Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2010

(In Ringgit Malaysia)

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Contents

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Directors' report for the financial year ended 31 December 2010

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2010.

Principal activity

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

Results

	RM'000
Profit for the year	122,368

Dividend

No dividend was paid during the year.

The Directors recommended a final dividend of 1.78 sen per ordinary share less tax at 25% (totaling RM4,472,116) and 2.25 sen per ordinary share under single tier system (totaling RM7,537,275) in respect of the year ended 31 December 2010.

Reserves and provisions

There were no material transfers to or from reserves and provisions during the financial year under review except as disclosed in the financial statements.

Insurance claim liabilities and insurance premium liabilities

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that the insurance claim liabilities and insurance premium liabilities are adequate in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework issued by Bank Negara Malaysia ("BNM").

Bad and doubtful debts

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of 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.

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

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

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

1. any charge on the assets of the Company that has arisen since the end of the financial year and which secures the liabilities of any other person; or

2. any contingent liability in respect of the Company that has arisen since the end of the financial year.

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

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

Change of circumstances

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

Items of an unusual nature

In the opinion of the Directors, the results of the operations of the Company for the financial year ended 31 December 2010 have not been substantially affected by any item, transaction or event of a material and unusual nature.

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

Issue of shares

During the financial year, the Company:

(a) increased its authorised share capital from 300,000,000 to 500,000,000 ordinary shares at RM1 each by the creation of 200,000,000 ordinary shares of RM1 each; and

(b) increased its issued and paid-up share capital from 261,205,197 to 334,989,993 by way of the following allotment and issuance of the following ordinary shares:

  (i) 33,784,796 new ordinary shares of RM1 each at par to its immediate holding company, Allianz Malaysia Berhad ("AMB") for the purpose of repaying the subordinated loan of RM33,784,796 due and owing to AMB by the Company; and

  (ii) 40,000,000 new ordinary shares of RM1 each at par to its immediate holding company, AMB in order to increase the capital base of the Company to meet the capital requirement under the Risk-Based Capital Framework.

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

Options granted over unissued shares

No options were granted to any person to take up unissued shares of the Company during the financial year.

Corporate governance

A. Board responsibilities and oversight

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, 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 system.

The Company complied with all the prescriptive requirements of, and adopts management practices that are consistent with the prescriptive and best practices prescribed under the Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia ("BNM"), the Malaysian Code of Corporate Governance ("Code") and the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Listing Requirements"), where applicable. The Board is committed to ensure that the highest standard of corporate governance is practiced throughout the Company as a fundamental of discharging its duties and responsibilities to protect the interests of its shareholders and policyholders.

A1. Composition of the Board

The Board is made up of 5 Non-Executive Directors. There are 3 Independent Non-Executive Directors on the Board.

The Board comprises members from various fields with a balance of skills and experiences appropriate to the business of the Company.

All the members of the Board have complied with the BNM's requirements on restriction of directorships and the minimum criteria of "A Fit and Proper Person" as prescribed under the Insurance Act, 1996 and Insurance Regulations, 1996.

The appointments and re-appointments of all Board members were approved by BNM.

Company No. 735426-V

Corporate governance (continued)

A2. Board meetings

The Board meets regularly which is at least 6 times in a year. Additional Board Meetings are held as and when required. There were 8 Board Meetings held during the financial year ended 31 December 2010.

The attendance of the Directors at the Board Meetings held during the financial year ended 31 December 2010 are as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Ismail	8	8
Dato' Seri Nik Abidin Bin Nik Omar	8	8
Foo San Kan	8	8
Craig Anthony Ellis	8	6
Jens Reisch	8	5 out of 5 meetings held after his appointment as Director on 4 August 2010

A3. Board Committees

The Company has since 1 January 2008 formally used the services of the below mentioned Board Committees of its immediate holding company, Allianz Malaysia Berhad ("AMB"):-

(a) Audit Committee;
(b) Risk Management Committee;
(c) Nominating Committee;
(d) Remuneration Committee; and
(e) Investment Committee

The Board Committees are operating on the terms of reference as approved by the Board of AMB and adopted by the Board of the Company, to assist the Board in the execution of its responsibilities. These Board Committees shall have the authorities to examine particular issues and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board.

Corporate governance (continued)

A3.1. Audit Committee of AMB

The members of the Audit Committee of AMB as at the date of this report are as follows:-

Foo San Kan (Chairman-Independent Non-Executive Director)
Tan Sri Razali Ismail (Independent Non-Executive Director)
Dato' Seri Nik Abidin Bin Nik Omar (Independent Non-Executive Director)

There were 5 Audit Committee Meetings held by AMB during the financial year ended 31 December 2010.

The attendance of the abovementioned Audit Committee members at the Audit Committee Meetings held during the financial year ended 31 December 2010 are as follows:-

Name of Members	**No. of Audit Committee Meetings Held**	**No. of Audit Committee Meetings Attended**
Foo San Kan	5	5
Tan Sri Razali Ismail	5	5
Dato' Seri Nik Abidin Bin Nik Omar	5	5

The terms of reference of the Audit Committee of AMB complied with the Listing Requirements, the Guidelines of BNM and the Code.

Corporate governance (continued)

A3.2. Risk Management Committee of AMB

The members of the Risk Management Committee of AMB as at the date of this report are as follows:-

Dato' Seri Nik Abidin Bin Nik Omar (Chairman-Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Craig Anthony Ellis (Non-Independent Non-Executive Director)

There were 4 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2010.

The attendance of the abovementioned Risk Management Committee members at the Risk Management Committee Meetings held during the financial year ended 31 December 2010 are as follows:-

Name of Members	No. of Risk Management Committee Meetings Held	No. of Risk Management Committee Meetings Attended
Dato' Seri Nik Abidin Bin Nik Omar	4	4
Foo San Kan	4	4
Craig Anthony Ellis	4	4

The AMB Risk Management Committee is responsible for driving the risk management framework of AMB and its subsidiaries ("Group") and to report to the Boards of the respective companies within the Group on its recommendations and/or decisions. The responsibilities of the AMB Risk Management Committee are stated below:-

(a) to address strategic and corporate level risks and recommend to the respective Boards of the Group the strategies to manage these risks and ensure its implementation;

(b) to review and assess the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

(c) to review and recommend risk management strategies, policies and risk parameters/tolerance levels for the approval of the respective Boards of the Group and to ensure any changes and concerns are communicated to senior management effectively;

Corporate governance (continued)

A3.2. Risk Management Committee of AMB (continued)

(d) to ensure the risk control functions have adequate resources, authority, infrastructure, systems and independence to enable an effective risk management;

(e) to review the Key Risks Profile and risks raised by business units and monitor the progress of action plans implemented;

(f) to review and recommend for the approval of the respective Boards of the Group, the contingency planning, including its effectiveness testing covering policies, processes and resources in place to address potential crises, unusual circumstances and stress situations;

(g) to review periodic reports on risk exposure, risk portfolio composition and risk management activities;

(h) to report to the respective Boards of the Group, the risk management status on a regular basis; and

(i) to approve risk methodology to facilitate risk assessment.

A3.3. Nominating Committee of AMB

The members of the Nominating Committee of AMB as at the date of this report are as follows:-

Dato' Seri Nik Abidin Bin Nik Omar (Chairman-Independent Non-Executive Director)
Tan Sri Razali Ismail (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Craig Anthony Ellis (Non-Independent Non-Executive Director)
Zakri Mohd Khir (Non-Independent Non-Executive Director of AMB)

There were 4 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2010.

The attendance of the abovementioned Nominating Committee members at the Nominating Committee Meetings held during the financial year ended 31 December 2010 are as follows:

Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Dato' Seri Nik Abidin Bin Nik Omar	4	4
Tan Sri Razali Ismail	4	4
Foo San Kan	4	4
Craig Anthony Ellis	4	3
Zakri Mohd Khir	4	1 out of 1 meeting held after his appointment as a member of the Nominating Committee on 25 October 2010

The primary objective of the Nominating Committee of AMB is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officers and Key Senior Officers of the Group and to assess the effectiveness of the individual Director and the respective Boards (including various committee of the Board), Chief Executive Officers and Key Senior Officers of the Group on an on-going basis.

The responsibilities of the Nominating Committee are stated below and shall be applicable to the Group:-

(a) establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and the mix of skills and other core competencies required, through annual reviews;

Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

(b) recommending and assessing the nominees for directorship, the Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to BNM. The Nominating Committee in making its recommendation on candidates for directorship should consider the candidates':-

(i) skill, knowledge, expertise and experience;
(ii) professionalism;
(iii) integrity; and
(iv) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive Directors;

(c) establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director including the independent Non-Executive Directors to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer. All assessments and evaluations carried out by the Nominating Committee in the discharge of all its functions should be properly documented;

(d) recommending to the Board on removal of a Director/ Chief Executive Officer if he is ineffective, errant or negligent in discharging his responsibilities;

(e) ensuring that all Directors undergo appropriate induction programmes and receive continuous training; and

(f) overseeing the appointment, management succession planning and performance evaluation of Key Senior Officers, and recommending to the Board the removal of Key Senior Officers if they are ineffective, errant or negligent in discharging their responsibilities.

The Company has put in place a performance evaluation process and procedures for assessing the Directors and the effectiveness of the Board.

All appointments and re-appointments of Directors who are due for retirement and eligible for re-election at the Annual General Meeting of the Company and/or Directors whose terms of office as approved by BNM are due for renewal, will be reviewed by the Nominating Committee of AMB and approved by the Board before the applications are submitted to BNM for approval.

In the opinion of the Nominating Committee of AMB, the Board has a good mix of skills and experiences appropriate for the business of the Company.

Corporate governance (continued)

A3.4. Remuneration Committee of AMB

The members of the Remuneration Committee of AMB as at the date of this report are as follows:-

Dato' Seri Nik Abidin Bin Nik Omar (Chairman-Independent Non-Executive Director)
Foo San Kan (Independent Non Executive Director)
Craig Anthony Ellis (Non-Independent Non-Executive Director)

There were 4 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2010.

The attendance of the abovementioned Remuneration Committee members at the Remuneration Committee Meetings held during the financial year ended 31 December 2010 are as follows:-

Name of Members	**No. of Remuneration Committee Meetings Held**	**No. of Remuneration Committee Meetings Attended**
Dato' Seri Nik Abidin Bin Nik Omar	4	4
Foo San Kan	4	2 out of 2 meetings held after his appointment as a member of the Remuneration Committee on 25 October 2010
Craig Anthony Ellis	4	4

The primary objective of the Remuneration Committee of AMB is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officers and Key Senior Officers of the Group and ensuring that their compensation is competitive and consistent with the culture, objective and strategy of the Group.

