	2,151
Transferred from non-current assets held for sale	-	5,017
Disposals	(2,713)	-
At 31 December	<u>18,346</u>	<u>18,645</u>
Accumulated amortisation and impairment loss		
At 1 January	14,048	7,654
Amortisation	2,500	2,901
Transferred from non-current assets held for sale	-	3,495
Disposals	(1,225)	-
At 31 December	<u>15,323</u>	<u>14,050</u>
	<u>3,023</u>	<u>4,595</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

6. INVESTMENT PROPERTIES

	31.12.2011	31.12.2010
	RM'000	RM'000
At 1 January	512,287	577,342
Additions from acquisitions	-	2,935
Additions from subsequent expenditure	-	2,007
Transferred from property, plant and equipment (Note 4)	5,471	-
Disposals	(34,564)	(45,289)
Fair value changes	(120,086)	(24,708)
At 31 December	<u>363,108</u>	<u>512,287</u>
Comprising:		
Freehold land and buildings	279,372	374,234
Leasehold land and buildings	83,736	138,053
	<u>363,108</u>	<u>512,287</u>

Investment properties are stated at fair value, which are determined based on valuations performed by external independent valuers at the date of the statement of financial position. Valuations are performed annually based on the fair market values of the properties, using the direct sale comparison and income approach. The fair value changes (gains/losses) are recorded in the income statement.

The titles to certain investment properties amounting to RM44,847,000 (2010: RM80,157,000) are in the process of being transferred to the Company. Risks, rewards and effective titles to these investment properties have been passed to the Company upon unconditional completion of the acquisition of those properties. The Company has submitted the relevant documents to the authorities for transfer of legal titles and is awaiting the process and finalisation of these transfers to be completed.

7. INVESTMENTS

	31.12.2011	31.12.2010
	RM'000	RM'000
Malaysian Government Securities/Government Investment Issues	390,528	247,813
Corporate debt securities	3,542,563	3,718,589
Equity securities	774,298	876,304
Unit trusts	137,208	37,956
Investment-linked units	-	10,957
Loans	592,947	650,254
Fixed and call deposits	24,482	249,624
	<u>5,462,026</u>	<u>5,791,497</u>

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

Available-for-sale financial assets	3,733,153	3,790,913
Financial assets at fair value through profit or loss	1,111,444	1,100,706
Loans and receivables (Note 8)	617,429	899,878
	<u>5,462,026</u>	<u>5,791,497</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

7. INVESTMENTS (continued)

	31.12.2011 RM'000	31.12.2010 RM'000
The above investments mature after 12 months:		
Available-for-sale financial assets	3,561,179	3,512,610
Financial assets at fair value through profit or loss	177,962	167,316
Loans and receivables (Note 8)	19,881	23,091
	<u>3,759,022</u>	<u>3,703,017</u>
(a) Available-for-sale financial assets		
Unquoted:		
Equity securities	3,364	3,364
Corporate debt securities	3,349,704	3,551,424
Malaysian Government Securities/Government Investment Issues	380,085	236,125
	<u>3,733,153</u>	<u>3,790,913</u>
(b) Financial assets at fair value through profit or loss		
Held-for-trading:		
Quoted:		
Equity securities	349,750	483,932
Unit trusts	123,583	24,456
Corporate debt securities	24,317	21,802
Unquoted:		
Investment-linked units	-	6,245
	<u>497,650</u>	<u>536,435</u>
Designated at fair value through profit or loss:		
Quoted:		
Equity securities	421,184	389,008
Unit trusts	13,625	13,500
Unquoted:		
Corporate debt securities	168,542	145,363
Investment-linked units	-	4,712
Malaysian Government Securities/ Government Investment Issues	10,443	11,688
	<u>613,794</u>	<u>564,271</u>
	<u>1,111,444</u>	<u>1,100,706</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

7. INVESTMENTS (CONTINUED)

(c) Carrying value of financial instruments

The movements in the Company's financial assets (excluding loans and receivables) are summarised in the table below by measurement category:

	Available- for-sale	Fair value through profit/loss	Total
	RM'000	RM'000	RM'000
At 1 January 2010	3,387,086	882,176	4,269,262
Purchases	870,548	527,488	1,398,036
Transfer from non-current assets held for sale	315,077	28,692	343,769
Disposals (sale and redemptions)	(951,748)	(528,008)	(1,479,756)
Fair value gains recorded in:			
Income statement	-	189,485	189,485
Other comprehensive income	9,185	-	9,185
Insurance contract liabilities			
- available-for-sale reserves	123,605	-	123,605
Movement in impairment allowance	(2,942)	-	(2,942)
Amortisation/interest adjustment	40,102	873	40,975
At 31 December 2010/ 1 January 2011	3,790,913	1,100,706	4,891,619
Purchases	967,762	731,372	1,699,134
Disposals (sale and redemptions)	(1,057,316)	(737,863)	(1,795,179)
Fair value gains recorded in:			
Income statement	-	16,339	16,339
Other comprehensive income	2,872	-	2,872
Insurance contract liabilities			
- available-for-sale reserves	50,780	-	50,780
Movement in impairment allowance	(56,353)	-	(56,353)
Amortisation/interest adjustment	34,495	890	35,385
At 31 December 2011	3,733,153	1,111,444	4,844,597

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

7. INVESTMENTS (CONTINUED)

(d) Fair values of financial investments

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

	Available- for-sale RM'000	Fair value through profit/loss RM'000	Total RM'000
31 December 2011			
Quoted market price (Level 1)	-	932,459	932,459
Valuation techniques			
- market observable inputs (Level 2)	3,690,110	178,856	3,868,966
Valuation techniques			
- non-market observable inputs (Level 3)	43,043	129	43,172
	<u>3,733,153</u>	<u>1,111,444</u>	<u>4,844,597</u>
31 December 2010			
Quoted market price (Level 1)	-	932,697	932,697
Valuation techniques			
- market observable inputs (Level 2)	3,754,240	155,987	3,910,227
Valuation techniques			
- non-market observable inputs (Level 3)	36,673	12,022	48,695
	<u>3,790,913</u>	<u>1,100,706</u>	<u>4,891,619</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

8. LOANS AND RECEIVABLES

	31.12.2011	31.12.2010
	RM'000	RM'000
Loans arising from:		
Policy loans	325,596	351,849
Mortgage loans	225,360	246,745
Other secured loans	171,740	183,629
Unsecured loans	970	1,144
	<hr/>	<hr/>
	723,666	783,367
Allowance for impairment	(130,718)	(133,113)
	<hr/>	<hr/>
Net loans	592,948	650,254
	<hr/>	<hr/>
Fixed and call deposits with:		
Licensed banks	18,197	28,227
Other corporations	6,284	221,397
	<hr/>	<hr/>
	24,481	249,624
	<hr/>	<hr/>
	617,429	899,878
	<hr/>	<hr/>

The estimated fair values of the loans and receivables have been established by comparing current market interest rates for similar financial instruments to the rates offered when the loans and receivables were first recognised together with appropriate market credit adjustments except for loans which are non-performing ("NPL"), where the estimated fair value is the discounted amount of estimated future cash flows expected to be received.

The maturity structure of the loans and receivables is as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
Receivables within 12 months:		
Net loans	579,351	633,981
Fixed and call deposits	18,197	242,806
	<hr/>	<hr/>
	597,548	876,787
	<hr/>	<hr/>
Receivables after 12 months:		
Net loans	13,597	16,273
Fixed and call deposits	6,284	6,818
	<hr/>	<hr/>
	19,881	23,091
	<hr/>	<hr/>
	617,429	899,878
	<hr/>	<hr/>

Included in the total loans portfolio net of allowance for impairment as at 31 December 2011, are several NPL amounting to approximately RM251,381,000 (2010: RM279,377,000). These NPL were collateralised by properties and/or shares as pledged by the borrowers. The Company has assessed the value of the collaterals or agreed settlement plans and has made appropriate allowances for impairment where appropriate. Should the market value or adjusted value of the collateral deviate by 10% or the recovery process be delayed by a year, particularly those loans with properties as collateral, there may be a potential shortfall of approximately RM16 million (2010: RM21 million) for the NPL.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

8. LOANS AND RECEIVABLES (CONTINUED)

The net loans can be analysed as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
(i) Outstanding loans before allowance for impairment analysed by loan type are as follows:		
Policy loans	325,596	351,849
Other term loans	375,803	406,331
Housing loans	21,094	23,717
Staff loans	1,173	1,470
	<u>723,666</u>	<u>783,367</u>
(ii) Outstanding loans before allowance for impairment analysed by type of customers are as follows:		
Policyholders	333,830	361,240
Business enterprises	349,760	369,285
Staff	2,027	2,504
Agents	637	941
Individuals	37,412	49,397
	<u>723,666</u>	<u>783,367</u>
(iii) Outstanding loans before allowance for impairment analysed by economic purpose are as follows:		
Policy loans	325,596	351,849
Construction	68,198	68,770
Purchase of landed properties/securities	259,965	296,604
Fixed assets other than land & building	558	688
Personal use	39	79
Working capital	69,310	65,377
	<u>723,666</u>	<u>783,367</u>
(iv) Movements of NPL before allowance for impairment are as follows:		
Outstanding loans before allowance for impairment at the beginning of year	412,490	485,400
Classified as non-performing during the financial year	1,403	13,943
Recovered during the financial year	(48,027)	(86,746)
Bad debts written off	(499)	(4,351)
Interest movement	16,732	4,244
	<u>382,099</u>	<u>412,490</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

8. LOANS AND RECEIVABLES (CONTINUED)

The net loans can be analysed as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
(v) Movements in the allowance for impairment for NPL are as follows:		
Balance at the beginning of financial year	133,113	139,268
Classified from to performing loans	-	4,369
Write back of impairment allowance during the financial year	(2,395)	(10,524)
	<u>130,718</u>	<u>133,113</u>
(vi) NPL before allowance for impairment analysed by loan type are as follows:		
Other term loans	375,803	406,331
Housing loans	6,296	6,159
	<u>382,099</u>	<u>412,490</u>
(vii) NPL before allowance for impairment analysed by type of customers are as follows:		
Policyholders	3,935	3,981
Business enterprises	349,760	369,285
Agents	454	631
Individuals	27,950	38,593
	<u>382,099</u>	<u>412,490</u>
(viii) NPL before allowance for impairment analysed by economic purpose are as follows:		
Construction	68,198	68,770
Purchase of landed properties/securities	244,569	278,320
Personal use	22	22
Working capital	69,310	65,378
	<u>382,099</u>	<u>412,490</u>
(ix) Aging of NPL before allowance for impairment is as follows:		
Up to 1 year	3,015	10,265
1 to 5 years	71,049	172,166
More than 5 years	308,035	230,059
	<u>382,099</u>	<u>412,490</u>

The fair value of the collaterals held as at the date of the statement of financial position was RM736 million (2010: RM813 million)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

9. REINSURANCE ASSETS

	31.12.2011	31.12.2010
	RM'000	RM'000
Reinsurers' share of insurance contract liabilities (Note 15)	213,845	222,343

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statement of financial position.

10. INSURANCE RECEIVABLES

	31.12.2011	31.12.2010
	RM'000	RM'000
Due premiums including agents/brokers and co-insurers balances	76,585	74,679
Due from reinsurers and cedants	11,545	11,182
	88,130	85,861
Allowance for impairment	(8,423)	(8,710)
	79,707	77,151

11. OTHER RECEIVABLES

	31.12.2011	31.12.2010
	RM'000	RM'000
Outstanding proceeds from disposal of investments	19,795	3,153
Assets held under Malaysian Motor Insurance Pool	23,314	6,868
Deposits, repayment and other receivables	17,744	33,969
	60,853	43,990

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

12. DEFERRED TAXATION

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

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

	31.12.2011			31.12.2010		
	Life fund	General and share-holders' funds	Total	Life fund	General and share-holders' funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	-	22,702	22,702	-	1,900	1,900
Deferred tax liabilities	(22,689)	(5,614)	(28,303)	(13,601)	(1,876)	(15,477)
	<u>(22,689)</u>	<u>17,088</u>	<u>(5,601)</u>	<u>(13,601)</u>	<u>24</u>	<u>(13,577)</u>
At 1 January	(13,601)	24	(13,577)	6,107	3,955	10,062
(Charged)/credited to income statement (Note 28):						
- property, plant and equipment	(1,773)	1,066	(707)	379	(129)	250
- investments and loans	500	10,970	11,470	(13,389)	(1,299)	(14,688)
- investment properties	2,352	4,956	7,308	1,029	-	1,029
- others	-	(474)	(474)	-	(367)	(367)
- unallocated life surplus	(10,319)	-	(10,319)	-	-	-
	<u>(9,240)</u>	<u>16,518</u>	<u>7,278</u>	<u>(11,981)</u>	<u>(1,795)</u>	<u>(13,776)</u>
Charged to other comprehensive income:						
- asset revaluation reserves	-	(147)	(147)	-	-	-
- available-for-sale fair value reserves	-	693	693	-	(2,136)	(2,136)
	<u>-</u>	<u>546</u>	<u>546</u>	<u>-</u>	<u>(2,136)</u>	<u>(2,136)</u>
(Charged)/credited to insurance contract liabilities:						
- asset revaluation reserves	30	-	30	5	-	5
- available-for-sale reserves	122	-	122	(7,732)	-	(7,732)
	<u>152</u>	<u>-</u>	<u>152</u>	<u>(7,727)</u>	<u>-</u>	<u>(7,727)</u>
At 31 December	<u>(22,689)</u>	<u>17,088</u>	<u>(5,601)</u>	<u>(13,601)</u>	<u>24</u>	<u>(13,577)</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