Corporate governance (continued)

A3.4. Remuneration Committee of AMB (continued)

The responsibilities of the Remuneration Committee of AMB are stated below and shall be applicable to the Group:-

(a) recommending a framework of remuneration for Directors, Chief Executive Officer and Key Senior Officers. The remuneration policy should:-

- (i) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
- (ii) reflect the experience and level of responsibility borne by individual Directors, the Chief Executive Officer and Key Senior Officers;
- (iii) be sufficient to attract and retain Directors, Chief Executive Officer and Key Senior Officers of calibre needed to manage the Company successfully; and
- (iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages;

(b) recommending specific remuneration packages for Directors, Chief Executive Officer and Key Senior Officers. The remuneration packages should:-

- (i) be based on an objective consideration and approved by the full Board;
- (ii) take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Directors, Chief Executive Officer or Key Senior Officers concerned;
- (iii) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
- (iv) be competitive and is consistent with the culture, objective and strategy of the Group.

The Board has established a remuneration policy for Directors of the Company. The Remuneration Committee of AMB recommends to the Board, the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. Nevertheless, it is the ultimate responsibility of the Board to decide on the quantum for each Director.

Company No. 735426-V

Corporate governance (continued)

A3.5. Investment Committee of AMB

The members of the Investment Committee of AMB as at the date of this report are as follows:-

Craig Anthony Ellis (Chairman - Non-Independent Non-Executive Director)
Jens Reisch (Non-Independent Non-Executive Director)
Ong Eng Chow (Non-Independent Executive Director of AMB)
Zakri Mohd Khir (Non-Independent Non-Executive Director of AMB)

There were 4 Investment Committee Meetings held by AMB during the financial year ended 31 December 2010.

The attendance of the abovementioned Investment Committee members at the Investment Committee Meetings held during the financial year ended 31 December 2010 are as follows:-

Name of Members	No. of Investment Committee Meetings Held	No. of Investment Committee Meetings Attended
Craig Anthony Ellis	4	4
Jens Reisch	4	2 out of 2 meetings held after his appointment as a member of the Investment Committee on 4 August 2010
Zakri Mohd Khir	4	1 out of 1 meeting held after his appointment as a member of the Investment Committee on 25 October 2010
Ong Eng Chow	4	4

The Investment Committee of AMB is responsible for setting of investment policies, objectives, guidelines and controls for the Investment Department which in turn is responsible for managing the investment functions of the Group.

Corporate governance (continued)

B. Management Accountability

B1. Organisational structure

The organisational structure of the Company clearly shows lines of reporting responsibility and authority for all levels of staff of the Company. Authority is delegated by the Board to the Chief Executive Officer and Senior Management Committee for the implementation of strategy and for managing the Company. The Company has in place a documented organisational structure, allocation of duties and responsibilities and an ongoing process to ensure the allocated key functionaries fulfill the minimum criteria of "A Fit and Proper Person" criteria prescribed in Part XII of the Insurance Regulations 1996.

The Company has formalised the Code of Conduct for Business Ethics and Compliance and the Sales Policy and Sales Agent Code of Conduct that respectively represent the minimum standards for all employees and agents to reiterate the importance of integrity in conducting the business.

B2. Communication

To support an effective flow of information within the Company and to ensure that important information reaches the appropriate personnel in a timely manner, the Company has in place the following practices:-

- Documentation of important policies and procedures in the form of operating manuals/workflows.
- Senior Management Committee to meet regularly to discuss issues of common concern.
- Implementation of Induction programs for all new staff upon joining the Company.
- Conduct regular staff dialogue/briefing.
- Monthly staff newsletters are circulated to all staff of the Company.
- News are disseminated through e-portal/e-mail.

B3. Corporate Independence

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (JPI/GPI 19) and the Listing Requirements in respect of all its related party undertakings. Necessary disclosures were made to the Board and where required, prior approval of the Board and/or shareholders for the transactions had also been obtained. In line with Part E, Paragraph 10.09 of the Listing Requirements on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), AMB had obtained the shareholders' mandate for the Group to enter into Recurrent Transactions ("Shareholders' Mandate"). The Shareholders' Mandate will be renewed on a yearly basis at the Annual General Meeting of AMB.

Corporate governance (continued)

C. Internal Controls and Operational Risk Management

The Board recognises the importance of having in place a risk management system to identify significant risks and implement appropriate controls to manage such risks as an integral part of the Company's operations.

The Company adopted the Group Risk Management Framework Manual ("RMFM"). The RMFM outlines the guiding principles of the risk management approach, structure, roles, responsibilities, accountabilities, reporting requirements as well as the risk identification, evaluation and monitoring process of the Company. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, ongoing monitoring and reporting.

The Company's key internal control processes of the Company include the following:-

Underwriting

The Company exercises control over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

Operational authority limits covering underwriting of risks and claims settlement are reviewed and updated regularly.

The reinsurance treaty program ensures that reinsurers have secure ratings from accredited rating agencies. The securities of treaty reinsurers are stringently reviewed on an annual basis.

Financial control procedures

Internal policies and procedures which incorporate relevant requirements of BNM and Persatuan Insuran Am Malaysia ("PIAM") and internal guidelines are documented in procedural workflows of department and branch operations. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

Financial position

Annual business plan and budget are submitted to the Board for approval. Financial reports are also submitted to the Board for review at its regular meetings as part of the regular monitoring of the Company's performance. These reports cover all key operational areas and provide a sound basis for the Board to assess the Company's financial performance and to identify potential problems or risks facing by the Company. Results of stress tests are also presented to the Board on a regular basis for deliberation.

Corporate governance (continued)

Investment

The Investment Committee of AMB is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department which resides at Allianz Life Insurance Malaysia Berhad. The Investment Department provides investment services to the Group.

The Company adopted the Group Master Investment Manual, which sets out the detailed procedures and controls, including an Investment Code of Ethics to ensure that the Company's interests prevail over the personal interests of the employees.

The performance of investment and equity exposure reports are amongst the reports submitted to the Investment Committee of AMB for its review at its regular meetings. The investment limits are monitored continuously to ensure compliance with the investment limits as specified in the RBC Framework for Insurers.

Information system

The Information Technology ("IT") Steering Committee is responsible for establishing effective IT plans, authorising IT related expenditure and monitoring the progress of approved IT projects.

The requirements of BNM's Guidelines on Management of IT Environment (GPIS 1) and Internet Security (GPI 26) have been completely complied with.

Internal audit

The Company shared the services of the Internal Audit Department of AMB, which assists the Audit Committee of AMB in the discharge of its duties and responsibilities.

The Internal Audit function undertakes reviews of the Company's operations and its system of internal controls. It provides continuous monitoring of the controls and risk management procedures. Internal audit findings are discussed at management level and actions are taken in response to the internal audit recommendations. The Audit Committee of AMB reviews all internal audit findings and management responses.

The requirements of BNM's Guidelines on Internal Audit Function of Licensed Institution (BNM/RH/GL 013-4) have been met.

Corporate governance (continued)

Whistleblowing procedures

The Whistleblowing Committee of AMB has been established to further enhance the corporate governance and to meet the expectations of the Code of Conduct for Business Ethics and Compliance of the Company. Guidelines and procedures for the Committee have been in place to handle, review, assess and take appropriate actions on complaints or concerns raised by the employees relating to any illegal or questionable activities in the Company. Such complaints or concerns may be made anonymously. The whistleblowing procedures will help to promote transparency and accountability throughout the Company.

Ethics and compliance

The Ethics and Compliance Committee had been set up in year 2008 to meet the expectation of the Sales Policy and the Sales Agent Code and Conduct of the Company. Guidelines and procedures of the Ethics and Compliance Committee have been in place to handle, review, assess and take appropriate actions to the complaints or concerns on agents. This will help to promote the professionalism of the sales force throughout the Company.

Anti-fraud and anti-corruption

The Anti-Fraud Committee has been set up in year 2009 to coordinate all activities concerning fraud prevention and detection. The Anti-Fraud Policy, framework and procedures have been in place to assist the Anti-Fraud Committee. The Anti-Fraud Committee is also responsible for all fraud investigations and ensuring that necessary remedial actions are taken to mitigate the recurrence of fraud.

In line with the Allianz Group's global Anti-Corruption Program (Program) the Company adopted the Anti-Corruption Policy in August 2010 ("the said Policy"). The said Policy outlines the Allianz Group's existing controls and behavioural guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments . In addition to the said Policy, the Program contains 10 elements for progressive implementation. The Company has commenced implementing these elements and expects to complete them by end 2011.

Corporate governance (continued)

Public accountability

The Company complied with the provisions relating to policies under Parts XII and XV of the Insurance Act 1996. Each employee of the Company and the agency force are also required to adhere to PIAM's Code of Ethics and Conduct when dealing with customers.

Members of the public are made aware of avenues for appeal against the Company's practices or decisions. A policy contract issued to any policy owner contains a written disclosure alerting them to the existence of the Financial Mediation Bureau ("FMB") and BNM's Corporate Communication Department ("CCD"). In addition, notices containing the same information are exhibited in the Head Office and all the Company's branches. The Company's letter to any claimant on the rejection of a claim also includes similar information for appeal to FMB and CCD.

Financial reporting

Due care and diligence is exercised by the Company in ensuring compliance with the requirements of statutory reporting to BNM and other relevant authorities, the accuracy of information contained in the reports submitted to the relevant authorities and the maintenance of appropriate accounting records.

The external auditors are appointed according to the provisions of the Insurance Act 1996 and the Companies Act, 1965. They provide an independent opinion that the financial statements have been prepared in accordance with Financial Reporting Standards as modified by BNM Guidelines and the Companies Act, 1965 so as to give a true and fair view of the state of affairs of the Company and its financial performance and cash flows.

Business continuity plans

Business Continuity Plans for the Company have been formulated to ascertain that the Company suffers no material interruptions to its systems, processes or operations, or material damages to its assets upon the occurrence of any disastrous events.

Training and developments

The Company aims to equip employees with the relevant knowledge, skills and competencies required for their roles through structured training and development programmes. These include a combination of classroom training, on-the-job attachment, professional exams and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

Corporate governance (continued)

Product development

The Company has in place a Product Development Management Framework ("Framework") which sets out the policies and procedures on product development.

The Framework aims to promote sound risk management practices in managing and controlling product risk by ensuring the appropriate assessment and mitigation of risk during the development and marketing stages. The Framework will also assist to ensure that the products developed and marketed by the Company are appropriate to the needs and resources of the targeted consumer segments.

Data management framework

The Company has in place a Data Management Framework ("DMF") to establish and maintain a sound data management and management information system ("MIS") framework. The objective of the DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use and value of data assets. Additionally DMF aims to ensure the integrity of data assets by preventing unauthorized or inappropriate use of data and information.

Directors of the Company

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

Tan Sri Razali Ismail (Chairman)
(Independent Non-Executive Director)
Dato' Seri Nik Abidin Bin Nik Omar
(Independent Non-Executive Director)
Foo San Kan
(Independent Non-Executive Director)
Craig Anthony Ellis
(Non-Independent Non-Executive Director)
Jens Reisch (Appointed with effect from 4 August 2010)
(Non-Independent Non-Executive Director)
Cornelius Alexander Ioannis Ankel (Resigned with effect from 4 August 2010)
(Non-Independent Non-Executive Director)
Ng Hang Ming (Resigned with effect from 4 October 2010)
(Executive Director)
Dung Tri Nguyen @ Don Tri Nguyen (Resigned with effect from 25 October 2010)
(Non-Independent Non-Executive Director)

Directors' interests

As the Company is a wholly-owned subsidiary of AMB, the interests and deemed interests in the ordinary shares of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at year end (including the interest of the spouses or children of the Directors who themselves are not Directors of the Company) are shown in the Directors' report of AMB.

Directors' benefits

Since the end of the previous financial year, no Director of the Company has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in the financial statements or the fixed salary of a full time employee of the Company or of related companies / corporations) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

There were no arrangements during and at the end of the financial year which had 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.

Ultimate holding company

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

Immediate holding company

The immediate holding company is AMB, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Auditors

The Auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Razali Ismail

Jens Reisch

Kuala Lumpur,

Date: 22 March 2011

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement by Directors pursuant to Section 169(15) of the Companies Act, 1965

In the opinion of the Directors, the financial statements set out on pages 26 to 129 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:

Tan Sri Razali Ismail

Jens Reisch

Kuala Lumpur,

Date: 22 March 2011

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statutory declaration pursuant to Section 169(16) of the Companies Act, 1965

I, **Zakri Bin Mohd Khir,** the officer primarily responsible for the financial management of Allianz General Insurance Company (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 26 to 129 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Wilayah Persekutuan on 22 March 2011.

\---

Zakri Bin Mohd Khir

Before me:

Independent Auditors' Report to the member of Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Allianz General Insurance Company (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2010, the income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 26 to 129.

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 as modified by Bank Negara Malaysia Guidelines, and the Companies Act, 1965 in Malaysia, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Company No. 735426-V

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Approval Number: 2613/12/12(J)
Chartered Accountant

Petaling Jaya,

Date: 22 March 2011

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2010

	Note	31.12.2010 RM'000	31.12.2009 RM'000 Restated	1.1.2009 RM'000 Restated
Assets				
Property, plant and equipment	3	47,548	55,289	-
Investment properties	4	742	1,662	-
Intangible assets	5	5,569	5,353	-
Deferred tax assets	14	1,978	-	-
Investments	6			
Malaysian government securities		825,353	849,796	386,850
Malaysian government guaranteed bonds		176,715	80,776	43,342
Multilateral development bank guaranteed bonds		143,397	81,766	57,080
Debt securities		532,650	388,781	285,652
Unquoted equity securities		*	*	**
Commercial loans		5,525	7,345	8,255
Structured deposits and negotiable certificate deposits with licensed financial institutions		35,775	35,102	22,197
Reinsurance assets	7	967,734	927,162	516,954
Insurance receivables	8	58,207	107,337	112,256
Loans and receivables	9	41,281	38,550	20,267
Deferred acquisition costs	10	42,598	39,400	34,459
Current tax assets		-	-	1,526
Assets classified as held for sale		2,440	-	-
Cash and cash equivalents		244,501	166,952	142,785
Total assets		3,132,013	2,785,271	1,631,623

* Denotes RM4
** Denotes RM1

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2010 (continued)

	Note	31.12.2010 RM'000	31.12.2009 RM'000 Restated	1.1.2009 RM'000 Restated
Equity and liabilities				
Share capital	11	334,990	261,205	128,000
Retained earnings	12	309,034	182,573	69,361
Other reserves		15,404	10,572	6,966
Total equity		659,428	454,350	204,327
Insurance contract liabilities	13	2,161,314	1,978,580	1,201,635
Deferred tax liabilities	14	-	5,855	722
Other financial liabilities	15	2,013	2,092	2,800
Insurance payables	16	217,852	205,537	174,978
Other payables and accruals	17	58,048	69,692	33,161
Subordinated loans	18	28,171	63,002	14,000
Current tax liabilities		5,187	6,163	-
Total liabilities		2,472,585	2,330,921	1,427,296
Total equity and liabilities		3,132,013	2,785,271	1,631,623

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

Allianz General Insurance Company (Malaysia) Berhad
(Company No. 735426-V)
(Incorporated in Malaysia)

Income statement for the year ended 31 December 2010

	Note	2010 RM'000	2009 RM'000
Operating revenue	19	1,362,853	1,259,831
Gross earned premiums	20	1,295,410	1,201,499
Premiums ceded to reinsurers	20	(423,989)	(417,853)
Net earned premiums		871,421	783,646
Investment income	21	67,443	58,332
Realised gains and losses	22	4,979	343
Fee and commission income	23	77,212	70,389
Other operating income		18,748	2,688
Other revenue		168,382	131,752
Gross claims paid		(689,644)	(580,063)
Claims ceded to reinsurers		232,299	167,431
Gross change to contract liabilities		(153,862)	(135,433)
Change in contract liabilities ceded to reinsurers		63,130	91,771
Net claims incurred	24	(548,077)	(456,294)
Fee and commission expense	25	(154,131)	(145,350)
Management expenses	26	(160,254)	(153,700)
Other operating expenditure		(9,964)	(3,485)
Other expenses		(324,349)	(302,535)
Profit before tax		167,377	156,569
Tax expense	27	(45,009)	(43,357)
Net profit for the year		122,368	113,212

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of comprehensive income for the year ended 31 December 2010

	Note	2010 RM'000	2009 RM'000
Net profit for the year		122,368	113,212
Other comprehensive income:			
Available-for-sale fair value reserves		412	4,807
Tax effects thereon		(103)	(1,201)
Other comprehensive income for the year, net of tax		309	3,606
Total comprehensive income for the year		122,677	116,818
Profit attributable to:			
Owners of the Company		122,368	113,212
Total comprehensive income attributable to:			
Owners of the Company		122,677	116,818
Basic earnings per ordinary share (sen)	28	42.5	50.9

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Statement of changes in equity for the year ended 31 December 2010

		← Non-distributable		→	Distributable	
	Note	**Share capital**	**Fair value reserve**	**Other reserve**	**Retained earnings**	**Total equity**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2009		128,000	6,966	-	69,361	204,327
Total comprehensive income for the year		-	3,606	-	113,212	116,818
Issue of ordinary shares	11	133,205	-	-	-	133,205
At 31 December 2009 / At 1 January 2010, as previously stated		261,205	10,572	-	182,573	454,350
Change in accounting policy: Effect of adopting of FRS 139		-	-	4,523	4,093	8,616
At 1 January 2010, restated		261,205	10,572	4,523	186,666	462,966
Total comprehensive income for the year		-	309	-	122,368	122,677
Issue of ordinary shares	11	73,785	-	-	-	73,785
At 31 December 2010		334,990	10,881	4,523	309,034	659,428

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Cash flow statement for the year ended 31 December 2010

	2010 RM'000	2009 RM'000
Profit before tax	167,377	156,569
Investment income	(67,443)	(58,332)
Realised gains recorded in income statement	(4,979)	(343)
Purchases of available-for-sale investments	(1,002,659)	(353,839)
Proceeds from disposal of available-for-sale investments	369,433	12,620
Maturity of available-for-sale investments	357,994	118,150
Decrease in loans and receivables investments	1,820	910
Non-cash items:		
Depreciation of property, plant and equipment	7,722	7,428
Property, plant and equipment written off	35	182
Amortisation of intangible assets	2,264	1,772
Interest expense on subordinated loan	1,177	-
Reversal of allowance for impairment loss on insurance receivables	(730)	(11,268)
Bad debts written off	2,951	9,500
Bad debts recovered	(122)	(180)
Impairment loss on assets held for sale	579	-
Impairment loss on property, plant and equipment	1,041	-
Changes in working capital:		
Business transfer	-	(80,984)
Increase in reinsurance assets	(40,572)	(88,533)
Decrease in insurance receivables	51,972	16,549
Decrease/(Increase) in loans and other receivables	3,165	(10,640)
Increase in deferred acquisition costs	(3,198)	(2,333)
Increase in insurance contract liabilities	182,734	136,324
Decrease in other financial liabilities	(79)	(708)
Increase/(Decrease) in insurance payables	12,315	(3,108)
(Decrease)/Increase in other payables	(10,540)	24,694
Cash generated from/(used in) operating activities	32,257	(125,570)

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 cash flows for payments of claims incurred for insurance contracts, which are respectively treated under operating activities.

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Cash flow statement for the year ended 31 December 2010 (continued)

	2010 RM'000	2009 RM'000
Cash generated from/(used in) operating activities	32,257	(125,570)
Dividend income received	-	32
Interest income received	64,313	60,143
Rental income received	51	25
Income tax paid	(53,921)	(31,927)
Net cash flows from / (used in) operating activities	42,700	(97,297)
Investing activities		
Proceeds from disposal of property, plant and equipment	1,165	1,290
Purchase of property, plant and equipment	(3,864)	(10,394)
Transfer of assets	(1,452)	(53,371)
Purchase of intangible assets	(1,349)	(229)
Net cash flows used in investing activities	(5,500)	(62,704)
Financing activities		
Proceeds from issuance of ordinary shares	73,785	133,205
(Decrease)/Increase in subordinated loans	(32,332)	49,002
(Repayment)/Proceeds from lease arrangements	(1,104)	1,961
Net cash flows from financing activities	40,349	184,168
Net increase in cash and cash equivalents	77,549	24,167
Cash and cash equivalents at beginning of year	166,952	142,785
Cash and cash equivalents at end of year	244,501	166,952
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months):	241,706	165,915
Cash and bank balances	2,795	1,037
	244,501	166,952

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

Allianz General Insurance Company (Malaysia) Berhad

(Company No. 735426-V)
(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

Allianz General Insurance Company (Malaysia) Berhad is a public limited company, incorporated and domiciled in Malaysia. The address of the principal place of business and registered office of the Company is as follows:

Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The immediate holding company is Allianz Malaysia Berhad ("AMB"), a public limited company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany.