12. DEFERRED TAXATION (CONTINUED)

	31.12.2011			31.12.2010		
	Life fund	General and share-holders' funds	Total	Life fund	General and share-holders' funds	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Subject to income tax:						
Deferred tax assets (before offsetting)						
- property, plant and equipment	2,072	3,394	5,466	3,845	2,103	5,948
- investments and loans	9,333	14,596	23,929	13,800	4,091	17,891
- investment properties	7,019	5,194	12,213	4,666	-	4,666
- others	-	-	-	-	474	474
	18,424	23,184	41,608	22,311	6,668	28,979
Offsetting	(18,424)	(482)	(18,906)	(22,311)	(4,768)	(27,079)
Deferred tax assets after offsetting	-	22,702	22,702	-	1,900	1,900
Deferred liabilities (before offsetting)						
- asset revaluation reserves	(108)	(147)	(255)	(138)	-	(138)
- available-for-sale reserves	(15,797)	(3,418)	(19,215)	(15,918)	(4,112)	(20,030)
- property, plant and equipment	-	(225)	(225)	-	-	-
- investments and loans	(14,889)	(1,695)	(16,584)	(19,856)	(2,160)	(22,016)
- investment properties	-	(611)	(611)	-	(372)	(372)
- unallocated surplus	(10,319)	-	(10,319)	-	-	-
	(41,113)	(6,096)	(47,209)	(35,912)	(6,644)	(42,556)
Offsetting	18,424	482	18,906	22,311	4,768	27,079
Deferred tax liabilities after offsetting	(22,689)	(5,614)	(28,303)	(13,601)	(1,876)	(15,477)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

13. SHARE CAPITAL

	<u>2011</u>		<u>2010</u>	
	<u>Number of</u>	<u>Nominal</u>	<u>Number of</u>	<u>Nominal</u>
	<u>Shares</u>	<u>value</u>	<u>Shares</u>	<u>value</u>
	<u>'000</u>	<u>RM'000</u>	<u>'000</u>	<u>RM'000</u>
<u>Authorised</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	500,000	500,000	500,000	500,000
- Created during the financial year	250,000	250,000	-	-
	<u>750,000</u>	<u>750,000</u>	<u>500,000</u>	<u>500,000</u>
- At end of the financial year				
	<u>750,000</u>	<u>750,000</u>	<u>500,000</u>	<u>500,000</u>
<u>Issued and full paid</u>				
Ordinary shares of RM1 each:				
- At beginning/end of the financial year	150,000	150,000	150,000	150,000
- Issued during the financial year	429,000	429,000	-	-
	<u>579,000</u>	<u>579,000</u>	<u>150,000</u>	<u>150,000</u>
At end of the financial year				
	<u>579,000</u>	<u>579,000</u>	<u>150,000</u>	<u>150,000</u>

On 20 December 2011, the Company increased its authorised share capital from RM500,000,000 to RM750,000,000 with the creation of 250,000,000 new ordinary shares of RM1.00 each. On 22 December 2011, the Company issued 429,000,000 ordinary shares for cash at par to meet the minimum capital adequacy ratio specified by Bank Negara Malaysia. The new ordinary shares issued during the financial year ranked pari passu in all respect with the existing ordinary shares of the Company.

14. RESERVES

(a) Retained earnings

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

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

The Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank all of its retained earnings at 31 December 2011, if paid out as dividends.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

14. RESERVES (CONTINUED)

(b) Other reserves

Other reserves consist of available-for-sale reserves and asset revaluation reserve.

The available-for-sale reserves represent the fair value gains or losses from available-for-sale financial assets of the Company, except for those arising from the life insurance business, where such fair value changes are included as part of insurance contract liabilities.

The asset revaluation reserve represents the surplus arising from the revaluation of self-occupied freehold land and buildings and leasehold buildings of the Company, except for those arising from the life insurance business, where such surpluses arising are included as part of insurance contract liabilities.

15. INSURANCE CONTRACT LIABILITIES

	Note	31.12.2011			31.12.2010		
		Gross	Re- insurance	Net	Gross	Re- insurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Life insurance	15(a)	5,276,191	(31,726)	5,244,465	5,458,461	(28,920)	5,429,541
General insurance	15(b)	800,422	(182,119)	618,303	727,302	(193,423)	533,879
		<u>6,076,613</u>	<u>(213,845)</u>	<u>5,862,768</u>	<u>6,185,763</u>	<u>(222,343)</u>	<u>5,963,420</u>

(a) Life Insurance

The Life insurance contract liabilities and movements are further analysed as follows:

		31.12.2011			31.12.2010		
		Gross	Re- insurance	Net	Gross	Re- insurance	Net
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Actuarial liabilities:							
Liability for future policyholders' benefits		4,275,736	(23,088)	4,252,648	4,494,277	(18,196)	4,476,081
Net asset value attributable to unitholders		725,596	-	725,596	747,175	-	747,175
		<u>5,001,332</u>	<u>(23,088)</u>	<u>4,978,244</u>	<u>5,241,452</u>	<u>(18,196)</u>	<u>5,223,256</u>
Claim liabilities		26,229	(8,638)	17,591	45,561	(10,724)	34,837
		<u>5,027,561</u>	<u>(31,726)</u>	<u>4,995,835</u>	<u>5,287,013</u>	<u>(28,920)</u>	<u>5,258,093</u>
Unallocated surplus/(deficit)		30,982	-	30,982	(13,491)	-	(13,491)
Available-for-sale reserves		215,721	-	215,721	183,347	-	183,347
Asset revaluation reserves		1,927	-	1,927	1,592	-	1,592
		<u>5,276,191</u>	<u>(31,726)</u>	<u>5,244,465</u>	<u>5,458,461</u>	<u>(28,920)</u>	<u>5,429,541</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

15. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Life Insurance (continued)

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Actuarial liabilities</u>							
At 1 January 2010	3,758,572	1,669,257	5,427,829	(3,956)	(15,640)	(19,596)	5,408,233
Benefit and claims experience variation	(151,037)	(173,129)	(324,166)	934	466	1,400	(322,766)
Change due to valuation basis:							
Model enhancement	5,622	33	5,655	-	-	-	5,655
Yield movement	-	13,354	13,354	-	-	-	13,354
Assumption changes	2,671	10,743	13,414	-	-	-	13,414
Net asset value attributable to unitholders	-	105,366	105,366	-	-	-	105,366
At 31 December 2010	3,615,828	1,625,624	5,241,452	(3,022)	(15,174)	(18,196)	5,223,256
Benefit and claims experience variation	(128,659)	(83,402)	(212,061)	(1,391)	(3,501)	(4,892)	(216,953)
Change due to valuation basis:							
Model enhancement	(358)	9,948	9,590	-	-	-	9,590
Yield movement	-	24,652	24,652	-	-	-	24,652
Assumption changes	(53,945)	13,223	(40,722)	-	-	-	(40,722)
Net asset value attributable to unitholders	-	(21,579)	(21,579)	-	-	-	(21,579)
At 31 December 2011	<u>3,432,866</u>	<u>1,568,466</u>	<u>5,001,332</u>	<u>(4,413)</u>	<u>(18,675)</u>	<u>(23,088)</u>	<u>4,978,244</u>
<u>Claims liabilities</u>							
At 1 January 2010	16,332	25,130	41,462	(2,687)	(2,603)	(5,290)	36,172
Movement in claim provisions	4,756	(657)	4,099	(2,182)	(3,252)	(5,434)	(1,335)
At 31 December 2010	21,088	24,473	45,561	(4,869)	(5,855)	(10,724)	34,837
Movement in claim provisions	(16,619)	(2,713)	(19,332)	646	1,440	2,086	(17,246)
At 31 December 2011	<u>4,469</u>	<u>21,760</u>	<u>26,229</u>	<u>(4,223)</u>	<u>(4,415)</u>	<u>(8,638)</u>	<u>17,591</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

15. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Life Insurance (continued)

	31.12.2011			31.12.2010		
	With DPF	Without DPF	Total	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Unallocated surplus/(deficit)</u>						
At 1 January	(367,623)	354,132	(13,491)	(360,634)	287,584	(73,050)
Premium received	248,912	672,887	921,799	261,384	697,613	958,997
Payment due to death, surrenders, benefits and claims	(560,290)	(691,603)	(1,251,893)	(601,004)	(749,609)	(1,350,613)
Net investment income	145,556	106,742	252,298	261,690	214,838	476,528
Management expenses and commissions	(6,792)	(131,163)	(137,955)	(47,787)	(127,797)	(175,584)
Change in life assurance fund actuarial liabilities	184,353	60,660	245,013	141,810	43,167	184,977
Change in claims liabilities	15,974	1,272	17,246	(2,574)	3,909	1,335
Tax expense	13,161	(16,681)	(3,520)	(20,567)	(15,573)	(36,140)
Transfer from shareholders fund	154,225	-	154,225	-	-	-
Net surplus/(deficit) for the financial year	195,099	2,114	197,213	(7,048)	66,548	59,500
Surplus transfer to shareholders fund	-	(154,225)	(154,225)	-	-	-
- Transfer of revaluation surplus on disposal of property, net of tax	1,062	423	1,485	59	-	59
At 31 December	(171,462)	202,444	30,982	(367,623)	354,132	(13,491)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

15. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Life Insurance (continued)

	31.12.2011			31.12.2010		
	With DPF	Without DPF	Total	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Available-for-sale reserves</u>						
At 1 January	142,817	40,530	183,347	74,071	20,612	94,683
Net gain arising during the financial year	37,219	13,561	50,780	88,379	35,226	123,605
Net realised gain transferred to income statement	(10,800)	(7,729)	(18,529)	(13,608)	(13,601)	(27,209)
	26,419	5,832	32,251	74,771	21,625	96,396
Deferred tax effects	607	(484)	123	(6,026)	(1,706)	(7,732)
	27,026	5,348	32,374	68,745	19,919	88,664
At 31 December	<u>169,843</u>	<u>45,878</u>	<u>215,721</u>	<u>142,816</u>	<u>40,531</u>	<u>183,347</u>
<u>Asset valuation reserves</u>						
At 1 January	1,169	423	1,592	1,228	423	1,651
Reversal of revaluation surplus on disposal of property	449	(114)	335	(64)	-	(64)
Deferred tax effects	-	-	-	5	-	5
At 31 December	<u>1,618</u>	<u>309</u>	<u>1,927</u>	<u>1,169</u>	<u>423</u>	<u>1,592</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

15. INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) General Insurance

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

	31.12.2011			31.12.2010		
	Gross	Re-	Net	Gross	Re-	Net
	RM'000	insurance	RM'000	RM'000	insurance	RM'000
Provision for claims	351,938	(99,190)	252,748	342,888	(123,329)	219,559
Provision for incurred but not reported claims ("IBNR")	220,985	(21,938)	199,047	172,985	(31,188)	141,797
Claim liabilities	572,923	(121,128)	451,795	515,873	(154,517)	361,356
Premium liabilities	227,499	(60,991)	166,508	211,429	(38,906)	172,523
	800,422	(182,119)	618,303	727,302	(193,423)	533,879
<u>Claims liabilities</u>						
At 1 January	515,873	(154,517)	361,356	476,601	(169,495)	307,106
Claims incurred in the current accident year	83,189	(7,158)	76,031	239,735	(69,148)	170,587
Other movements in claims incurred in prior accident years	216,213	(66,361)	149,852	43,073	10,544	53,617
Claims paid during the financial year (Note 25)	(290,352)	97,658	(192,694)	(268,504)	74,098	(194,406)
Movement in IBNR reserves	48,000	9,250	57,250	24,968	(516)	24,452
At 31 December	572,923	(121,128)	451,795	515,873	(154,517)	361,356
<u>Premium liabilities</u>						
At 1 January	211,429	(38,906)	172,523	222,218	(59,574)	162,644
Premium written in the financial year (Note 20(a))	492,951	(81,441)	411,510	510,943	(112,594)	398,349
Premium earned during the financial year	(476,881)	59,356	(417,525)	(521,732)	133,262	(388,470)
At 31 December	227,499	(60,991)	166,508	211,429	(38,906)	172,523

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

16. OTHER LIABILITIES

	31.12.2011	31.12.2010
	RM'000	RM'000
Investment creditors	20,118	33,477
Cash collaterals held for performance bond underwritten	41,174	45,489
Unclaimed monies	15,390	15,334
Rental deposits	5,108	5,265
Accrued interest on cash payments/cash dividends payable to life policyholders	31,105	38,330
Accrued for unutilised staff leave	1,386	1,666
Other payables and accruals	53,188	93,049
	<u>167,469</u>	<u>232,610</u>
Repayable within 12 months	146,193	207,818
Repayable after 12 months	21,276	24,792
	<u>167,469</u>	<u>232,610</u>

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

17. INSURANCE PAYABLES

	31.12.2011	31.12.2010
	RM'000	RM'000
Due to agents and intermediaries	880,174	777,919
Due to reinsurers and cedants	42,000	39,806
Reinsurer's deposits withheld	2,005	12,593
Premium deposits	10,377	13,673
	<u>934,556</u>	<u>843,991</u>

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

All amounts are payable within one year.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

18. PROVISION FOR LIFE AGENTS' RETIREMENT BENEFITS

	31.12.2011	31.12.2010
	RM'000	RM'000
At 1 January		
Additional provision	2,703	2,780
Utilisation of provision	(1,266)	100
	(341)	(177)
At 31 December	<u>1,096</u>	<u>2,703</u>
Repayable within 12 months	64	478
Repayable after 12 months	1,032	2,225
	<u>1,096</u>	<u>2,703</u>

The amount recognised in the Company's statement of financial position is analysed as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
Present value of funded obligations	30,498	29,146
Fair value of plan assets	(30,498)	(29,146)
Status of funded plan	-	-
Present value of unfunded obligations	<u>1,096</u>	<u>2,703</u>
Liability in the statement of financial position	<u>1,096</u>	<u>2,703</u>

The expense recognised in the Life Insurance revenue account under commission and agency expenses is analysed as follows:

	31.12.2011	31.12.2010
	RM'000	RM'000
Current service cost	(1,417)	(39)
Interest cost	151	139
	<u>(1,266)</u>	<u>100</u>

The actual return on plan asset was RM392,000 (2010: RM2,884,000).