The financial statements were authorised for issue by the Board of Directors on 22 March 2011.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards ("FRS") as modified by Guidelines/Circulars issued by Bank Negara Malaysia ("BNM"), generally accepted accounting principles in Malaysia, the Companies Act, 1965 and the Insurance Act and Regulations, 1996.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

The following accounting standards, amendments, and interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Company:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 March 2010

Amendments to FRS 132, Financial Instruments, Presentation – Classification of Right Issues

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

FRS 1, First-time Adoption of Financial Reporting Standards (revised)
FRS 3, Business Combinations (revised)
FRS 127, Consolidated and Separate Financial Statements (revised)
Amendments to FRS 2, Share-based Payment
Amendments to FRS 5, Non-current Assets Held for Sale and Discontinued Operations
Amendments to FRS 138, Intangible Assets
IC Interpretation 12, Service Concession Agreements
IC Interpretation 16, Hedges of a Net Investment in a Foreign Operation
IC Interpretation 17, Distributions of Non-cash Assets to Owners
Amendments to IC Interpretation 9, Reassessment of Embedded Derivatives

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2011

Amendments to FRS 1, First-time Adoption of Financial Reporting Standards
- Limited Exemption from Comparative FRS 7, Disclosure for First-time Adopters
- Additional Exemptions for First-time Adopters

Amendments to FRS 2, Group Cash-settled Share-based Payment Transactions
Amendments to FRS 7, Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments
IC Interpretation 4, Determining whether an Arrangement contains a Lease
IC Interpretation 18, Transfers of Assets from Customers
Improvements to FRSs (2010)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

Amendments to IC Interpretation14, Prepayments of a Minimum Funding Requirement
IC Interpretation 19, Extinguishing Financial Liabilities with Equity Instruments

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

FRS 124, Related Party Disclosures (revised)
IC Interpretation 15, Agreements for the Construction of Real Estate

The Company plans to adopt the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2011 for those standards, amendments and interpretations that will effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for FRS 1 (revised), FRS 3 (revised), FRS 127 (Revised), Amendments to FRS 2, IC Interpretation 12, IC Interpretation 16, Amendments to FRS 1 and IC Interpretation 18 which are not applicable to the Company.

- from the annual period beginning on 1 January 2012 for those standards, amendments and interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012, except for Amendments to IC Interpretation 14, IC Interpretation 19 and IC Interpretation 15 which are not applicable to the Company.

The initial application of the aforesaid applicable standards, amendments or interpretations are not expected to have any significant financial impact to the financial statements upon their first adoption.

Following the announcement made by the Malaysian Accounting Standards Board on 1 August 2008, the Company's financial statements will be prepared in accordance with the International Financial Reporting Standards framework for annual period beginning on 1 January 2012.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

Risk-Based Capital Framework for Insurers

BNM has issued detailed guidelines under the Risk-Based Capital Framework for Insurers ("the RBC Framework") which is effective for annual period beginning on or after 1 January 2009. The Company had adopted the accounting policies on securities as specified in the Framework for the annual period beginning on 1 January 2009, pursuant to Section 90 of the Insurance Act, 1996. These policies are in line with those specified under FRS 139.

During the financial year, the Company adopted FRS 4, Insurance Contracts, FRS 139, Financial Instrument: Recognition and Measurement and FRS 7 Financial Instruments: Disclosure. The Company further adopted the Circular on Financial Reporting Guidelines for Insurers, issued on 22 July 2010, which principal objective is to address the requirements on the application of these new FRSs and information to be disclosed in the financial statements of insurers, as well as to bring the financial reporting requirements for insurers to be aligned with FRS requirements.

Other than expanded disclosure requirements and the following financial impact, the adoption of these new FRSs and Guidelines during the financial year did not have any material effect on the financial performance of the Company.

Statement of changes in equity	**Retained earnings**	**Other reserve**
	RM'000	**RM'000**
As at 1 January 2010, previously restated	182,573	-
Effect of adopting FRS 139		
- Impairment of insurance receivables	4,941	-
- Interest on subordinated loan	(848)	-
- Remeasurement of subordinated loan	-	4,523
As at 1 January 2010, restated	186,666	4,523

1. Basis of preparation (continued)

1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as disclosed in the financial statements.

1.3 Functional and presentation currency

These financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements other than those disclosed in the following notes:

- Note 2.2(a) – revaluation of owner occupied properties
- Note 2.3(a) – determination of fair value of investment property
- Note 2.6 – Fair value of financial instruments
- Note 2.22(a) – Insurance contract liabilities

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, unless otherwise stated. Certain comparative figures have been reclassified to conform with current year's presentation.

2. Significant accounting policies (continued)

2.1 Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities denominated in foreign currencies are translated at exchange rates at the dates of the transactions except for those that are measured at fair value, which are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment except for work-in-progress are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses. Work-in-progress is stated at cost.

The Company revalues its properties comprising land and buildings every five years and at shorter intervals whenever the fair value of the revalued assets is expected to differ materially from their carrying value.

The revalued amounts of property are determined by using comparison and investment methods. The comparison method entails critical analyses of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. The investment method entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. The annual net income is capitalised using a rate of interest to arrive at the capital value of the property. Valuation of properties involves a degree of judgement before arriving at the respective property's revalued amount. As such, the revalued amount of the properties may be different from its actual market price.

Surpluses arising from revaluation are dealt with in the revaluation reserve account. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases, a decrease in carrying amount is charged to income statement.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(a) Recognition and measurement (continued)

Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "realised gains and losses" in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve account are transferred to retained earnings.

(b) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated. Work-in-progress are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	Over leased period
Buildings	50 years
Office equipment, computers, furniture and fittings	3 to 10 years
Motor vehicles	5 years
Office renovations and partitions	10 years

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at end of the reporting period.

2. Significant accounting policies (continued)

2.3 Investment properties

(a) Investment properties carried at fair value

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use.

Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in the income statement.

An investment property is derecognised on its disposal, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The difference between the net disposal proceeds and the carrying amount is recognised in income statement in the period in which the item is derecognised.

An investment property under construction before 1 January 2010 was classified as property, plant and equipment and measured at cost. Such property is stated at cost until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in income statement.

Following the amendments made to FRS 140, Investment Property, with effect from 1 January 2010, investment property under construction is classified as investment property. Where the fair value of the investment property under construction is not reliably determinable, the investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is complete, whichever is earlier.

(b) Reclassification to/from investment properties

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised in other comprehensive income and accumulated in equity as revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon disposal of an investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its deemed cost for subsequent accounting.

2. Significant accounting policies (continued)

2.3 Investment properties (continued)

(c) Determination of fair value

The Directors estimate the fair values of the Company's investment properties.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In arriving at the market value, the Directors adopted the comparison method and investment method. The comparison method entails critical analyses of recent evidence of values of comparable properties in the neighbourhood and making adjustments for differences such as differences in location, size and shape of land, age and condition of building, tenure, title restrictions if any and other relevant characteristics. The investment method entails the determination of the probable gross annual rental the property is capable of producing and deducting therefrom the outgoings to arrive at the annual net income. The annual net income is capitalised using a rate of interest to arrive at the capital value of the property.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from their actual market price.

2. Significant accounting policies (continued)

2.4 Intangible assets

(a) Development costs

Expenditure incurred on software development is capitalised.

The expenditure capitalised includes the cost of materials, direct labour and other directly attributable costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is measured at cost less any accumulated amortisation and any accumulated impairment losses.

(b) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in income statement as incurred.

(c) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for the current and comparative periods of capitalised software development costs is 5 years.

Amortisation methods, useful life and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

2.5 Leased assets

(a) Finance lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

2. Significant accounting policies (continued)

2.5 Leased assets (continued)

(a) Finance lease (continued)

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(b) Operating leases

Leases, where the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised in the Company's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

In the previous years, a leasehold land that normally had an indefinite economic life and title was not expected to pass to the lessee by the end of the lease term was treated as an operating lease. The payment made on entering into or acquiring a leasehold land that was accounted for as an operating lease represents prepaid lease payments, except for leasehold land classified as investment property.

The Company has adopted the amendment made to FRS 117, Leases in 2010 in relation to the classification of lease of land. Leasehold land which in substance is a finance lease has been reclassified and measured as such retrospectively.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in income statement as an integral part of the total lease expense, over the term of the lease.

2. Significant accounting policies (continued)

2.6 Financial instruments

Arising from the adoption of FRS 139 with effect from 1 January 2010, financial instruments are categorised and measured using accounting policies as mentioned below. The adoption of FRS 139 did not have any material impact on the financial statements as the accounting policies were consistent with those adopted on 1 January 2009 pursuant to the RBC Framework.

(a) Initial recognition and measurement

A financial instrument is recognised in the financial statements when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, any only if, it is not closely related to the economic characteristics and risks of host contract and the host contract is not categorised at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

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

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

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

Other financial assets categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in income statement.

(ii) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that the Company has the positive intention and ability to hold-to-maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(iii) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market and other receivables.

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

Prior to the adoption of FRS 139, receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established. Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

The financial impact arising from the adoption of FRS 139 is disclosed in Note 1.1 to the financial statements.

(iv) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in income statement. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into income statement. Interest calculated for a debt instrument using the effective interest method is recognised in income statement.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial assets (continued)

(v) Insurance receivables

Insurance receivables are recognised when due and measured on 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 income statement. The Company gathers the 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 2.7(b).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6(e), have been met.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (See Note 2.7).

Financial liabilities

All financial liabilities are initially measured at fair value and subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

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

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

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(b) Financial instrument categories and subsequent measurement (continued)

Financial liabilities (continued)

Other financial liabilities categorised as fair value through profit or loss are subsequently measured at their fair values with the gain or loss recognised in income statement.