The present value of funded obligations is always equal to the fair value of plan assets of the funded retirement benefit scheme as the actual payment to agents is based on actual fair value of plan assets at the time of retirement. The Company assumes that all agents who have served the Company for more than 10 years would continue to serve the Company until their age of retirement and will be eligible for the retirement benefit.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

19. OPERATING REVENUE

	31.12.2011	31.12.2010
	RM'000	RM'000
Gross earned premiums (Note 20(a))	1,427,721	1,517,583
Investment income (Note 21)	329,300	307,490
	<u>1,757,021</u>	<u>1,825,073</u>

20. NET EARNED PREMIUMS

	31.12.2011	31.12.2010
	RM'000	RM'000
(a) Gross Premiums		
Insurance contracts:		
Life (Note 15(a))	950,840	995,851
General (Note 15(b))	492,951	510,943
	<u>1,443,791</u>	<u>1,506,794</u>
Change in premium liabilities provision	(16,070)	10,789
	<u>1,427,721</u>	<u>1,517,583</u>
(b) Premiums Ceded		
Insurance contracts:		
Life (Note 15(a))	(29,041)	(36,854)
General (Note 15(b))	(81,441)	(112,594)
	<u>(110,482)</u>	<u>(149,448)</u>
Change in premium liabilities provision	22,085	(20,668)
	<u>(88,397)</u>	<u>(170,116)</u>
Net Earned Premiums	<u>1,339,324</u>	<u>1,347,467</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

21. INVESTMENT INCOME

	31.12.2011 RM'000	31.12.2010 RM'000
Financial assets at fair value through profit or loss		
Interest/profit income:		
- Malaysian Government Securities/ Government Investment Issues	470	604
- corporate debt securities	7,957	7,047
Dividend/distribution income:		
- equity securities quoted in Malaysia	36,717	32,455
- unit trusts	3,179	-
Accretion of discounts/(amortisation of premiums):		
- Malaysian Government Securities/ Government Investment Issues	(17)	(72)
- corporate debt securities	675	668
	<u>48,981</u>	<u>40,702</u>
Available-for-sale financial assets		
Interest/profit income:		
- Malaysian Government Securities/ Government Investment Issues	11,735	9,400
- corporate debt securities	158,111	151,866
Dividend/distribution income:		
- equity securities quoted in Malaysia	350	70
Accretion of discounts/(amortisation of premiums):		
- Malaysian Government Securities/ Government Investment Issues	(1,417)	(1,396)
- corporate debt securities	32,554	42,525
	<u>201,333</u>	<u>202,465</u>
Loans and receivables		
Interest/profit income:		
- policy loans	11,847	24,653
- mortgage loans	23,732	2,095
- other secured and unsecured loans	3,546	712
- fixed and call deposits	21,408	21,331
	<u>60,533</u>	<u>48,791</u>
Properties		
Gross rental income	34,603	34,616
Less: Rates and maintenance	(16,150)	(19,084)
	<u>18,453</u>	<u>15,532</u>
	<u>329,300</u>	<u>307,490</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

22. REALISED GAINS AND LOSSES

	31.12.2011 RM'000	31.12.2010 RM'000
Financial assets at fair value through profit or loss		
Realised gains:		
- Malaysian Government Securities/ Government Investment Issues	1	-
- corporate debt securities	4,506	785
- equity securities quoted in Malaysia	6,413	6,524
- unit trusts	117	26
Realised losses:		
- Malaysian Government Securities/ Government Investment Issues	-	(7)
- corporate debt securities	(621)	(33)
- equity securities quoted in Malaysia	(5,700)	(2,414)
- unit link	(27)	-
- unit trusts	(231)	(9)
	<u>4,458</u>	<u>4,872</u>
Available-for-sale financial assets		
Realised gains:		
- Malaysian Government Securities/ Government Investment Issues	67	630
- corporate debts securities	40,749	10,761
Realised losses:		
- Malaysian Government Securities/ Government Investment Issues	(10)	(103)
- corporate debt securities	(2,837)	(2,636)
Amount transferred on sale of investments from:		
- Statement of Comprehensive Income	5,645	642
- Life insurance contract liabilities		
- available-for-sale reserves	18,528	27,209
	<u>62,142</u>	<u>36,503</u>
Loans and receivable		
Realised gains/(losses):		
- fixed and call deposits	2,650	(56)
Realised gains:		
- investment properties	3,182	1,093
- property, plant and equipment	41	624
Realised losses:		
- investment properties	(9)	(547)
- property, plant and equipment	(4,586)	(90)
	<u>(1,372)</u>	<u>1,080</u>
	<u><u>67,878</u></u>	<u><u>42,399</u></u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

23. FAIR VALUE GAINS AND LOSSES

	31.12.2011 RM'000	31.12.2010 RM'000
Financial assets at fair value through profit or loss		
Net fair value gains/(loss):		
- Malaysian Government Securities/ Government Investment Issues	210	105
- corporate debt securities	2,837	4,172
- equity securities quoted in Malaysia	5,830	179,872
- Investment linked units	(841)	-
- unit trusts	8,303	5,336
	<u>16,339</u>	<u>189,485</u>
Loans and receivables		
Net fair value (loss)/gain:		
- fixed and call deposits	(2,641)	793
Net fair value loss:		
- investment properties	(120,086)	(24,708)
Impairment loss:		
- available-for-sale financial assets	(56,353)	(2,942)
Write back of Impairment loss:		
- property, plant and equipment		
- self occupied properties	8,558	-
Loans and receivables		
- writeback of allowance for impairment on loans	<u>2,395</u>	<u>10,524</u>
	<u>(151,788)</u>	<u>173,152</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

24. FEES AND COMMISSION INCOME

	31.12.2011	31.12.2010
	RM'000	RM'000
Policy administration and investment management services	10,124	9,060
Surrender charges and other contract fees	1,132	2,140
Reinsurance commission income	24,614	34,247
	<u>35,870</u>	<u>45,447</u>

25. NET BENEFITS AND CLAIMS

	31.12.2011	31.12.2010
	RM'000	RM'000
(a) Gross Benefits and Claims Paid		
Insurance contracts: Life	(1,263,816)	(1,360,483)
General (Note 15(b))	(290,352)	(268,504)
	<u>(1,554,168)</u>	<u>(1,628,987)</u>
(b) Claims Ceded to Reinsurers		
Insurance contracts: Life	11,923	9,870
General (Note 15(b))	97,658	74,098
	<u>109,581</u>	<u>83,968</u>
(c) Gross Change in Contract Liabilities		
Insurance contracts: Life	259,452	182,278
General	(57,050)	(39,272)
	<u>202,402</u>	<u>143,006</u>
(d) Change in Contract Liabilities ceded to Reinsurers		
Insurance contracts: Life	2,807	4,034
General	(33,389)	(14,978)
	<u>(30,582)</u>	<u>(10,944)</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

26. MANAGEMENT EXPENSES

	31.12.2011	31.12.2010
	RM'000	RM'000
Staff costs:		
- salaries and bonus	67,380	61,047
- staff and retirement benefits	12,422	12,823
	<u>79,802</u>	<u>73,870</u>
Depreciation of property, plant and equipment	10,321	11,498
Amortisation of intangible assets	2,500	2,901
Auditors' remuneration:		
- statutory audit	545	600
- over-provision of prior financial year	(55)	-
Fees paid to a company in which certain Directors have an interest	197	197
Write back of allowance for impairment of insurance receivables	(287)	(13,219)
Bad debts written off	-	10,646
Office rental	12,924	12,731
Rental of office equipment	1,451	1,430
Training expenses	1,804	3,427
Repairs and maintenance	7,223	8,084
EDP expenses	15,215	10,410
Advertising, promotional and entertainment expenses	10,857	10,006
Motor club expenses	2,928	5,393
Motor vehicle and travelling expenses	2,948	3,201
Printing and stationery	5,450	8,768
Postage, telephone and fax	3,900	3,523
Management fees	6,561	4,971
Other expenses	20,551	18,652
	<u>105,033</u>	<u>103,219</u>
	<u>184,835</u>	<u>177,089</u>

Included in management expenses were emoluments received by Directors of the Company during the financial year:

	31.12.2011	31.12.2010
	RM'000	RM'000
Non-executive Directors:		
- fees	223	254
- allowances	70	67
	<u>293</u>	<u>321</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

26. MANAGEMENT EXPENSES (Continued)

The number of Directors whose total remuneration falls within the following bands is as follows:

<u>Range of Remuneration</u>	<u>Non-Executive Directors</u>
RM10,001 to RM50,000	1
RM50,001 to RM100,000	2
RM100,001 to RM150,000	1

There were no estimated monetary value of benefits provided to Directors during the financial year by way of usage of the Company's assets.

There was no remuneration or benefits-in-kind attributable to the Chief Executive Officer ("CEO") of the Company during the financial year ended 31 December 2011 (2010: Nil). The total remuneration payable to MAA Group Berhad (formerly known as MAA Holdings Berhad) for the provision of CEO to the Company up to 30 September 2011 has been included in the above staff costs (30 September 2011 – RM470,000; 31 December 2010 – RM731,000).

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

Tan Sri Ahmad bin Mohd Don	
Dr. Zaha Rina Zahari	
Cheong Chee Meng	(appointed on 30.9.2011)
Geoffrey Martin Riddell	(appointed on 30.9.2011)
Daniel Andre Reymond	(appointed on 30.9.2011)
Muhamad Umar Swift	(resigned on 30.9.2011)
Yeo Took Keat	(resigned on 30.9.2011)
Datuk Razman Md Hashim	(resigned on 30.9.2011)

27. OTHER OPERATING INCOME/(EXPENSES) - NET

	<u>31.12.2011</u>	<u>31.12.2010</u>
	RM'000	RM'000
Loans and receivables		
- bad debts written off	(499)	(4,351)
Finance costs	(40)	(40)
Gain on commutation from termination of quota share reinsurance agreement with MAA International Assurance Ltd	37,708	-
Other miscellaneous revenue	1,359	2,722
	<u>38,528</u>	<u>(1,669)</u>

The unsecured bank overdraft facilities of the Company have limits of RM6.0 million. During the financial year, the interest rate charged was 7.80% (2010: 7.80%) per annum. There were no overdrawn facilities utilised at the date of the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

28. TAXATION

	<u>31.12.2011</u>	
	<u>Life fund</u>	<u>General and shareholders' funds</u>
	<u>RM'000</u>	<u>RM'000</u>
Current tax	(5,720)	20,905
Deferred tax (Note 12)	9,240	(16,518)
	<u>3,520</u>	<u>4,387</u>
Tax expense	3,520	4,387
Current tax		
Current financial year	26,520	14,905
(Over)/under provision in prior years	(32,240)	6,000
	<u>(5,720)</u>	<u>20,905</u>
Deferred tax		
Origination and reversal of temporary differences	9,240	(16,518)
	<u>9,240</u>	<u>(16,518)</u>
	<u>3,520</u>	<u>4,387</u>
	<u>3,520</u>	<u>4,387</u>
	<u>31.12.2010</u>	
	<u>Life fund</u>	<u>General and shareholders' funds</u>
	<u>RM'000</u>	<u>RM'000</u>
Current tax	24,159	12,894
Deferred tax (Note 12)	11,981	1,795
	<u>36,140</u>	<u>14,689</u>
Tax expense	36,140	14,689
Current tax		
Current financial year	26,770	13,001
Over provision in prior years	(2,611)	(107)
	<u>24,159</u>	<u>12,894</u>
Deferred tax		
Origination and reversal of temporary differences	11,981	1,795
	<u>11,981</u>	<u>1,795</u>
	<u>36,140</u>	<u>14,689</u>
	<u>36,140</u>	<u>14,689</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

28. TAXATION

Numerical reconciliation between average effective tax rate and the Malaysian tax rate for the general and shareholders' funds is as follows:

	<u>31.12.2011</u>	<u>31.12.2010</u>
	%	%
Malaysian tax rate	<u>25</u>	<u>25</u>
Tax effects of:	(25)	25
- expenses not deductible for tax purposes	21	(1)
- under accrual in prior years	62	-
Origination and reversal of temporary differences	<u>(13)</u>	<u>1</u>
Average effective tax rate	<u>45</u>	<u>25</u>

The income tax for the Shareholders' and General funds is calculated based on the tax rate of 25% (2010:25%) of the estimated assessable profit for the financial year. The income tax for the life fund is calculated based on the tax rate of 8% (2010:8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 39 to the financial statements.