(c) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are classified as deferred income and are amortised to income statement using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in income statement upon discharge of the guarantee. When settlement of a financial guarantee contract becomes probable, an estimate of the obligation is made. If the carrying value of the financial guarantee contract is lower than the obligation, the carrying value is adjusted to the obligation amount and accounted for as a provision.

(d) Regular way purchase or sale of financial assets

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

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

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

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

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(e) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

2.7 Impairment of financial assets

(a) Financial assets, excluding insurance receivables

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

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7(b) below) and held-to-maturity investments is recognised in income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(a) Financial assets, excluding insurance receivables (continued)

An impairment loss in respect of available-for-sale financial assets is recognised in the income statement and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised. Where a decline in the fair value of an available-for-sale financial asset has been recognised in the other comprehensive income, the cumulative loss in other comprehensive income is reclassified from equity and recognised to income statement.

An impairment loss in respect of unquoted equity instrument that is carried at cost is recognised in income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Impairment losses recognised in income statement for an investment in an equity instrument is not reversed through income statement.

If, in subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

2. Significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(b) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

Prior to the adoption of FRS 139, known bad debts are written off and specific allowances are made for insurance receivables as follows:

(i) motor premiums which remain outstanding for more than 30 days from the date on which they become receivable;
(ii) non-motor premiums, including agents or reinsurance balances, which remain outstanding for more than six (6) months from the date on which they become receivable; and
(iii) all debts which are considered doubtful.

An impairment loss in respect of insurance receivables is recognised in income statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

The financial impact from the change in the policy for making allowances for insurance receivables is disclosed in Note 1.1.

2. Significant accounting policies (continued)

2.8 Impairment of non-financial assets

The carrying amounts of non-financial assets (except for deferred tax assets and investment property that are measured at fair value) are reviewed at each reporting period to determine whether there is any indication of impairment.

If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that largely independent of the cash flows of other assets or groups of assets ("cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (groups of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. Significant accounting policies (continued)

2.9 Equity instruments

Instrument classified as equity are stated at cost on initial recognition and are not remeasured subsequently.

(a) Ordinary share capital

The Company has issued ordinary shares that are classified as equity.

(b) 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.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

2.10 Product classification

The Company issues contracts that transfer insurance 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.

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.

2. Significant accounting policies (continued)

2.11 Reinsurance

The Company cedes insurance risk in the normal course of business for all 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 measurement impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in income statement.

The Company also assumes reinsurance risk in the normal course of business for general 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.

2.12 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance in the course of ceding of premiums to reinsurers, are charged to income statement in the period in which they are incurred or deferred where appropriate as set out in Note 2.13.

2. Significant accounting policies (continued)

2.13 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.

(a) Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.

(b) 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.

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 inceptions 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.

(c) Unearned premium reserves

Unearned premium reserves ("UPR") represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the financial period.

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

- 25% method for marine cargo, aviation cargo and transit
- $1/24^{th}$ method (or other more accurate) method for all other classes of Malaysian general policies
- $1/8^{th}$ method for all other classes of overseas inward treaty business
- Non-annual policies are time-apportioned over the period of the risks

2. Significant accounting policies (continued)

2.13 General insurance underwriting results (continued)

(d) 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 statement of financial position date.

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

(e) Fees and commission income

Insurance policyholders are charged for policy administration 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.

(f) Acquisition costs and deferred acquisition cost ("DAC")

The gross costs of acquiring and renewing insurance policies and 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.

Those costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, deferred acquisition cost is amortised/allocated to the periods according to the original policies which give rise to income. Amortisation is recognised in income statement.

DAC is derecognised when the related contracts are either settled or disposed of.

2. Significant accounting policies (continued)

2.14 Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Claims liabilities

Claim liabilities are recognised in respect of both direct insurance and inward reinsurance. Claims liabilities refer to the obligation by the Company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims incurred but not reported (IBNR), claims incurred but not enough reserved (IBNER) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserve is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Premium liabilities

Premium liabilities is the higher of the aggregate of the UPR and the best estimate value of the insurer's unexpired risk reserves ("URR") at the valuation date and the PRAD calculated at the overall Company level.

The provision for unearned premiums represents 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.

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in force at the valuation date and also includes allowance for the insurer's expenses, including overheads and cost of reinsurance, expected to be incurred during administering these policies and settling the relevant claims, and expected future premium refunds.

2. Significant accounting policies (continued)

2.15 Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(a) Rental income

Rental income is recognised in income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(b) Interest income

Interest income is recognised as it accrues, using the effective interest method except where an interest bearing investments is considered non-performing i.e. where repayments are in arrears for more than six months, in which case recognition of such interest is suspended. Subsequent to suspension, interest income is recognised on the receipt basis until all arrears have been paid.

(c) Dividend income

Dividend income is recognised in the income statement on the date the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(d) Realised gains and losses on investments

Realised gains and losses recorded in 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 differences between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2. Significant accounting policies (continued)

2.16 Tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.17 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote. Contingent liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

2. Significant accounting policies (continued)

2.18 Employee benefits

Short term employee benefits

Short term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company's contributions to statutory pension funds are charged to income statement in the year to which they relate. Once the contribution have been paid, the Company has no further payment obligations.

2.19 Other financial liabilities and insurance payables

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

2.20 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hand, deposits held at call with financial institutions and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy note 2.6(b)(iii).

2.21 Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. No diluted EPS is disclosed in these financial statements as there are no dilutive potential ordinary shares.

2. Significant accounting policies (continued)

2.22 Significant accounting judgements, estimates and assumptions

(a) Valuation of general insurance claims liabilities

For general insurance contracts, claims liabilities are the outstanding claims reserve required for the future settlement of losses on claims which have occurred but have yet to be fully settled. Claims liabilities fall into two categories: expected ultimate cost of claims reported and expected ultimate cost of claims incurred but not yet reported ("IBNR") at the date of statement of financial position.

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as chain ladder and Bornheutter-Ferguson methods.

The expected ultimate cost of claims reported are based on estimates of future payments that will be made with respect to individual claims. Such estimates are made on a case-by-case basis, based on the information available at the time the reserves are established. The estimates reflect the informed judgement of claims personnel based on general insurance reserving practices and knowledge of the nature and value of a specific type of claim. These reserves are regularly reevaluated in the ordinary course of the settlement process and adjustments are made as new information becomes available.

IBNR reserves are established to recognise the estimated cost of losses that have occurred but where the Company has not yet been notified. The valuation of IBNR reserves is carried out by an independent qualified actuary using his professional judgement in applying actuarial methodology and assumptions, based on the Company's current and past claims experience, taking into account the Company's underwriting practice and industry experience. IBNR reserves are estimated based on actuarial statistical projections of the expected cost of the ultimate settlement and administration of claims. The projections are based on available information at the time and includes factors such trends in claims frequency, severity and speed of settlement. IBNR reserves are reviewed and revised quarterly as additional information becomes available with the actual claims development.

2. Significant accounting policies (continued)

2.22 Significant accounting judgements, estimates and assumptions (continued)

(a) Valuation of general insurance claims liabilities (continued)

As with all projections, there are elements of uncertainty and thus the projected future claims experience may be different from its actual claims experience. These uncertainties may arise from changes in the underlying risks, changes in the spread of risk, changes in the speed of reporting and settlement of claims as well as the suitability of the methodology used in the projection model and its underlying assumptions.

Prior to 1 January 2009, claims handling costs were not included in the valuation of claim liabilities. The effect, had the claims handling costs been included in the valuation of claims liabilities previously, was not material to the financial statements in previous years.

Company No.735426-V

3. Property, plant and equipment

	Note	Land	Buildings	Land and buildings*	Office equipments, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work in progress	Total	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cost/Valuation										
At 1 January 2009, restated		-	-	-	-	-	-	-	-	
Business transfer		720	4,949	-	24,117	4	2,759	-	32,549	
Transfer of assets		9,609	9,126	-	27,945	482	16,164	1,994	65,320	
Additions		-	-	2,500	1,497	216	712	5,469	10,394	
Disposals		-	(1,100)	-	(120)	-	(340)	-	(1,560)	
Written off		-	-	-	(20,372)	-	(2,320)	-	(22,692)	
At 31 December 2009 / 1 January 2010, restated		10,329	12,975	2,500	33,067	702	16,975	7,463	84,011	
Transfer of assets		750	750	-	-	-	-	-	1,500	
Additions		-	-	-	245	-	132	3,487	3,864	
Disposals		-	(1,085)	-	(12)	(482)	-	-	(1,579)	
Reclassification		-	-	-	6,159	-	43	(7,333)	(1,131)	#
Written off		-	-	-	(315)	-	(63)	-	(378)	
Transfer to assets held for sale		(440)	(1,810)	-	-	-	-	-	(2,250)	
Impairment		-	-	(1,041)	-	-	-	-	(1,041)	
At 31 December 2010		10,639	10,830	1,459	39,144	220	17,087	3,617	82,996	

Certain work-in-progress were reclassified as software development costs (intangible assets).

Company No.735426-V

3. Property, plant and equipment (continued)

	Note	Land	Buildings	Land and buildings*	Office equipments, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work in progress	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation									
At 1 January 2009, restated		-	-	-	-	-	-	-	-
Business transfer		8	163	-	22,101	2	2,413	-	24,687
Transfer of assets		222	921	-	14,042	386	4,016	-	19,587
Depreciation for the year	26	80	444	30	5,212	92	1,570	-	7,428
Disposals		-	(63)	-	(112)	-	(295)	-	(470)
Written off		-	-	-	(20,217)	-	(2,293)	-	(22,510)
At 31 December 2009 / 1 January 2010, restated		310	1,465	30	21,026	480	5,411	-	28,722
Transfer of assets		-	48	-	-	-	-	-	48
Depreciation for the year	26	80	433	29	5,384	76	1,720	-	7,722
Disposals		-	(76)	-	(7)	(467)	-	-	(550)
Written off		-	-	-	(281)	-	(62)	-	(343)
Transfer to assets held for sale		-	(151)	-	-	-	-	-	(151)
At 31 December 2010		390	1,719	59	26,122	89	7,069	-	35,448

Company No.735426-V

3. Property, plant and equipment (continued)

	Note	Land	Buildings	Land and buildings*	Office equipments, computers, furniture and fittings	Motor vehicles	Office renovations and partitions	Work in progress	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Carrying amount									
At 1 January 2009, restated		-	-	-	-	-	-	-	-
At 31 December 2009 / 1 January 2010, restated		10,019	11,510	2,470	12,041	222	11,564	7,463	55,289
At 31 December 2010		10,249	9,111	1,400	13,022	131	10,018	3,617	47,548

* The carrying amounts of land and buildings are not segregated as the required information is not available.