29. DIVIDENDS

There were no dividends paid in respect of the previous financial year and the Directors do not recommend the payment of any dividend for the current financial year.

30. (LOSS)/EARNINGS PER SHARE

The basic (loss)/earnings per ordinary share has been calculated by dividing the Company's net loss for the financial year of RM14,111,000 (2010: net profit of RM43,812,000) over the weighted average number of shares of the Company in issue of 157,644,000 (2010: 150,000,000) shares.

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the date of the statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

31. CASH FLOWS

	Note	31.12.2011 RM'000	31.12.2010 RM'000
(Loss)/profit after tax		(14,111)	43,812
Life fund's surplus after taxation		42,988	59,500
Investment income	21	(329,300)	(307,490)
Realised gains recorded in profit or loss	22	(67,878)	(42,399)
Fair value losses/(gains) recorded in profit or loss	23	151,788	(173,152)
Purchases of investment properties	6	-	(4,942)
Proceeds from sale of investment properties		37,737	45,835
Purchases of financial assets at fair value through profit or loss	7(c)	(731,372)	(527,488)
Proceeds from sale of financial assets at fair value through profit or loss		742,089	532,882
Purchases of available-for-sale financial assets	7(c)	(967,762)	(870,548)
Proceeds from sale and redemption of available-for-sale financial assets		1,059,996	864,187
Decrease in loans and receivables		284,853	165,309
Non-cash items:			
Depreciation of property, plant and equipment	4	10,321	11,498
Amortisation of intangible assets	5	2,500	2,901
(Decrease)/increase in provision for agents' retirement benefits	18	(1,266)	100
Utilisation of agents' retirement benefits	18	(341)	(177)
Decrease in allowance for impairment on insurance receivables	26	(287)	(13,219)
Bad debts written off	26	-	10,646
Tax expense	28	7,907	50,829
Changes in working capital:			
Decrease in reinsurance assets		8,499	31,612
(Increase)/decrease in insurance receivables		(2,269)	9,342
(Increase)/decrease in other receivables		(12,783)	9,934
Decrease in insurance contract liabilities		(152,290)	(105,475)
(Decrease)/increase in other liabilities		(70,294)	38,139
Increase in insurance payables		90,562	78,804
Cash from/(utilised) in operating activities		<u>89,287</u>	<u>(89,560)</u>

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of benefits and claims incurred for insurance contracts, which are classified under operating activities.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

32. CAPITAL AND OTHER COMMITMENTS

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

	31.12.2011	31.12.2010
	RM'000	RM'000
Authorised and contracted for:		
- investment properties	13,134	13,531

33. SIGNIFICANT RELATED PARTY DISCLOSURES

On 18 August 2011, the holding company of the Company, MAA Group Berhad ("MAAG") (formerly known as MAA Holdings Berhad), signed a Sales and Purchase Agreement with Zurich Insurance Company Ltd. ("Zurich") to dispose of its 100% equity interest in the Company for a total cash consideration of RM344 million to Zurich pursuant to Section 67 of the Insurance Act 1996. Included in the sale to Zurich were Zurich Property Services Malaysia Sdn Bhd (formerly known as Malaysian Alliance Property Services Sdn Bhd), Zurich Technology Services Malaysia Sdn Bhd (formerly known as Maagnet Systems Sdn Bhd), Zurich Technology Malaysia Sdn Bhd (formerly known as Maagnet-SSMS Sdn Bhd) and Zurich Roadside Assistance Malaysia Sdn Bhd (formerly known as Multioto Services Sdn Bhd). The sale was completed on 30 September 2011. Consequently, MAAG ceased to be the Company's ultimate holding company.

From 1 October 2011, the Directors regard Zurich Insurance Company Ltd as the immediate holding company, and the ultimate holding company being Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd). Both companies are incorporated in Switzerland.

(a) Significant related party transactions

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

	31.12.2011	31.12.2010
	RM'000	RM'000
Transactions with MAA International Assurance Ltd:		
Reinsurance premiums paid	7,032	43,066
Reinsurance claims recovered	(44,265)	(33,262)
Reinsurance commissions received	(2,387)	(12,991)
Transactions with MAA Takaful Berhad:		
Co-insurance premiums received	(700)	(907)
Co-insurance commissions paid	122	158
Rental income received/receivable from related parties:		
MAA Group Berhad		
(formerly known as MAA Holdings Berhad)	(254)	(318)
MAAKL Mutual Bhd	(633)	(840)
Zurich Technology Services Sdn Bhd		
(formerly known as Maagnet Systems Sdn Bhd)	(454)	(420)
MAA International Assurance Ltd	-	(150)
MAA Takaful Berhad	(675)	(772)
MAA Corporate Advisory Sdn Bhd	(111)	(148)
Wira Security Services Sdn Bhd	(45)	(158)
MAA Corporation Sdn Bhd	(436)	(560)
Menang Bernas Sdn Bhd	(80)	(107)
Meridian Asset Management Sdn Bhd	(129)	(172)
Melewar Group Berhad	(45)	(80)
Trace Management Services Sdn Bhd	(105)	(135)
Melewar Integrated Engineering Sdn Bhd	(98)	(410)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) Significant related party transactions (continued)

	31.12.2011	31.12.2010
	RM'000	RM'000
Rental income received/receivable from related parties (continued):		
Mithril Berhad	-	(59)
Melewar Industrial Group Berhad	(207)	(299)
Melewar Equities Sdn Bhd	(75)	(108)
MAA Bancwell Trustee Berhad	(39)	(51)
Other transactions with related parties:		
Property management and services paid to:		
- Zurich Property Services Malaysia Sdn Bhd (formerly known as Malaysian Alliance Property Services Sdn Bhd)	2,944	3,047
Software development, system support and maintenance fees paid to:		
- Zurich Technology Services Malaysia Sdn Bhd (formerly known as Maagnet Systems Sdn Bhd)	7,662	6,630
Security service charges paid to:		
- MAA Group Berhad (formerly known as MAA Holdings Berhad)	419	838
- Wira Security Services Sdn Bhd	3,237	3,898
Payment of remuneration to MAA Group Berhad (formerly known as MAA Holdings Berhad) for the provision of CEO to the Company	470	731
Parking charges paid to:		
- Chelsea Parking Services Sdn Bhd	257	300
Company secretarial and related fees paid to:		
- Trace Management Services Sdn Bhd	197	197
Purchase of air tickets and travel packages from:		
- Mitra Malaysia Sdn Bhd	789	2,747
Car park management fees paid to:		
- Chelsea Parking Services Sdn Bhd	162	214
Breakdown services assistance charges paid to:		
- Zurich Roadside Assistance Malaysia Sdn Bhd (formerly known as Multioto Services Sdn Bhd)	2,889	5,347
Purchase of food and beverage vouchers paid to:		
- Menang Bernas Sdn Bhd	254	451
Advisory fee in respect of proposed disposal of General Insurance Business paid to:		
- MAA Corporate Advisory Sdn Bhd	1,020	240
Additional retirement benefit fund managed by:		
- MAA Bancwell Trustee Berhad	-	437
Purchase of computer equipments from:		
- Zurich Technology Services Malaysia Sdn Bhd (formerly known as Maagnet Systems Sdn Bhd)	758	1,301
Outsourcing fees received from:		
- MAA Takaful Berhad	(3,381)	(6,298)
Sale of shares in Mycron Steel Bhd	1,461	(502)
Sale of shares in M3nergy Bhd	5,811	(8,652)
Sale of investment property to MAA-Medicare Sdn Bhd	-	(10,673)
Gain on commutation from termination of quota share reinsurance agreement with MAA International Assurance Ltd.	(37,708)	-

The transactions held with the Company's former related parties during the current financial year relate to that incurred up to 30 September 2011.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party balances

Included in the statement of financial position of the Company are:

	31.12.2011 RM'000	31.12.2010 RM'000
(i) Related party balances		
MAA International Assurance Ltd:		
- Reinsurance balances receivable	-	1,197
- Reinsurance balances payable	-	(493)
MAA Takaful Berhad		
- Co-insurance balances payables	-	(41)
- Outsourcing fees receivable	-	1,452
MAAG (formerly known as MAA Holdings Berhad)		
- Payment of remuneration for the provision of CEO to the Company	-	(2,467)
Multioto Services Sdn Bhd		
- Breakdown services assistance charge payable	(1,449)	(2,790)
(ii) Investments in related parties		
At fair value:		
Financial assets at fair value through profit or loss:		
Equity securities quoted in Malaysia:		
- Mycron Steel Berhad	-	1,218
- Melewar Industrial Group Berhad	-	4,695
Unquoted investment-linked units:		
- MAA International Assurance Ltd	-	10,957
	-	16,870

Notes:

- i. From 1 October 2011, Zurich Property Services Malaysia Sdn Bhd (formerly known as Malaysian Alliance Property Services Sdn Bhd), Zurich Technology Services Malaysia Sdn Bhd (formerly known as Maagnet Systems Sdn Bhd) and Zurich Roadside Assistance Malaysia Sdn Bhd (formerly known as Multioto Services Sdn Bhd) are subsidiary companies of Zurich Insurance Company Ltd subsequent to the completion of the sale on 30 September 2011 as mentioned above.
- ii. MAA Corporation Sdn Bhd and MAA Takaful Berhad are subsidiary companies of MAAG.
- iii. MAA-Medicare Sdn Bhd, MAA International Assurance Ltd, MAAKL Mutual Berhad, MAA Corporate Advisory Sdn Bhd, Wira Security Services Sdn Bhd, Meridian Asset Management Sdn Bhd, Chelsea Parking Services Sdn Bhd, MAA Universal Sdn Bhd and Menang Bernas Sdn Bhd are subsidiary companies of MAA Corporation Sdn Bhd.
- iv. MAA Bancwell Trustee Berhad is an associated company of MAAG.
- v. The other related parties listed above are related through companies controlled by certain Directors of MAAG or controlled by persons connected to certain Directors of MAAG.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

33. SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

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

	31.12.2011	31.12.2010
	RM'000	RM'000
Salaries and other short-term employee benefits	6,751	4,498
Defined contribution retirement benefits	761	660
	<u>7,512</u>	<u>5,158</u>

The financial year end balances with key management personnel were as follows:

	31.12.2011	31.12.20
	RM'000	RM'000
Amount receivable from mortgage loans	<u>169</u>	<u>250</u>

The amount receivable from mortgage loans is secured against properties pledged with fixed terms and bearing interest at the rates ranging from 5% to 8.5% per annum (2010: 5% to 8.5% per annum).

There was no remuneration or benefits-in-kind attributable to the Chief Executive Officer ("CEO") of the Company during the financial year ended 31 December 2011 (2010: Nil). The total remuneration payable to MAAG for the provision of CEO to the Company up to 30 September 2011 has been included in the above staff costs (30 September 2011 – RM470,000; 31 December 2010 – RM731,000).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

34. RISK MANAGEMENT FRAMEWORK

Risk Governance Structure

The Company's risk governance structure and risk reporting requirement is incorporated in the Company's Risk Management Framework. The Framework explains the underlying approach and defines an on-going and consistent process for identifying, analyzing, evaluating, treating, monitoring and reporting significant risks faced by the business units, divisions, the stakeholders and ultimately, the Company. It also outlines the key aspects of the risks management process and identifies the main reporting procedures.

The adoption of the framework is the responsibility of the Board with some of the responsibilities delegate to the Risk Management Committee. The Company has established senior management committees which act as platform for two-way communication between the Management and the Board. The Committees are the Executive Committee, Management Committee, IT Steering Committee, HR Committee, Occupational Safety Health Committee, Investment Committee (dissolved on October 2011) Risk Based Committee (dissolved on February 2012) and Asset Liability Management and Investment Committee (formed on October 2011). All these committees are chaired by the Chief Executive Officer.

To address the investment and Risk Based Capital issues effectively, the management had decided to dissolve the Investment Committee and the Risk Based Committee and form a new committee. The Investment Committee was dissolved in October 2011 and all matters related to investment, assets and liability were subsequently tabled at the Asset Liability Management and Investment Committee. On February 2012, the Risk Based Capital Committee was dissolved and a new Life and General Product Steering Committee was formed. Matters related to product development that were previously tabled at the Risk Based Capital Committee will subsequently table at the Product Steering Committee.

They are responsible to oversee the development and assess the effectiveness of risk management policies, review risk exposure and portfolio composition and ensure that infrastructure, resources and systems are put in place for effective risk management activities.

Regulatory Framework

Insurers are required to comply with the Insurance Act and Regulations, as applicable, including guidelines on investment limits. The responsibility for the formulation, establishment and approval of the investment guidelines rests with the respective Board. The Board exercises oversight on investments to safeguard the interests of policyholders and shareholders.

Capital Management

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

The minimum Capital Adequacy Ratio ("CAR") under the Risk-based Capital Framework regulated by Bank Negara Malaysia is 130% for each insurance entity. The Company complied with the minimum CAR as at 31 December 2011.