3. Property, plant and equipment (continued)

3.1 Revaluation of properties

The Company's land and buildings were revalued in 2006 and 2007 in the books of its immediate holding company by independent professional qualified valuers using the comparison and investment methods prior to the transfer of assets. Except for a property which was impaired by RM1,040,770 (2009: Nil) during the year, the Directors are of the opinion that the market values of the other properties at the end of the financial year are not materially different from their carrying amounts.

3.2 Leased computers

At 31 December 2010, the net carrying amounts of leased computers of the Company was RM1,155,790 (2009 – RM2,120,971).

3.3 Land

Included in the carrying amount of land are:

	31.12.2010 RM'000	31.12.2009 RM'000 Restated
Freehold land	5,190	4,880
Long term leasehold land	5,059	5,139
	10,249	10,019

4. Investment properties

	31.12.2010 RM'000	31.12.2009 RM'000
At 1 January	1,662	-
Business transfer	-	920
Transfer of assets	-	742
Transfer to assets held for sale	(920)	-
	742	1,662
Included in the above are:		
At fair value:		
Freehold land	-	600
Leasehold land	242	242
Buildings	500	820
	742	1,662

The fair values of investment properties are determined using comparison and investment methods. The investment properties are for capital appreciation and do not generate any rental income.

5. Intangible assets

Software development cost	31.12.2010 RM'000	31.12.2009 RM'000
Cost		
At 1 January	8,838	-
Transfer of assets	-	8,609
Reclassification	1,131	-
Additions	1,349	229
At 31 December	11,318	8,838
Amortisation		
At 1 January	3,485	-
Transfer of assets	-	1,713
Additions	2,264	1,772
At 31 December	5,749	3,485
Carrying amounts		
At 1 January	5,353	-
At 31 December	5,569	5,353

The software development cost is in relation to internal development expenditures incurred for the Integrated Insurance Management System, Alternate Front End System and Business Intelligence System. These systems are designed to improve the efficiency of the business activities of the Company.

Company No.735426-V

6. Investments

	31.12.2010 RM'000	31.12.2009 RM'000	1.1.2009 RM'000
Malaysian government securities	825,353	849,796	386,850
Malaysian government guaranteed bonds	176,715	80,776	43,342
Multilateral development bank guaranteed bonds	143,397	81,766	57,080
Debt securities	532,650	388,781	285,652
Unquoted equity securities	*	*	**
Commercial loans	5,525	7,345	8,255
Structured deposits and negotiable certificate of deposits with licensed financial institutions	35,775	35,102	22,197
	1,719,415	1,443,566	803,376

* Denotes RM4
** Denotes RM1

Company No.735426-V

6. Investments (continued)

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

	Current		Non-current		Total	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**	**31.12.2010**	**31.12.2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Loans and receivables ("LAR")	-	-	5,525	7,345	5,525	7,345
Available-for-sale financial assets ("AFS")	1,713,890	1,436,221	-	-	1,713,890	1,436,221
	1,713,890	1,436,221	5,525	7,345	1,719,415	1,443,566

Company No.735426-V

6. Investments (continued)

6.1 The Company's financial investments are summarised by categories as follows: (continued)

	31.12.2010		31.12.2009		1.1.2009	
	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000	Amortised cost RM'000	Fair value RM'000
Loans and receivables						
Commercial loans	5,525	5,525	7,345	7,345	8,255	8,255

	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000	Fair value RM'000
Available-for-sale						
Malaysian government securities	825,353	825,353	849,796	849,796	386,850	386,850
Malaysian government guaranteed bonds	176,715	176,715	80,776	80,776	43,342	43,342
Multilateral development bank guaranteed bonds	143,397	143,397	81,766	81,766	57,080	57,080
Debt securities:						
Quoted in Malaysia	5,404	5,404	6,565	6,565	7,323	7,323
Unquoted in Malaysia	527,246	527,246	382,216	382,216	278,329	278,329
Unquoted equity securities	*	*	*	*	**	**
Structured deposits and negotiable certificate of deposits with licensed financial institutions	35,775	35,775	35,102	35,102	22,197	22,197
	1,713,890	1,713,890	1,436,221	1,436,221	795,121	795,121

* Denotes RM4
** Denotes RM1

Company No.735426-V

6. Investments (continued)

6.2 The carrying values of the financial investments are stated as follows:

	LAR RM'000	AFS RM'000	Total RM'000
At 1 January 2009	8,255	785,831	794,086
Change in accounting policy: Effect of adopting the fair value measurement for securities	-	9,290	9,290
At 1 January 2009, restated	8,255	795,121	803,376
Business transfer	-	415,775	415,775
Purchases	-	353,839	353,839
Maturities	(910)	(118,150)	(119,060)
Disposals	-	(12,477)	(12,477)
Fair value gains recorded in other comprehensive income	-	4,807	4,807
Accretion	-	1,188	1,188
Amortisation	-	(3,882)	(3,882)
At 31 December 2009	7,345	1,436,221	1,443,566
Purchases	-	1,002,659	1,002,659
Maturities	(1,820)	(357,994)	(359,814)
Disposals	-	(364,590)	(364,590)
Fair value gains recorded in other comprehensive income	-	412	412
Accretion	-	2,776	2,776
Amortisation	-	(5,594)	(5,594)
At 31 December 2010	5,525	1,713,890	1,719,415

6. Investments (continued)

6.3 Fair value of financial investments

The basis of estimation of fair values for financial instruments is as follows:

(a) The fair values of Malaysian government securities, Malaysian government guaranteed bonds, structured deposits and negotiable certificate of deposits are based on the indicative market prices;

(b) The fair values of quoted bonds of corporations in Malaysia are based on quoted closing market prices as at the end of the reporting period;

(c) The fair values of multilateral development bank guaranteed bonds and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions; and

(d) The carrying amount of commercial loans is assumed to approximate their fair values.

Estimating the fair values of multilateral development bank guaranteed bonds and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions which involve projections of market yields based on past transactions. These are elements of uncertainty in projecting the expected market yields and these uncertainties arise from changes in the underlying risk and overall economic conditions. As such, the projected market yields may be different from the actual market yields in future.

7. Reinsurance assets

	Note	31.12.2010 RM'000	31.12.2009 RM'000	1.1.2009 RM'000
Non-current				
Reinsurance of insurance contracts				
Claims liabilities		425,520	383,103	125,337
Current				
Reinsurance of insurance contracts				
Claims liabilities		388,070	367,357	224,331
Premium liabilities	13.2	154,144	176,702	167,286
		542,214	544,059	391,617
		967,734	927,162	516,954

8. Insurance receivables

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Current			
Due premiums including agent, brokers and co-insurers balances		46,688	101,538
Due from reinsurers and cedants		38,034	35,825
		84,722	137,363
Allowance for impairment	8.1	(32,714)	(38,385)
		52,008	98,978
Due from related companies	8.2	6,199	8,359
		58,207	107,337

8.1 Allowance for impairment

During the year, doubtful debts of RM2,951,000 (2009: RM9,500,000) was written off against the allowance for impairment.

Included in the allowance for impairment in 2009 was an amount of RM24,164,000 arising from the business transfer.

8.2 Amounts due from related companies

The amounts due from related companies are unsecured, interest free and repayable on demand.

9. Loans and other receivables

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Staff loans			
Mortgage loans		2,598	2,843
Other secured loans		649	514
		3,247	3,357
Other receivables			
Other receivables, deposits and prepayments		4,235	4,531
Malaysian Institute of Insurance ("MII") bonds		490	490
		4,725	5,021
Current			
Staff loans			
Mortgage loans		505	383
Other secured loans		312	253
		817	636
Other receivables			
Other receivables, deposits and prepayments		15,640	18,571
Allowance for impairment		(3,236)	(3,236)
		12,404	15,335
Income due and accrued		20,072	14,176
Due from immediate holding company	9.1	-	1
Due from related companies	9.1	16	24
		32,492	29,536
Total loans and receivables		41,281	38,550

Estimation of fair value

The carrying amounts of mortgage loans and other secured loans are assumed to approximate their fair values.

The carrying amounts of other receivables approximate their fair values due to the relatively short term nature of these financial instruments.

9.1 Amounts due from immediate holding company and related companies

The amounts due from immediate holding company and related companies are unsecured, interest free and repayable on demand.

10. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2009		49,537	(15,078)	34,459
Business transfer		5,158	(2,550)	2,608
Movement during the year	23,25	4,984	(2,651)	2,333
At 31 December 2009/ 1 January 2010		59,679	(20,279)	39,400
Movement during the year	23,25	(32)	3,230	3,198
At 31 December 2010		59,647	17,049	42,598

11. Share capital

	2010		2009	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
Authorised				
On 1 January	300,000	300,000	300,000	300,000
Creation during the year	200,000	200,000	-	-
On 31 December	500,000	500,000	300,000	300,000
Issued and fully paid				
On issue at 1 January	261,205	261,205	128,000	128,000
Issued during the year	73,785	73,785	133,205	133,205
On issue at 31 December	334,990	334,990	261,205	261,205

11. Share capital (continued)

During the financial year, the Company:

a) increased its authorised share capital from 300,000,000 to 500,000,000 ordinary shares at RM1 each by the creation of 200,000,000 ordinary shares of RM1 each; and

b) increased its issued and paid-up share capital from 261,205,197 to 334,989,993 by way of the following allotment and issuance of the ordinary shares:-

   (i) 33,784,796 new ordinary shares of RM1 each at par to its immediate holding company, AMB for the purpose of repaying the subordinated loan of RM33,784,796 due and owing to AMB by the Company; and

   (ii) 40,000,000 new ordinary shares of RM1 each at par to its immediate holding company, AMB in order to increase the capital base of the Company to meet the capital requirement under the RBC Framework.

12. Retained earnings

Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has Section 108 tax credit to frank approximately RM4,481,000 of its distributable reserves at 31 December 2010 (2009 - RM4,481,000) if paid out as dividends.