The regulated capital of the Company as at 31 December 2011 comprised Available Capital of RM2,075 million (2010: RM 408 million).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

34. RISK MANAGEMENT FRAMEWORK

Capital Management (continued)

The capital structure of the Company as at 31 December 2011, as prescribed under the RBC Framework, is shown below:

	2011 RM'000	2010 RM'000
Tier 1 Capital		
Paid-up share capital	579,000	150,000
Reserves, including retained earnings	1,329,897	456,672
	<u>1,908,897</u>	<u>606,672</u>
Tier 2 Capital		
Revaluation reserves	1,250	423
Available-for-sale reserves	192,409	52,865
	<u>193,659</u>	<u>53,288</u>
Less:		
Deferred tax assets	(27,227)	(4,585)
Assignment of assets to support par and annuity par funds	-	(247,776)
	<u>(27,227)</u>	<u>(252,361)</u>
Total Capital Available	<u><u>2,075,329</u></u>	<u><u>407,599</u></u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK

The risk underlying any insurance contract is the likelihood of the insured event occurring and the uncertainty in the amount of the resulting claims. This risk is random and therefore unpredictable.

For a portfolio of insurance contracts, the principal risk that the Company faces is that claims and benefit payments exceed the amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. The actual number and amount of claims and benefits will vary from year to year from the level established using statistical estimation techniques.

Life Insurance Contracts

Life insurance contracts offered by the Company include whole life, term assurance, endowments, annuity contracts, investment link contracts and medical and health riders. The Company currently does not offer any investment contracts with DPF.

The main risks that the Company is exposed to are the following:-

- Mortality risk – risk of loss arising due to policyholders' death experience being worse than expected
- Morbidity risk – risk of loss arising due to policyholders' health experience being worse than expected
- Longevity risk – risk of loss arising due to annuitants living longer than expected
- Investment return/Interest rate risk – risk of loss arising from actual returns being lower than expected
- Expense risk – risk of loss arising from expense experience being higher than expected
- Lapse risk – risk of loss arising due to policyholder surrender experience deviate from that expected

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry.

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is broadly achieved through diversification across industry sectors and geography, use of medical screening to ensure that pricing reflects policyholders' health condition and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims procedures.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

The table below shows the concentration of the liabilities for future policyholders' benefits by type of contract.

	Gross			Reinsurance			
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011							
Life Contracts							
Whole life	1,838,988	50,019	1,889,007	(2,979)	(943)	(3,922)	1,885,085
Endowment	382,965	559,623	942,588	(756)	(1,754)	(2,510)	940,078
Term-Mortgage	364	104,763	105,127	-	(9,475)	(9,475)	95,652
Term-Others	369,883	76,350	446,233	(678)	(6,483)	(7,161)	439,072
Term-Medical & Health	-	26,813	26,813	-	-	-	26,813
Term- Other plans	-	302	302	-	(20)	(20)	282
Term-Other provision	-	25,000	25,000	-	-	-	25,000
Annuity Contracts							
Immediate annuities	527	-	527	-	-	-	527
Deferred annuities	840,139	-	840,139	-	-	-	840,139
Total life insurance	3,432,866	842,870	4,275,736	(4,413)	(18,675)	(23,088)	4,252,648
31 December 2010							
Life Contracts							
Whole life	1,676,334	66,393	1,742,727	(1,947)	(723)	(2,670)	1,740,057
Endowment	469,230	603,585	1,072,815	(495)	(1,250)	(1,745)	1,071,070
Term-Mortgage	522	133,763	134,285	-	(8,219)	(8,219)	126,066
Term-Others	439,664	51,754	491,418	(580)	(4,971)	(5,551)	485,867
Term-Medical & Health	-	22,460	22,460	-	-	-	22,460
Term - Other plans	-	494	494	-	(11)	(11)	483
Annuity Contracts							
Immediate annuities	525	-	525	-	-	-	525
Deferred annuities	1,029,553	-	1,029,553	-	-	-	1,029,553
Total life insurance	3,615,828	878,449	4,494,277	(3,022)	(15,174)	(18,196)	4,476,081

As all of the business is derived from Malaysia, and the entire life liabilities are in Malaysia.

Key Assumptions

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information.

Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

Key Assumptions (continued)

The table below shows the key underlying assumptions used for valuation of life insurance contract liabilities:-

Assumptions	Description
Valuation Method	<p>Gross Premium Valuation</p> <p>For Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none"> (i) Fund based yield for total benefits (i.e. guaranteed and non-guaranteed cash flows), and (ii) For guaranteed cash flows, Malaysia Government Bond zero coupon spot yields (as outlined below). <p>For Ordinary Life Non Participating business, only (ii) is applicable.</p>
Interest Rate	<p>Malaysia Government bond yields determined based on the following:</p> <ul style="list-style-type: none"> (i) For cash flows with duration less than 15 years, Malaysia Government Bond zero coupon spot yields of matching duration. (ii) For cash flows with duration 15 years or more, Malaysia Government Bond zero coupon spot yields of 15 years to maturity. <p><i>Data source: Malaysia Government Bond zero coupon spot yield from Bondweb, a bond pricing agency.</i></p>
Mortality, Disability, Dread disease, Expense, Lapse and Surrenders	<p>Participating Fund, the method that produces the higher reserves of:</p> <ul style="list-style-type: none"> (i) Best estimates for total benefits (i.e. guaranteed and non-guaranteed cash flows), and (ii) Best estimates plus provision for risk of adverse deviation (PRADs) for guaranteed cash flows only. <p>Non-Participating and unit reserves of Investment Linked Fund: Best estimates plus provision for risk of adverse deviation (PRADs).</p> <p>Data source: Internal experience studies.</p>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

Life Insurance Contracts (continued)

Sensitivities

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

		<u>Impact on life insurance liabilities</u>	
	<u>Change in assumptions</u>	<u>Gross</u>	<u>Net</u>
	%	RM'000	RM'000
31 December 2011			
Mortality/morbidity	+10	66,746	66,351
Longevity	-10	(68,399)	(67,995)
Expenses	+10	31,192	31,008
Lapse and surrender rates	+10	(69,802)	(69,389)
Investment return	+1	(194,826)	(193,674)
Investment return	-1	299,713	297,942
Discount rate	+1	(104,090)	(103,475)
Discount rate	-1	193,707	192,562
31 December 2010			
Mortality/morbidity	+10	58,408	58,150
Longevity	-10	(59,211)	(58,949)
Expenses	+10	31,572	31,432
Lapse and surrender rates	+10	(76,555)	(76,217)
Investment return	+1	(278,704)	(277,472)
Investment return	-1	340,687	339,181
Discount rate	+1	(83,915)	(83,544)
Discount rate	-1	121,676	121,138

The method used and significant assumptions made for deriving sensitivity information did not change from the previous period.

General Insurance Contracts

The risk inherent in general insurance contracts are reflected in the insurance contract liabilities which include premium and claims liabilities, as set out under Note 15(b) to the financial statements. Premium liabilities comprise reserves for unexpired risks, whilst claims liabilities comprise loss reserves which include provisions for both outstanding claims notified and outstanding claims incurred but not reported.

The Company sets to manage its insurance risks for general insurance policies by having a clearly defined framework as follows:

- Writing a balanced mix and spread of business, geographically and between classes of business;
- Underwriting strategies focused on profitable lines of business are clearly articulated to stakeholders;
- Underwriting authority limits for capacity are in place according to individuals' capacity in the underwriting process;
- Mitigating insurance risks through purchase of both proportional and non-proportional reinsurance treaties; and
- Regular monitoring of claims experience and comparing actual experience against that implied in pricing.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

The concentration of the general insurance claims liabilities in relation to the type of insurance contracts accepted is as summarised below:

	31.12.2011			31.12.2010		
	Gross	Re- insurance	Net	Gross	Re- insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fire	26,076	(15,609)	10,467	45,080	(33,584)	11,496
Motor Vehicle	305,932	(17,919)	288,013	264,231	(37,987)	226,244
Motor Cycle	93,071	(5,980)	87,091	90,401	(13,592)	76,809
Marine Cargo, Aviation Cargo & Transit	35,864	(23,925)	11,939	23,691	(17,034)	6,657
Miscellaneous	111,980	(57,695)	54,285	92,470	(52,320)	40,150
At 31 December	572,923	(121,128)	451,795	515,873	(154,517)	361,356

Key Assumptions

Outstanding claims provisions are usually established by skilled claims personnel based upon their experience and knowledge, and known facts of individual claims at hand. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson (BF) methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based upon past development patterns including the implicit underlying trends. The BF methods which tend to be more stable and the more preferred methods also require the input of initial expected loss ratios ("IELRs") which usually are based upon past claims experience.

Thus, general insurance contract liabilities are normally determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislation changes, judicial decisions, economic conditions and claims handling procedure.

However, additional qualitative judgments are also used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as judicial decisions and government legislation affect the estimates. The estimates of the general insurance contract liabilities are therefore sensitive to various factors and uncertainties and the actual future premium and claims liabilities may not develop exactly as projected and could vary significantly from initial estimates. To increase the probability that the estimates would ultimately be adequate, provisions for adverse deviations are also included in the estimates.

The Company further reduced its risk exposure through strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims. In addition, the Company enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

Sensitivities

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

Motor Third Party Bodily Injury ("TPBI") claims is one of the main components contributing to the Company's general insurance claims liabilities. TPBI has a longer risk exposure compared to other classes which will result in volatile impact to the change in key assumptions.

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

	Impact on change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
31 December 2011					
Average claim cost	+10%	8,444	8,107	(430)	(318)
Average number of claims	10%	8,133	7,807	(131)	(97)
Average claim settlement period	24 months to 18 months	7,807	7,495	182	134
31 December 2010					
Average claim cost	+10%	9,707	9,319	(494)	(372)
Average number of claims	+10%	11,373	10,918	(2,094)	(1,572)
Average claim settlement period	24 months to 18 months	8,118	7,794	1,031	776

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

Claims Development Table

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

Claims Development Table (continued)

Gross General Insurance Contract Liabilities for 2011:

	Note	Before 2005	2005	2006	2007	2008	2009	2010	2011	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year										
At end of accident year		244,493	236,775	257,019	273,029	234,016	358,517	346,181	386,461	
One year later		244,253	237,631	261,888	267,676	256,206	296,855	353,400	-	
Two years later		240,751	243,177	263,908	284,567	240,947	294,546	-	-	
Three years later		245,556	246,593	275,929	275,609	229,235	-	-	-	
Four years later		248,780	249,302	262,577	265,200	-	-	-	-	
Five years later		251,580	242,524	253,298	-	-	-	-	-	
Six years later		249,342	235,663	-	-	-	-	-	-	
Seven years later		264,689	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		264,689	235,663	253,298	265,200	229,235	294,546	353,400	386,461	
At end of accident year		(99,405)	(89,022)	(94,155)	(111,328)	(72,173)	(103,716)	(96,008)	(100,689)	
One year later		(172,982)	(168,590)	(184,335)	(191,449)	(165,041)	(191,071)	(205,820)	-	
Two years later		(194,941)	(188,137)	(209,285)	(218,928)	(190,511)	(231,237)	-	-	
Three years later		(211,412)	(199,765)	(226,481)	(235,000)	(204,105)	-	-	-	
Four years later		(220,291)	(220,015)	(240,628)	(246,690)	-	-	-	-	
Five years later		(229,046)	(229,512)	(245,386)	-	-	-	-	-	
Six years later		(236,485)	(231,925)	-	-	-	-	-	-	
Seven years later		(243,717)	-	-	-	-	-	-	-	
Cumulative payments to-date		(243,717)	(231,925)	(245,386)	(246,690)	(204,105)	(231,237)	(205,820)	(100,689)	
Gross General insurance contract liabilities per statement of financial position	15(b)	20,972	3,738	7,912	18,510	25,130	63,309	147,580	285,772	572,923

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

Claims Development Table (continued)

Net General Insurance Contract Liabilities for 2011:

	Note	Before 2005	2005	2006	2007	2008	2009	2010	2011	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year										
At end of accident year		190,111	176,998	203,769	191,473	174,407	269,392	258,314	314,369	
One year later		182,123	173,523	196,601	183,003	188,067	213,494	264,749	-	
Two years later		182,576	177,273	196,984	198,617	169,068	210,580	-	-	
Three years later		186,360	180,423	205,200	187,615	159,515	-	-	-	
Four years later		188,018	185,333	190,182	177,761	-	-	-	-	
Five years later		191,410	176,288	183,461	-	-	-	-	-	
Six years later		188,181	172,046	-	-	-	-	-	-	
Seven years later		193,802	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		193,802	172,046	183,461	177,761	159,515	210,580	264,749	314,369	
At end of accident year		(75,349)	(71,213)	(75,635)	(68,300)	(57,092)	(80,659)	(75,253)	(77,608)	
One year later		(131,133)	(127,463)	(137,375)	(126,332)	(115,754)	(138,503)	(143,783)	-	
Two years later		(148,187)	(141,975)	(154,955)	(146,512)	(134,074)	(162,221)	-	-	
Three years later		(161,752)	(151,621)	(166,712)	(159,394)	(141,929)	-	-	-	
Four years later		(168,812)	(160,870)	(174,024)	(165,688)	-	-	-	-	
Five years later		(176,154)	(168,133)	(177,192)	-	-	-	-	-	
Six years later		(182,413)	(169,701)	-	-	-	-	-	-	
Seven years later		(186,366)	-	-	-	-	-	-	-	
Cumulative payments to-date		(186,366)	(169,701)	(177,192)	(165,688)	(141,929)	(162,221)	(143,783)	(77,608)	
Net General insurance contract liabilities per statement of financial position	15(b)	7,436	2,345	6,269	12,073	17,586	48,359	120,966	236,761	451,795