The Finance Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

Company No.735426-V

13. Insurance contract liabilities

General insurance contract liabilities consist of:

		31.12.2010			31.12.2009			1.1.2009		
	Note	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Re-insurance RM'000 (Note 7)	Net RM'000
Provision for claims reported by policyholders		1,227,631	(658,994)	568,637	1,106,461	(608,905)	497,556	567,482	(287,094)	280,388
Provision for incurred but not reported claims ("IBNR")		368,545	(154,596)	213,949	335,853	(141,555)	194,298	136,554	(62,574)	73,980
Provision for outstanding claims	13.1	1,596,176	(813,590)	782,586	1,442,314	(750,460)	691,854	704,036	(349,668)	354,368
Provision for unearned premiums	13.2	565,138	(154,144)	410,994	536,266	(176,702)	359,564	497,599	(167,286)	330,313
		2,161,314	(967,734)	1,193,580	1,978,580	(927,162)	1,051,418	1,201,635	(516,954)	684,681

Company No.735426-V

13. Insurance contract liabilities (continued)

13.1 Provision for outstanding claims

	2010			2009		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At 1 January	1,442,314	(750,460)	691,854	704,036	(349,668)	354,368
Business transfer	-	-	-	602,845	(309,021)	293,824
Claims incurred in the current accident year	927,982	(349,930)	578,052	891,605	(374,799)	516,806
Other movements in claims incurred in prior accident years	(84,476)	54,501	(29,975)	(176,109)	115,597	(60,512)
Claims paid during the year	(689,644)	232,299	(457,345)	(580,063)	167,431	(412,632)
At 31 December	1,596,176	(813,590)	782,586	1,442,314	(750,460)	691,854

13. Insurance contract liabilities (continued)

13.2 Provision for unearned premiums

	Note	2010 Gross RM'000	2010 Re-insurance RM'000 (Note 7)	2010 Net RM'000	2009 Gross RM'000	2009 Re-insurance RM'000 (Note 7)	2009 Net RM'000
At 1 January		536,266	(176,702)	359,564	497,599	(167,286)	330,313
Business transfer		-	-	-	37,776	(12,654)	25,122
Premiums written in the year	20	1,324,282	(401,431)	922,851	1,202,390	(414,615)	787,775
Premiums earned during the year		(1,295,410)	423,989	(871,421)	(1,201,499)	417,853	(783,646)
At 31 December		565,138	(154,144)	410,994	536,266	(176,702)	359,564

14. Deferred assets / (liabilities)

14.1 Recognised deferred tax assets / (liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	(2,223)	(2,309)	(2,223)	(2,309)
Intangible assets	-	-	(1,393)	(1,338)	(1,393)	(1,338)
Provisions	496	937	-	-	496	937
Investments	-	-	(3,627)	(3,524)	(3,627)	(3,524)
Assets held for sale	145	-	-	-	145	-
Other items	8,580	379	-	-	8,580	379
Net tax assets/(liabilities)	9,221	1,316	(7,243)	(7,171)	1,978	(5,855)

Company No.735426-V

14. Deferred tax assets / (liabilities) (continued)

14.2 Movement in temporary differences during the year

	Note	At 1 January 2009 RM'000	Recognised in other comprehen-sive income (Note 27) RM'000	At 1 January 2009 (Restated) RM'000	Business transfer RM'000	Recognised in income statement (Note 27) RM'000	Recognised in other comprehen-sive income (Note 27) RM'000	At 31 December 2009/ 1 January 2010 (Restated) RM'000
Property, plant and equipment		-	-	-	(317)	(1,992)	-	(2,309)
Intangible assets		-	-	-	-	(1,338)	-	(1,338)
Provisions		676	-	676	9	252	-	937
Investments	27.3	-	(2,323)	(2,323)	-	-	(1,201)	(3,524)
Assets held for sale		-	-	-	-	-	-	-
Other items		925	-	925	117	(663)	-	379
		1,601	(2,323)	(722)	(191)	(3,741)	(1,201)	(5,855)

14. Deferred tax assets / (liabilities) (continued)

14.2 Movement in temporary differences during the year (continued)

	Note	At 31 December 2009/ 1 January 2010 (Restated)	Recognised in income statement (Note 27)	Recognised in other comprehensive income (Note 27)	At 31 December 2010
		RM'000	RM'000	RM'000	RM'000
Property, plant and equipment		(2,309)	86	-	(2,223)
Intangible assets		(1,338)	(55)	-	(1,393)
Provisions		937	(441)	-	496
Investments	27.3	(3,524)	-	(103)	(3,627)
Assets held for sale		-	145	-	145
Other items		379	8,201	-	8,580
		(5,855)	7,936	(103)	1,978

15. Other financial liabilities

	31.12.2010 RM'000	31.12.2009 RM'000
Current		
Deposits received from reinsurers	2,013	2,092

The carrying amounts disclosed above approximate fair value at the end of the reporting period.

16. Insurance payables

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Performance bond deposits	16.1	16,589	17,683
Current			
Due to reinsurers and cedants		54,874	35,103
Due to agents and intermediaries		91,354	76,267
Performance bond deposits	16.1	48,201	59,296
Due to related companies	16.2	6,834	17,188
		201,263	187,854
		217,852	205,537

The carrying amounts disclosed above approximate fair value at the end of the reporting period.

16.1 Performance bond deposits

Performance bond deposits are collateral deposits received from policyholders for guarantees issued on behalf of policyholders.

16.2 Amounts due to related companies

The amounts due to the related companies are unsecured, interest free and repayable on demand.

17. Other payables and accruals

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Finance lease liabilities	17.2	105	783
Current			
Due to immediate holding company	17.1	616	581
Due to related companies	17.1	126	608
Finance lease liabilities	17.2	752	1,178
Other payables and accrued expenses		56,449	66,542
		57,943	68,909
		58,048	69,692

The carrying amounts disclosed above approximate fair value at the end of the reporting period.

17.1 Amounts due to immediate holding company and related companies

The amounts due to the immediate holding company and related companies are unsecured, interest free and repayable on demand.

17.2 Finance lease liabilities

	Minimum lease payments 31.12.2010 RM'000	Interest 31.12.2010 RM'000	Principal 31.12.2010 RM'000
Less than one year	784	32	752
Between one and five years	110	5	105
	894	37	857

18. Subordinated loans

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Subordinated loan II	18.2	28,171	30,670
Current			
Subordinated loan I	18.1	-	14,000
Subordinated loan II	18.2	-	18,332
		-	32,332
		28,171	63,002

18.1 Subordinated loan I

On 1 July 2007, with the approval from BNM, the immediate holding company, AMB, extended a RM 14,000,000 subordinated loan ("Subordinated loan I") to the Company. The subordinated loan has no fixed tenure, interest free and cannot be repaid without the prior approval from BNM.

On 11 December 2009, AMB sought BNM's consideration for the proposed repayment of the Subordinated loan I via allotment and issuance of new ordinary shares of RM1.00 each at par by the Company to AMB for an amount equivalent to Subordinated loan I.

BNM had on 18 January 2010 approved AMB's application for the proposed repayment of the Subordinated loan I and the increase in issued and paid-up share capital of the Company.

The Company had on 4 June 2010 repaid the Subordinated loan I via the allotment and issuance of 14,000,000 new ordinary shares of RM1.00 each at par to AMB.

18. Subordinated loans (continued)

18.2 Subordinated loan II

The Subordinated loan II comprises:

(a) Subordinated loan arising from the Assets Purchase Agreement dated 26 March 2009 (“APA”) of RM30,669,577, entered into between AMB and the Company;

(b) Subordinated loan arising from the Master Subordinated Loan Agreement dated 26 March 2009 at RM 19,784,796 (2009: RM18,332,669), entered into between AMB and the Company .

The Master Subordinated Loan Agreement was in relation to the proposed disposal of 14 Sale and Purchase Agreements (“SPAs”) of which 13 out of 14 SPAs have been completed during the financial year 2009 and the remaining 1 property was completed during on 11 May 2010 with a total consideration of RM19,784,796 (2009: 13 out of 14 SPAs have been completed with a total consideration of RM18,332,669).

On 11 December 2009, AMB sought BNM’s consideration for the proposed repayment of the subordinated loan via the issuance and allotment of new ordinary shares of RM1.00 each at par by the Company to AMB for an amount equivalent to the total sale consideration of the 14 properties. BNM had on 18 January 2010 approved AMB’s application for the proposed repayment of the subordinated loan and the increase in issued and paid-up share capital of the Company.

The Company had on 4 June 2010 repaid the sum of RM19,784,796.66 to AMB via the allotment and issuance of 19,784,796 new ordinary shares of RM1.00 each by the Company at par to AMB and the balance of RM0.66 was settled in cash by the Company to AMB.

The remaining portion of subordinated loan II of RM30,669,577 (2009: RM30,669,577) was revalued at RM28,171,218 with the adoption of FRS 139.

19. Operating revenue

	Note	2010 RM’000	2009 RM’000
Gross earned premiums	20	1,295,410	1,201,499
Investment income	21	67,443	58,332
		1,362,853	1,259,831

Company No.735426-V

20. Net earned premiums

	Note	2010 RM'000	2009 RM'000
Gross premiums	13.2	1,324,282	1,202,390
Change in unearned premiums provision		(28,872)	(891)
Gross earned premiums	13.2	1,295,410	1,201,499
Gross premiums ceded	13.2	(401,431)	(414,615)
Change in unearned premiums provision		(22,558)	(3,238)
Premiums ceded to reinsurers		(423,989)	(417,853)
Net earned premiums		871,421	783,646

21. Investment income

	2010 RM'000	2009 RM'000
Available-for-sale financial investments:		
Interest/profit income		
Malaysian government securities	26,087	28,702
Malaysian government guaranteed bonds	5,802	2,984
Multilateral development bank guaranteed bonds	5,738	3,352
Cagamas bonds	-	6
Unquoted bonds of corporations in Malaysia	21,978	17,854
Quoted bonds of corporations in Malaysia	577	82
Structured deposits and negotiable certificate of deposits with licensed financial institutions	1,526	231
Dividend income		
Unquoted equity securities in Malaysia	-	32
Loans and receivables financial investments:		
Interest/profit income		
Commercial loans	441	574
Loans and receivables and cash and cash equivalents interest/profit income	5,243	4,490
Rental income	51	25
	67,443	58,332

Company No.735426-V

22. Realised gains and losses

	2010 RM'000	2009 RM'000
Property, plant and equipment		
Realised gains	136	200
Available-for-sale financial assets		
Realised gains:		
Unquoted debt securities in Malaysia	65	143
Quoted debt securities in Malaysia	64	-
Malaysian government securities	4,714	-
Total realised gains for available-for-sale financial assets	4,843	143
	4,979	343