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

Claims Development Table (continued)

Gross General Insurance Contract Liabilities for 2010:

	Note	Before 2004	2004	2005	2006	2007	2008	2009	2010	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year										
At end of accident year		266,123	244,493	236,775	257,019	273,029	234,016	358,517	346,182	
One year later		274,404	244,253	237,631	261,888	267,676	256,206	296,855	-	
Two years later		277,792	240,751	243,177	263,908	284,567	240,947	-	-	
Three years later		283,354	245,556	246,593	275,929	275,610	-	-	-	
Four years later		289,293	248,780	249,302	262,578	-	-	-	-	
Five years later		292,275	251,580	242,524	-	-	-	-	-	
Six years later		289,486	249,342	-	-	-	-	-	-	
Seven years later		312,051	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		312,051	249,342	242,524	262,578	275,610	240,947	296,855	346,182	
At end of accident year		(102,092)	(99,405)	(89,022)	(94,155)	(111,328)	(72,173)	(103,716)	(96,008)	
One year later		(194,335)	(172,982)	(168,590)	(184,335)	(191,449)	(165,041)	(191,071)	-	
Two years later		(225,481)	(194,941)	(188,137)	(209,285)	(218,928)	(190,511)	-	-	
Three years later		(246,709)	(211,412)	(199,765)	(226,481)	(235,000)	-	-	-	
Four years later		(262,584)	(220,291)	(220,015)	(240,628)	-	-	-	-	
Five years later		(271,948)	(229,046)	(229,512)	-	-	-	-	-	
Six years later		(278,483)	(236,485)	-	-	-	-	-	-	
Seven years later		(291,001)	-	-	-	-	-	-	-	
Cumulative payments to-date		(291,001)	(236,485)	(229,512)	(240,628)	(235,000)	(190,511)	(191,071)	(96,008)	
Gross General insurance contract liabilities per statement of financial position	15(b)	21,050	12,857	13,012	21,950	40,610	50,436	105,784	250,174	515,873

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

35. INSURANCE RISK (CONTINUED)

General Insurance Contracts (continued)

Claims Development Table (continued)

Net General Insurance Contract Liabilities for 2010:

	Note	Before 2004	2004	2005	2006	2007	2008	2009	2010	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year										
At end of accident year		215,004	190,111	176,998	203,769	191,473	174,407	269,392	258,314	
One year later		214,795	182,123	173,523	196,601	183,003	188,067	213,495	-	
Two years later		217,745	182,576	177,273	196,984	198,617	169,068	-	-	
Three years later		222,018	186,360	180,423	205,200	187,615	-	-	-	
Four years later		226,128	188,018	185,333	190,182	-	-	-	-	
Five years later		228,352	191,410	176,289	-	-	-	-	-	
Six years later		225,754	188,181	-	-	-	-	-	-	
Seven years later		236,313	-	-	-	-	-	-	-	
Current estimate of cumulative claims incurred		236,313	188,181	176,289	190,182	187,615	169,068	213,495	258,314	
At end of accident year		(78,453)	(75,349)	(71,213)	(75,635)	(68,300)	(57,092)	(80,659)	(75,253)	
One year later		(151,335)	(131,133)	(127,463)	(137,375)	(126,332)	(115,754)	(138,503)	-	
Two years later		(176,126)	(148,187)	(141,975)	(154,955)	(146,512)	(134,074)	-	-	
Three years later		(192,422)	(161,752)	(151,621)	(166,712)	(159,394)	-	-	-	
Four years later		(204,927)	(168,812)	(160,870)	(174,024)	-	-	-	-	
Five years later		(212,153)	(176,154)	(168,133)	-	-	-	-	-	
Six years later		(217,033)	(182,413)	-	-	-	-	-	-	
Seven years later		(226,307)	-	-	-	-	-	-	-	
Cumulative payments to-date		(226,307)	(182,413)	(168,133)	(174,024)	(159,394)	(134,074)	(138,503)	(75,253)	
Net General insurance contract liabilities per statement of financial position	15(b)	10,006	5,768	8,156	16,158	28,221	34,994	74,992	183,061	361,356

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK

The Company is exposed to a range of financial risks through its assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk, market risk which comprise of currency risk, interest rate/profit yield risk and price risk.

The Company manages these positions within an Asset Liability Management (“ALM”) framework that has been developed to achieve long term investment returns in excess its obligations under insurance contracts. The key principle of the framework is to match assets to the liabilities by reference to the type of benefits payable to contract holders. For each distinct class of liabilities, a separate portfolio of assets is maintained and monitored.

The Company’s ALM is integrated with the management of the financial risks associated with the Company’s other classes of financial assets and liabilities not directly associated with insurance liabilities. The note below explains how financial risks are managed using the categories utilised in the Company’s ALM framework. In particular, the ALM framework requires the management of interest rate risk, equity price risk, credit risk and liquidity risk at both business line level and company-wide basis. The following notes are in relation to the Company’s management disclosure with respect to credit risk, liquidity risk, interest rate risk, and price risk.

Credit Risk

The Company has exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company is mainly exposure to credit risk through (i) investment in cash and private debt securities, (ii) corporate/individuals and mortgage lending activities and (iii) exposure to counterparty’s reinsurance contracts. For investments in private debt securities, a downgrade of credit rating or widening of credit spread may also incur financial loss.

Minimum credit quality applies to investments in private debt securities/bonds with a minimum rating of A-/A3(at the date of investment) provided by Malaysian Credit Rating Corporation (“MARC”) and Rating Agency of Malaysia (“RAM”), respectively. The Company however intends to maintain a minimum rating of A/A2 in the overall bond portfolio under current returns objectives. The Company does not solely depend on the rating report provided but as in all credit assessments/reviews are based on publicly available issuer information together with in-house analysis based on information provided by the borrower/ issuer, peer group comparisons, industry comparisons and other quantitative tools.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company’s liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

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

Debtor recoverability and risk concentration monitoring are part of credit risk management which is reviewed regularly. The management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation. Allowance of impairment/specific provision is made on those securities/loans (or part of remaining amount) where the level of security has been impaired. Refer to Note 8a – Loans and Receivables to the financial statements for more details on assessment and disclosure of credit risk on loan borrowers.

Credit Exposure

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure (continued)

	Note	Insurance and Shareholders' Funds RM'000	Unit-Linked RM'000	Total RM'000
31 December 2011				
Available-for-sale financial assets:	7(a)			
Corporate debt securities		3,349,704	-	3,349,704
Equity securities		3,364	-	3,364
Financial assets at fair value through profit or loss:	7(b)			
Corporate debt securities		24,317	168,542	192,859
Loans and receivables:	8			
Loans		592,948	-	592,948
Fixed and call deposits		18,197	6,284	24,481
Reinsurance assets	9	213,845	-	213,845
Insurance receivables	10	79,707	-	79,707
Cash and bank balances		1,296,940	107,433	1,404,373
		<u>5,579,022</u>	<u>282,259</u>	<u>5,861,281</u>

	Note	Insurance and Shareholders' Funds RM'000	Unit-Linked RM'000	Total RM'000
31 December 2010				
Available-for-sale financial assets:	7(a)			
Corporate debt securities		3,551,424	-	3,551,424
Equity securities		3,364	-	3,364
Financial assets at fair value through profit or loss:	7(b)			
Corporate debt securities		21,802	145,363	167,165
Loans and receivables:	8			
Loans		650,254	-	650,254
Fixed and call deposits		199,424	50,200	249,624
Reinsurance assets	9	222,343	-	222,343
Insurance receivables	10	77,151	-	77,151
Cash and bank balances		480,188	139,087	619,275
		<u>5,205,950</u>	<u>334,650</u>	<u>5,540,600</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating

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

	Neither past-due nor impaired							
	Investment grade	Non-Investment grade	Not Rated	Unit-linked	Past due but not impaired	Impaired	Total	
Government Guaranteed	(AAA to BBB)	(BB to C)						
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011								
Available-for-sale financial assets:								
Corporate debt securities	659,904	2,649,491	631	-	-	-	39,678	3,349,704
Equity securities	-	-	-	3,364	-	-	-	3,364
Financial assets at fair value through profit or loss:								
Corporate debt securities	-	24,317	-	-	168,542	-	-	192,859
Loans and receivables:								
Loans	-	-	-	341,567	-	86,616	164,765	592,948
Fixed and call deposits	-	18,197	-	-	6,284	-	-	24,481
Reinsurance assets	-	102,169	-	111,676	-	-	-	213,845
Insurance receivables	-	2,610	-	77,097	-	-	-	79,707
Cash and bank balances	-	1,296,940	-	-	107,433	-	-	1,404,373
	<u>659,904</u>	<u>4,093,724</u>	<u>631</u>	<u>533,704</u>	<u>282,259</u>	<u>86,616</u>	<u>204,443</u>	<u>5,861,281</u>
31 December 2010								
Available-for-sale financial assets:								
Corporate debt securities	676,075	2,841,345	694	-	-	-	33,310	3,551,424
Equity securities	-	-	-	3,364	-	-	-	3,364
Financial assets at fair value through profit or loss:								
Corporate debt securities	-	21,802	-	-	145,363	-	-	167,165
Loans and receivables:								
Loans	-	-	-	370,877	-	4,529	274,848	650,254
Fixed and call deposits	-	199,424	-	-	50,200	-	-	249,624
Reinsurance assets	-	99,741	-	122,602	-	-	-	222,343
Insurance receivables	-	1,365	-	33,230	-	42,556	-	77,151
Cash and bank balances	-	480,188	-	-	139,087	-	-	619,275
	<u>676,075</u>	<u>3,643,865</u>	<u>694</u>	<u>530,073</u>	<u>334,650</u>	<u>47,085</u>	<u>308,158</u>	<u>5,540,600</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

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

	Government Guaranteed	AAA to AA	A1 to A3	BBB1 to BBB3	BB & below	Not Rated	Unit -linked	Impaired	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
31 December 2011									
Available-for-sale financial assets:									
Corporate debt securities	659,904	2,249,347	400,144	-	631	-	-	39,678	3,349,704
Equity securities	-	-	-	-	-	3,364	-	-	3,364
Financial assets at fair value through profit or loss:									
Corporate debt securities	-	-	24,317	-	-	168,542	-	-	192,859
Loans and receivables:									
Loans	-	-	-	-	-	428,183	-	164,765	592,948
Fixed and call deposits	-	18,197	-	-	-	-	6,284	-	24,481
Reinsurance assets	-	101,154	-	1,015	-	111,676	-	-	213,845
Insurance receivables	-	2,316	-	294	-	77,097	-	-	79,707
Cash and bank balances	-	1,296,940	-	-	-	-	107,433	-	1,404,373
	<u>659,904</u>	<u>3,667,954</u>	<u>424,461</u>	<u>1,309</u>	<u>631</u>	<u>788,862</u>	<u>113,717</u>	<u>204,443</u>	<u>5,861,281</u>
31 December 2010									
Available-for-sale financial assets:									
Corporate debt securities	676,075	2,293,363	547,982	-	694	-	-	33,310	3,551,424
Equity securities	-	-	-	-	-	3,364	-	-	3,364
Financial assets at fair value through profit or loss:									
Corporate debt securities	-	-	21,802	-	-	-	145,363	-	167,165
Loans and receivables:									
Loans	-	-	-	-	-	375,406	-	274,848	650,254
Fixed and call deposits	-	199,424	-	-	-	-	50,200	-	249,624
Reinsurance assets	-	99,355	-	386	-	122,602	-	-	222,343
Insurance receivables	-	2,369	-	-	-	74,782	-	-	77,151
Cash and bank balances	-	480,188	-	-	-	-	139,087	-	619,275
	<u>676,075</u>	<u>3,074,699</u>	<u>569,784</u>	<u>386</u>	<u>694</u>	<u>576,154</u>	<u>334,650</u>	<u>308,158</u>	<u>5,540,600</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Credit Exposure by Credit Rating (continued)

The credit risk analysis for the unit-linked business was not provided as the Company has no direct exposure to any credit risk in those assets.

The ratings shown for fixed and call deposits are based on the rating assigned to the respective financial institutions issuing the financial instruments.

During the financial year, the Company made additional allowance for two (2) defaulted corporate debt security due to shortfall in fair value of collaterals and write back of allowance for one of its defaulted corporate debt security. We have also during the financial year adopted a prudent approach by making full and partial allowance for two (2) corporate debt security (rated A) due to higher risk of default. No credit default was encountered by the Company during the year.

In total, there are seven remaining occurrence of rating default events to date since financial year end 2005. The Company received court judgement sum at approximately RM10.7 million for one of its defaulted corporate debt securities of which the Company has made full impairment charge in financial year ended 2010. However, as there is an open appeal by the parties concerned, this amount has not been recognised as a reversal of prior impairment charges in the financial statements. As for the other six corporate debts securities, the bondholders are pursuing recovery actions through negotiations and taking legal actions against the issuers.

During the year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

Age Analysis of Financial Assets Past-Due But Not Impaired

	Up to 3 Months RM'000	3 Months to 6 Months RM'000	7 Months to 12 Months RM'000	> 12 Months RM'000	Total RM'000
31 December 2011					
Loans and receivables	-	853	1,305	84,459	86,617
Insurance receivables	35,806	13,104	4,927	-	53,837
	<u>35,806</u>	<u>13,957</u>	<u>6,232</u>	<u>84,459</u>	<u>140,454</u>
31 December 2010					
Loans and receivables	-	736	41	3,752	4,529
Insurance receivables	24,879	13,995	3,682	-	42,556
	<u>24,879</u>	<u>14,731</u>	<u>3,723</u>	<u>3,752</u>	<u>47,085</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Credit Risk (continued)

Impaired Financial Assets

At 31 December 2011, based on a individual assessment of receivables, there are impaired insurance receivables of RM8,423,000 (2010: RM8,710,000). For assets to be classified as “past-due and impaired”, contractual payments must be in arrears for more than three (3) months for insurance receivables and more than six (6) months for loans and receivables. In addition, full impairment were made on outstanding debts exceeding twelve months, outstanding debts with terminated status, closed accounts, commuted, winding-up under legal action, accounts written or those served letter of demand. This applies similarly to reinsurance assets, particularly reinsurance recoverable on outstanding claims. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate allowance for impairment loss accounts.

A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	<u>Insurance Receivables</u>	
	<u>31.12.2011</u>	<u>31.12.2010</u>
	RM'000	RM'000
At 1 January	8,710	21,929
Write back of impairment of insurance receivables	(287)	(13,219)
At 31 December	<u>8,423</u>	<u>8,710</u>

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations when due. This situation arises when the Company is unable to convert its financial assets into cash when needed. Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings through committed credit facilities from bankers. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same of similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders.

Expected liquidity demands are managed through a combined of treasury, investment and asset-liability management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and an adequate cushion in the form of cash and very liquid investments are maintained at all times. The projected cash flow from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain.

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

In addition, for general insurance contracts, the Company's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate drawdown of funds to meet claims payments should claims events exceed a certain amount.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile

The table below summarises the maturity profile of the Company's financial assets and financial liabilities based on outstanding term to maturity still remaining.

The insurance contract liabilities below are gross of reinsurance (no reinsurance credit is taken into account). Unit-linked liabilities are repayable or transferrable on demand and are included in the "up to a year" column. Repayments which are subject to notice are treated as if notice were to be given immediately. Products which have no maturity benefits such as term assurance and yearly renewable plans are excluded as these carry no maturity values. Products with no maturity dates are annuity and whole life plans.

Unearned premiums have been excluded from the analysis as they are not contractual obligations.

	Carrying value RM'000	Up to a year RM'000	1 - 3 years RM'000	3 - 5 years RM'000	5 - 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2011								
Financial Assets:								
- Available-for-sale financial assets	3,733,153	168,609	643,098	623,849	2,110,606	183,626	3,365	3,733,153
- Financial assets at fair value through profit or loss	1,111,444	25,341	37,208	45,876	94,878	-	908,141	1,111,444
Loans and receivables	617,429	597,548	9,366	2,638	7,394	483	-	617,429
Reinsurance assets	213,845	143,759	39,344	21,202	9,540	-	-	213,845
Insurance receivables	79,707	79,707	-	-	-	-	-	79,707
Cash and bank balances	1,404,373	1,404,373	-	-	-	-	-	1,404,373
	<u>7,159,951</u>	<u>2,419,337</u>	<u>729,016</u>	<u>693,565</u>	<u>2,222,418</u>	<u>184,109</u>	<u>911,506</u>	<u>7,159,951</u>
31 December 2011								
Financial Liabilities:								
Insurance contract liabilities:								
Life insurance with DPF	3,183,865	93,959	30,639	53,793	279,995	9,906	2,715,573	3,183,865
Life insurance without DPF	1,366,707	966,748	53,652	27,990	60,060	212,237	46,020	1,366,707
General insurance	572,924	219,426	192,766	108,863	51,869	-	-	572,924
Provision for agents' retirement	1,096	64	563	319	150	-	-	1,096
Insurance payables	934,556	934,556	-	-	-	-	-	934,556
Other liabilities	167,469	146,192	20,652	625	-	-	-	167,469
	<u>6,226,617</u>	<u>2,360,945</u>	<u>298,272</u>	<u>191,590</u>	<u>392,074</u>	<u>222,143</u>	<u>2,761,593</u>	<u>6,226,617</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

	Carrying value	Up to a year	1 - 3 years	3 - 5 years	5 - 15 years	Over 15 years	No maturity date	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2010								
Financial Assets:								
- Available-for-sale financial assets	3,790,913	274,939	499,418	631,545	2,244,484	137,162	3,365	3,790,913
- Financial assets at fair value through profit or loss	1,100,706	11,536	37,605	36,533	93,179	-	921,853	1,100,706
Loans and receivables	899,878	876,787	8,746	1,788	3,174	9,383	-	899,878
Reinsurance assets	222,343	136,275	49,867	24,793	11,408	-	-	222,343
Insurance receivables	77,151	77,151	-	-	-	-	-	77,151
Cash and bank balances	619,275	619,275	-	-	-	-	-	619,275
	<u>6,710,266</u>	<u>1,995,963</u>	<u>595,636</u>	<u>694,659</u>	<u>2,352,245</u>	<u>146,545</u>	<u>925,218</u>	<u>6,710,266</u>
Insurance contract liabilities:								
Life insurance with DPF	3,255,650	44,019	31,851	43,440	368,618	17,920	2,749,802	3,255,650
Life insurance without DPF	1,422,697	1,122,238	59,691	26,422	28,201	123,577	62,568	1,422,697
General insurance	515,873	214,231	171,826	88,366	41,450	-	-	515,873
Provision for agents' retirement	2,703	478	508	666	948	103	-	2,703
Insurance payables	843,991	843,991	-	-	-	-	-	843,991
Other liabilities	232,610	207,818	23,315	1,477	-	-	-	232,610
	<u>6,273,524</u>	<u>2,432,775</u>	<u>287,191</u>	<u>160,371</u>	<u>439,217</u>	<u>141,600</u>	<u>2,812,370</u>	<u>6,273,524</u>

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

	Current*	Non-current	Unit-linked	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2011				
Property, plant and equipment	-	259,537	-	259,537
Intangible assets	-	3,023	-	3,023
Investment properties	-	363,108	-	363,108
Financial assets:				
Available-for-sale	171,974	3,561,179	-	3,733,153
At fair value through profit or loss	497,650	-	613,794	1,111,444
Loans and receivables	597,548	13,597	6,284	617,429
Reinsurance assets	-	213,845	-	213,845
Insurance receivables	79,707	-	-	79,707
Other receivables	59,612	-	1,241	60,853
Tax recoverable	49,847	-	1,506	51,353
Deferred tax assets	22,702	-	-	22,702
Cash and bank balances	1,296,940	-	107,433	1,404,373
	<u>2,775,980</u>	<u>4,414,289</u>	<u>730,258</u>	<u>7,920,527</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Liquidity Risk (continued)

Maturity Profile (continued)

	Current*	Non-current	Unit-linked	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2010				
Property, plant and equipment	-	279,584	-	279,584
Intangible assets	-	4,595	-	4,595
Investment properties	-	512,287	-	512,287
Financial assets:				
Available-for-sale	278,303	3,512,610	-	3,790,913
At fair value through profit or loss	536,435	-	564,271	1,100,706
Loans and receivables	833,405	16,273	50,200	899,878
Reinsurance assets	136,274	86,069	-	222,343
Insurance receivables	77,151	-	-	77,151
Other receivables	39,611	-	4,379	43,990
Tax recoverable	25,134	-	1,802	26,936
Deferred tax assets	1,900	-	-	1,900
Cash and bank balances	480,188	-	139,087	619,275
	<u>2,408,401</u>	<u>4,411,418</u>	<u>759,739</u>	<u>7,579,558</u>

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

Market Risk

Market risk is the risk of loss in the Company investment's valuation due to adverse changes or volatility of prices in economic and financial markets. Market risk comprises three (3) types of risk i.e. currency risk, market interest rates/profit yields and price risk.

The Company manages market risks through setting of investment policy and asset allocation, approving portfolio limit structure and risk management methodologies, approving hedging and alternative risk transfer strategies. Investment limits monitoring is in place at various levels to ensure that all investment activities are aligned with the Company's risk management principles and philosophies. Compliance with established financial risk limits forms an integral part of the risk governance and financial reporting framework.

The Company also issues unit-linked investment policies in a number of its products. In unit-linked business, the policyholders bear the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the funds. The Company's exposure to market risk on this business is limited to the extent of income arising from asset management charges based on the value of the assets in the funds.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

The Company's main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year. The impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

Interest Rate/Profit Yield Risk

Interest rate risk is part of market risk as any adverse movements in interest rates may affect the Company investment's fair valuation and reinvestment issues to the Company. The Asset Liability Management and Investment Committee (ALMIC) actively monitors such developments as well as discuss changes in maturity profiles of the assets and liabilities to minimise overall mismatch as given the long duration of policy liabilities and the uncertainty of cash flows, it is not possible to hold assets that will perfectly match the policy liabilities.

The Company has no significant concentration of interest rate/profit yield risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact of Equity (that reflects adjustments to Profit before Tax and re-valuing fixed rate/yield AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed in an individual basis. It should be noted that movements in these variables are non-linear.

	<u>Impact on Equity*</u>	
	<u>31 Dec 2011</u>	<u>31 Dec 2010</u>
	RM'000	RM'000
<u>Interest Rate</u>		
+ 100 basis points - loss	(14,085)	(14,906)
- 100 basis points - gain	15,181	16,265

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

36. FINANCIAL RISK (CONTINUED)

Market Risk (continued)

Price Risk

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

The equity investment portfolio of the Company is exposed to movements in equity markets. The Company monitors its equity price risk through regular stress testing. In addition, the Company monitors and manages the equity exposure against investment guidelines set and agreed by the Asset Liability Management and Investment Committee (ALMIC). These investment guidelines include monitoring the equity exposure against benchmark set and single security exposure of the portfolio against the limits set. The Company uses historical stock betas, index levels and equity prices and estimates the volatility and correlation of each of these share prices and index levels to calculate the gains and losses that could occur over a period of time, given a certain index level.

The Company may use derivative financial instruments as a means of hedging against the impact of negative market movements on the value of assets in the portfolio so as to reduce and eliminate risks. The Company's policy is to trade in derivatives only to hedge existing financial market risk and not for the purpose of speculation.

In respect of risk associated with the use of derivative financial instruments, price risk is controlled through the settling of exposure limits, which are subjected to detailed monitoring and review.

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

	<u>Impact on Profit before Tax</u>		<u>Impact on Equity*</u>	
	<u>31 Dec 2011</u>	<u>31 Dec 2010</u>	<u>31 Dec 2011</u>	<u>31 Dec 2010</u>
	RM'000	RM'000	RM'000	RM'000
<u>Change in variables:</u>				
<u>FTSE Bursa Malaysia</u>				
- FBM KLCI + 15% - gain	3,724	9,097	2,793	6,823
- FMM KLCI - 15% - loss	(3,724)	(9,097)	(2,793)	(6,823)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

37. OPERATIONS RISK

Operational risk arises from inadequate or failed performance of business functions or internal processes. Exposure to this risk can cause deficiencies or breakdowns in internal controls or processes, technology and external events such as interruption of business operations due to a breakdown of IT systems, landslide or flood.

The Company has developed comprehensive Standard Operating Procedures ("SOP") to enable all relevant departments to implement measures, monitor and control the risk in order to avoid or reduce future losses. The Risk Management Department is assigned to facilitate the relevant departments in identifying and evaluating their operational risks and control weaknesses via structured risk assessment process.

38. COMPLIANCE RISK

Compliance risk is the risk arising from violations of, or non conformance with business principles, internal policies and procedures, related laws, rules and regulations (i.e. BNM, Persatuan Insurans Am Malaysia ("PIAM"), Life Insurance Association of Malaysia ("LIAM") governing the insurance industry, products and activities.

Consequently, the exposure to this risk can damage the Company's reputation, lead to legal or regulatory sanctions and /or financial loss.

The Governance and Quality Department is assigned to look into all compliance aspects in observing the regulatory requirements (i.e. BNM, PIAM, LIAM). It has developed internal policies and procedures (i.e. Anti-Money Laundering Framework, Whistle-blowing Framework, Introduction of New Products Framework, Outsourcing Framework) to align with the law and guidelines issued by the authority.

39. INSURANCE FUNDS

The Company's operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products for different markets. The operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Company's principal operations are organised into Life insurance, General insurance and Shareholders' segments.

The Life insurance business offers a wide range of participating and non-participating whole life, term assurance, endowments, medical and health riders, annuity products as well as investment-linked products.

The General insurance business offers general insurance products which include motor, fire, marine, aviation and transit ("MAT"), health and surgical and miscellaneous products.

The businesses written for both Life insurance and General insurance are all Malaysian businesses.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**Statement of Financial Position by Funds
As at 31 December 2011**

	Life Fund RM'000	General Fund RM'000	Shareholders' Fund RM'000	Total RM'000
Assets				
Property, plant and equipment	195,113	741	63,683	259,537
Intangible assets	2,160	863	-	3,023
Investment properties	319,686	11,020	32,402	363,108
Investments	4,731,490	559,028	171,508	5,462,026
Available-for-sale financial assets	3,164,003	411,756	157,394	3,733,153
Financial assets at fair value through profit or loss	969,238	142,206	-	1,111,444
Loans and receivables	598,249	5,066	14,114	617,429
Reinsurance assets	31,726	182,119	-	213,845
Insurance receivables	35,806	43,901	-	79,707
Other receivables	36,160	24,335	358	60,853
Tax recoverable	36,942	2,800	11,611	51,353
Deferred tax assets	-	-	22,702	22,702
Cash and cash equivalents	1,145,735	144,688	113,950	1,404,373
Total assets	6,534,818	969,495	416,214	7,920,527
Equity, policyholders' funds and liabilities				
Share capital	-	-	579,000	579,000
Retained earnings	-	-	88,429	88,429
Other reserves	-	9,250	1,446	10,696
Total equity	-	9,250	668,875	678,125
Insurance contract liabilities	5,276,191	800,422	-	6,076,613
Deferred tax liabilities	22,689	5,614	-	28,303
Other liabilities	102,555	64,219	695	167,469
Insurance payables	883,003	51,553	-	934,556
Provision for life agents' retirement benefits	1,096	-	-	1,096
Current tax liabilities	11,299	10,123	12,943	34,365
Total liabilities	6,296,833	931,931	13,638	7,242,402
Total equity, policyholders' funds and liabilities	6,296,833	941,181	682,513	7,920,527
Inter-fund balances	237,985	28,314	(266,299)	-

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**Statement of Financial Position by Funds
As at 31 December 2010**

	Life Fund RM'000	General Fund RM'000	Shareholders' Fund RM'000	Total RM'000
Assets				
Property, plant and equipment	214,108	3,048	62,428	279,584
Intangible assets	3,283	1,312	-	4,595
Investment properties	492,409	16,943	2,935	512,287
Investments	5,132,248	554,626	104,623	5,791,497
Available-for-sale financial assets	3,236,960	465,202	88,751	3,790,913
Financial assets at fair value through profit or loss	1,033,847	66,859	-	1,100,706
Loans and receivables	861,441	22,565	15,872	899,878
Reinsurance assets	28,920	193,423	-	222,343
Insurance receivables	33,178	43,973	-	77,151
Other receivables	34,269	9,456	265	43,990
Tax recoverable	12,081	2,999	11,856	26,936
Deferred tax assets	-	-	1,900	1,900
Cash and cash equivalents	475,490	107,928	35,857	619,275
Total assets	6,425,986	933,708	219,864	7,579,558
Equity, policyholders' funds and liabilities				
Share capital	-	-	150,000	150,000
Retained earnings	-	-	102,540	102,540
Other reserves	-	12,275	59	12,334
Total equity	-	12,275	252,599	264,874
Insurance contract liabilities	5,458,461	727,302	-	6,185,763
Deferred tax liabilities	13,601	1,876	-	15,477
Other liabilities	147,492	84,450	668	232,610
Insurance payables	789,233	54,758	-	843,991
Provision for life agents' retirement benefits	2,703	-	-	2,703
Current tax liabilities	13,069	10,942	10,129	34,140
Total liabilities	6,424,559	879,328	10,797	7,314,684
Total equity, policyholders' funds and liabilities	6,424,559	891,603	263,396	7,579,558
Inter-fund balances	1,427	42,105	(43,532)	-

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

Income Statement by Funds
For the financial year ended 31 December 2011

	Life Fund RM'000	General Fund RM'000	Shareholders' Fund RM'000	Total RM'000
Operating revenue	1,241,309	504,777	10,935	1,757,021
Gross earned premiums	950,840	476,881	-	1,427,721
Premiums ceded to reinsurers	(29,041)	(59,356)	-	(88,397)
Net earned premiums	921,799	417,525	-	1,339,324
Investment income	290,469	27,896	10,935	329,300
Realised gains and losses	62,455	5,280	143	67,878
Fair value gains and losses	(100,626)	7,804	(58,966)	(151,788)
Fee and commission income	17,137	18,733	-	35,870
Other revenue	269,435	59,713	(47,888)	281,260
Gross benefits and claims paid	(1,263,816)	(290,352)	-	(1,554,168)
Claims ceded to reinsurers	11,923	97,658	-	109,581
Gross change to contract liabilities	259,452	(57,050)	-	202,402
Change in contract liabilities ceded to reinsurers	2,807	(33,389)	-	(30,582)
Net claims	(989,634)	(283,133)	-	(1,272,767)
Fee and commission expense	(96,431)	(68,295)	-	(164,726)
Management expenses	(94,879)	(86,915)	(3,041)	(184,835)
Other operating revenue/(expenses) - net	36,218	2,969	(659)	38,528
Other expenses	(155,092)	(152,241)	(3,700)	(311,033)
Surplus/profit/(loss) before taxation	46,508	41,864	(51,588)	36,784
Taxation of life insurance fund	(3,520)	-	-	(3,520)
Surplus after taxation/ profit/(loss) before taxation	42,988	41,864	(51,588)	33,264
Surplus retained in life insurance fund	(42,988)	-	-	(42,988)
Profit/(loss) before taxation	-	41,864	(51,588)	(9,724)
Taxation	-	(13,774)	9,387	(4,387)
Profit/(loss) for the financial year	-	28,090	(42,201)	(14,111)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

Income Statement by Funds
For the financial year ended 31 December 2010

	Life Fund RM'000	General Fund RM'000	Shareholders' Fund RM'000	Total RM'000
Operating revenue	1,269,119	547,901	8,053	1,825,073
Gross earned premiums	995,851	521,732	-	1,517,583
Premiums ceded to reinsurers	(36,854)	(133,262)	-	(170,116)
Net earned premiums	958,997	388,470	-	1,347,467
Investment income	273,268	26,169	8,053	307,490
Realised gains and losses	39,787	1,895	717	42,399
Fair value gains and losses	163,473	8,751	928	173,152
Fee and commission income	19,082	26,365	-	45,447
Other revenue	495,610	63,180	9,698	568,488
Gross benefits and claims paid	(1,360,483)	(268,504)	-	(1,628,987)
Claims ceded to reinsurers	9,870	74,098	-	83,968
Gross change to contract liabilities	182,278	(39,272)	-	143,006
Change in contract liabilities ceded to reinsurers	4,034	(14,978)	-	(10,944)
Net claims	(1,164,301)	(248,656)	-	(1,412,957)
Fee and commission expense	(98,108)	(71,991)	-	(170,099)
Management expenses	(90,907)	(83,703)	(2,479)	(177,089)
Other operating (expenses)/revenue - net	(5,651)	5,141	(1,159)	(1,669)
Other expenses	(194,666)	(150,553)	(3,638)	(348,857)
Surplus/profit before taxation	95,640	52,441	6,060	154,141
Taxation of life insurance fund	(36,140)	-	-	(36,140)
Surplus after taxation/profit before taxation	59,500	52,441	6,060	118,001
Surplus retained in life insurance fund	(59,500)	-	-	(59,500)
Profit before taxation	-	52,441	6,060	58,501
Taxation	-	(13,326)	(1,363)	(14,689)
Profit for the financial year	-	39,115	4,697	43,812

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**General Insurance Fund Revenue Account by Classes
For the financial year ended 31 December 2011**

	Fire RM'000	Motor vehicles RM'000	Motor cycles RM'000	Marine, Aviation & transit RM'000	Misce- llaneous RM'000	Total RM'000
Gross earned premiums	49,113	236,235	57,179	(2,558)	136,912	476,881
Premiums ceded to reinsurers	(27,903)	(10,894)	(227)	2,935	(23,267)	(59,356)
Net earned premiums	21,210	225,341	56,952	377	113,645	417,525
Gross commission paid	(7,621)	(23,485)	(6,468)	(2,900)	(27,079)	(67,553)
Commission received from reinsurers	7,467	872	250	2,724	7,420	18,733
Net Commissions	(154)	(22,613)	(6,218)	(176)	(19,659)	(48,820)
Gross benefits and claims paid	(32,085)	(159,186)	(38,602)	(11,566)	(48,913)	(290,352)
Claims ceded to reinsurers	24,490	32,734	12,766	9,184	18,484	97,658
Gross change to contract liabilities	19,004	(41,701)	(2,670)	(12,173)	(19,510)	(57,050)
Change in contract liabilities ceded to reinsurers	(17,975)	(20,068)	(7,612)	6,891	5,375	(33,389)
Net Claims	(6,566)	(188,221)	(36,118)	(7,664)	(44,564)	(283,133)
Underwriting surplus/(deficit) before management expenses	14,490	14,507	14,616	(7,463)	49,422	85,572
Management expenses						(86,915)
Underwriting deficit						(1,343)
Investment income						27,896
Realised gains						5,280
Fair value gains						7,804
Other operating revenue – net						2,227
Profit before taxation						41,864
Taxation						(13,774)
Profit for the financial year						28,090

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**General Insurance Fund Revenue Account by Classes
For the financial year ended 31 December 2010**

	Fire RM'000	Motor vehicles RM'000	Motor cycles RM'000	Marine, Aviation & transit RM'000	Misce- llaneous RM'000	Total RM'000
Gross earned premiums	46,450	207,225	85,669	39,244	143,144	521,732
Premiums ceded to reinsurers	(27,387)	(15,126)	(23,856)	(30,079)	(36,814)	(133,262)
Net earned premiums	19,063	192,099	61,813	9,165	106,330	388,470
Gross commission paid	(8,209)	(25,332)	(7,207)	(2,752)	(28,136)	(71,636)
Commission received from reinsurers	9,465	1,144	972	2,996	11,788	26,365
Net Commissions	1,256	(24,188)	(6,235)	244	(16,348)	(45,271)
Gross benefits and claims paid	(28,336)	(151,687)	(38,414)	(6,776)	(43,291)	(268,504)
Claims ceded to reinsurers	23,339	23,608	5,456	6,008	15,687	74,098
Gross change to contract liabilities	5,731	(39,351)	(8,495)	1,667	1,176	(39,272)
Change in contract liabilities ceded to reinsurers	(7,822)	(1,061)	(1,106)	(2,626)	(2,363)	(14,978)
Net Claims	(7,088)	(168,491)	(42,559)	(1,727)	(28,791)	(248,656)
Underwriting surplus/(deficit) before management expenses	13,231	(580)	13,019	7,682	61,191	94,543
Management expenses						(83,703)
Underwriting surplus						10,840
Investment income						26,169
Realised gains						1,895
Fair value gains						8,751
Other operating revenue – net						4,786
Profit before taxation						52,441
Taxation						(13,326)
Profit for the financial year						39,115

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**Investment-linked Fund
Statement of Financial Position as at 31 December**

	2011 RM'000	2010 RM'000
Assets		
Investments	620,078	614,471
Financial assets at fair value through profit or loss	613,794	564,271
Loans and receivables	6,284	50,200
Other receivables	1,241	4,379
Tax recoverable	1,506	1,802
Cash and bank balances	107,433	139,087
Total assets	730,258	759,739
Liabilities		
Insurance contract liabilities	725,596	747,175
Deferred tax liabilities	5,410	8,638
Other liabilities	3,779	4,974
Current tax liabilities	3,062	1,681
Total liabilities	737,847	762,468
Inter-fund balances	(7,589)	(2,729)
Net asset value of funds	730,258	759,739

**Investment-linked Fund Income Statement
For the financial year ended 31 December**

	2011 RM'000	2010 RM'000
Investment income	29,252	25,169
Realised gains and losses	7,668	1,391
Fair value gains and losses	(1,911)	98,288
	35,009	124,848
Fees and commission expenses	(10,888)	(9,610)
Management expenses	(33)	(30)
Other operating revenue – net	983	3,313
Surplus before taxation	25,071	118,521
Taxation	(2,249)	(9,640)
Surplus after taxation for the financial year	22,822	108,881

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2011 (CONTINUED)

39. INSURANCE FUNDS (CONTINUED)

**Information on Cash Flow by Funds
As at 31 December**

	Life Fund RM'000	General Fund RM'000	Shareholders' Fund RM'000	Total RM'000
<u>2011</u>				
Cash flows from:				
Operating activities	663,644	35,432	(350,907)	348,169
Investing activities	6,601	1,328	-	7,929
Financing activities	-	-	429,000	429,000
Net increase in cash and cash equivalents	670,245	36,760	78,093	785,098
Cash and cash equivalents: At beginning of financial year	475,490	107,928	35,857	619,275
At end of financial year	1,145,735	144,688	113,950	1,404,373
<u>2010</u>				
Cash flows from:				
Operating activities	120,097	(51,551)	86,356	154,902
Investing activities	(4,263)	62,658	(63,655)	(5,260)
Net increase in cash and cash equivalents	115,834	11,107	22,701	149,642
Cash and cash equivalents: At beginning of financial year	359,656	96,821	13,156	469,633
At end of financial year	475,490	107,928	35,857	619,275

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