23. Fee and commission income

	Note	2010 RM'000	2009 RM'000
Reinsurance commission income		50,645	50,266
Deferred acquisition cost	10	3,230	(2,651)
Service charges		23,337	22,774
		77,212	70,389

Company No.735426-V

24. Net claims incurred

	Note	2010 RM'000	2009 RM'000
Gross claims paid less salvage		689,644	580,063
Claims ceded to reinsurers		(232,299)	(167,431)
Net claims paid	13.1	457,345	412,632
Gross change in contract liabilities:			
At 31 December	13.1	1,596,176	1,442,314
Business transfer		-	(602,845)
At 1 January	13.1	(1,442,314)	(704,036)
		153,862	135,433
Change in contract liabilities ceded to reinsurers:			
At 31 December		(813,590)	(750,460)
Business transfer		-	309,021
At 1 January		750,460	349,668
		(63,130)	(91,771)
		548,077	456,294

25. Fee and commission expense

	Note	2010 RM'000	2009 RM'000
Gross direct commission		154,099	150,334
Deferred acquisition cost	10	32	(4,984)
		154,131	145,350

26. Management expenses

	Note	2010 RM'000	2009 RM'000
Employee benefit expenses	26.1	87,288	91,396
Non-executive directors' remuneration		217	209
Auditors' remuneration:			
- statutory audits		190	180
Depreciation of property, plant and equipment	3	7,722	7,428
Amortisation of intangible assets		2,264	1,772
Reversal of allowance for impairment loss of Insurance receivables /doubtful debts		(730)	(11,268)
Bad debts recovered		(122)	(180)
Bad debts written off		2,951	9,500
Bank charges		75	90
Advertising expenses		1,907	1,298
Insurance guarantee scheme fund		2,504	2,179
Rental of office equipment		100	94
Rental of premises		6,209	6,838
Other expenses		49,679	44,164
		160,254	153,700

26.1 Employee benefit expenses

	2010 RM'000	2009 RM'000
Wages and salaries	54,826	49,035
Bonus	21,875	31,571
Social security contributions	579	554
Contribution to Employee's Provident Fund	9,120	9,386
Other benefits	888	850
	87,288	91,396

26. Management expenses (continued)

26.2 Key management personnel compensation

	Note	2010 RM'000	2009 RM'000
Executive director:			
Salaries and other emoluments		2,425	540
Bonus		936	308
Social security contributions		1	1
Contribution to Employees' Provident Fund		105	101
Estimated money value of benefits-in-kind		24	24
		3,491	974
Non-executive directors:			
Fees		195	195
Other remuneration		22	14
		217	209
Other key management personnel*			
Short-term employee benefits		3,479	4,566
		7,187	5,749

The number of executive and non-executive directors whose total remuneration received during the year falls within the following bands is as follows:

	Number of directors 2010	2009
Executive director		
RM900,001 to RM1,000,000	-	1
RM3,000,000 to RM4,000,000	1	-
Non-executive directors:		
Below RM100,000	3	3

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

26. Management expenses (continued)

26.3 Chief executive officer remuneration

	2010 RM'000	2009 RM'000
Salaries and other emoluments	2,456	540
Bonus	965	308
Social security contributions	1	1
Contribution to Employees' Provident Fund	109	101
Estimated money value of benefits-in-kind	26	24
	3,557	974
Amount included in employee benefits expenses	3,531	950

27. Tax expense

27.1 Recognised in the income statement

	Note	2010 RM'000	2009 RM'000
Current tax expense			
Current year		44,309	39,562
Under provision in prior year		8,636	54
		52,945	39,616
Deferred tax expense			
Origination of temporary differences		1,685	4,211
Over provision in prior year		(9,621)	(470)
	14.2	(7,936)	3,741
Tax expense		45,009	43,357

Company No.735426-V

27. Tax expense (continued)

27.2 Reconciliation of tax expense

	2010 RM'000	2009 RM'000
Profit before tax	167,377	156,569
Tax at Malaysian tax rate of 25%	41,844	39,142
Non-deductible expenses	4,253	2,133
Other items	(103)	2,498
	45,994	43,773
Over provision in prior year	(985)	(416)
Tax expense	45,009	43,357

27.3 Income tax recognised directly in other comprehensive income

	Note	2010 RM'000	2009 RM'000
Fair value reserve			
At 1 January		3,524	2,323
Net gain arising from change in fair value		103	1,201
At 31 December	14.2	3,627	3,524

28. Earnings per ordinary share

28.1 Profit for the year attributable to shareholders

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year calculated as follows:

	2010 RM'000	2009 RM'000
Profit for the year attributable to ordinary shareholders	122,368	113,212

28.2 Weighted average number of ordinary shares

	2010	2009
Issued ordinary shares at 1 January	261,205,197	128,000,000
Effect of ordinary shares issued on 16 April 2009	-	94,520,948
Effect of ordinary shares issued on 4 June 2010	19,437,828	-
Effect of ordinary shares issued on 28 October 2010	7,013,699	-
Weighted average number of ordinary shares at 31 December	287,656,724	222,520,948

28.3 Basic earnings per ordinary share

	2010 Sen	2009 Sen
Basis earnings per ordinary share	42.5	50.9

Diluted earnings per share are not presented as there were no dilutive potential ordinary shares as at the end of the reporting period.

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

29. Dividends

After the reporting period, the following dividends were proposed by the Directors. This dividend will be recognised in subsequent financial period upon approval by the owners of the Company.

	Sen per share (net of tax)	Total amount RM'000
Final 2010 ordinary		
- taxable	1.34	4,472
- single tier	2.25	7,537
		12,009

30. Operating leases

30.1 Leases as lessee

Total future minimum lease payments under operating leases are as follows:

	2010 RM'000	2009 RM'000
Less than one year	4,657	2,751
Between one and five years	7,478	850
	12,135	3,601

The leases typically run for an initial period of three years, with an option to renew the leases. None of the leases included contingent rentals.

31. Capital expenditure commitments

	2010 RM'000	2009 RM'000
Property, plant and equipment		
Approved but not contracted for	10,272	4,000
Contracted but not provided for	2,184	4,255

32. Related parties

Identity of related parties

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

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel includes all the Directors of the Company and certain members of senior management of the Company. Compensation of key management personnel have been disclosed in Note 26.2. Apart from this, there are no other transactions with key management personnel.

The significant related party transactions of the Company are as follows:

Company No.735426-V

32. Related parties (continued)

	2010		2009	
	Amount transacted for the year ended 31 December	Balance outstanding at 31 December	Amount transacted for the year ended 31 December	Balance outstanding at 31 December
Non-trade				
Ultimate holding company				
Payment for global marketing costs	(495)	-	(391)	-
Reimbursement of staff costs	(109)	-	(416)	-
Payment of E-learning	(109)	-	-	-
Immediate holding company				
Expenses related to common resources	(4,374)	(616)	(3,068)	(581)
Rental of office premises paid	(19)	-	(979)	-
Reimbursement of payment made on behalf	(4)	-	(307)	-
Subordinated loan received	-	(28,171)	-	(63,002)
Related companies				
Expenses related to common resources	(1,209)	(110)	(1,601)	(584)
Reimbursement of payment made on behalf	(554)	-	(33)	-
Rental of office premises paid	(37)	-	(3,066)	-
Insurance payment	(196)	-	(444)	-
Payment for investment advisory fees	(376)	-	(123)	-
Payment for intranet portal network cost	(247)	-	(196)	-
Risk survey fees	(10)	-	-	-
Trade				
Related companies				
Reinsurance premium	(120,309)	(625)	(110,473)	(8,829)
Reinsurance commission	19,781	-	20,160	-

33. Risk management framework

As a provider of insurance services, the Company considers risk management to be one of its core competencies. It is an integrated part of the Company's business processes. In order to protect its assets, the Company has established a Group-wide risk management to promote a strong risk management culture supported by a robust risk governance structure.

This comprehensive framework ensures that risks are properly identified, analysed and evaluated. Risk appetite is defined by a risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance at early stage.

The Allianz risk management framework consists of the following four primary components:

Risk underwriting and identification

A sound risk underwriting and identification framework including risk assessment, risk standards, and clear targets forms the foundation for adequate risk taking and management decisions such as individual transaction approval, new product approval, strategic or tactical asset allocation.

Risk evaluation, reporting and controlling

The Company's comprehensive qualitative and quantitative risk reporting and controlling framework provides transparency and early warning indicators to senior management with regards to its overall risk profile as well as to whether or not the profile is within delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defined its risk appetite. It ensures that rewards are appropriate for the risks taken and that the delegated authorities are in line with the Company's overall risk bearing capacity. The risk-return profile is improved through integration of risk considerations and capital needs into management and decision making processes. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk tolerance.

Communication and transparency

Finally, a transparent and robust risk disclosure provides a basis for communicating this strategy to the Company's internal and external stakeholders, ensuring a sustainability positive impact on valuation and financing.

33. Risk management framework (continued)

Risk governance structure

The Board of Directors of the Company ("the Board") assumes the ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the Risk Management Committee ("the RMC") to discharge its oversight function effectively.

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Company. RMC also oversees the Senior Management's activities in managing the key risk areas of the Company and to ensure that risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of Allianz Malaysia Berhad Group of companies ("AMB Group") and to report to the Board on its recommendations and/or decisions. Through structured reporting from Risk Management Working Committee ("RMWC"), the RMC will consolidate the status of the risks and present them to the Board for consideration.

RMWC serves and provides as a platform for two way communications between the management and the Board on matters of the Group's risk management framework and its strategies. They are responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendation to the Board. They determine allocation of risks by cascading and/or elevating to the relevant owners. From there, they conduct review on the allocated risk from time to time. They also oversee the compliance of all risk management process by all departments of the Company. They provide a risk decision taking and/or recommendation framework to ensure timely reaction to early warning related to risk issues and pre-emptive mitigation.

Governance and regulatory framework

The Company is required to comply with the requirements of the Insurance Act and regulations, 1996, relevant laws and guidelines from BNM and Persatuan Insurans Am Malaysia ("PIAM").

The Company is also required to comply with all Allianz SE Group's policies and standards. If there is any conflict with the local laws or regulations, the stricter will applies.

33. Risk management framework (continued)

Capital management – regulatory capital

The RBC Framework came into effect on 1 January 2009. Under the RBC Framework, insurance companies need to maintain a capital adequacy level that commensurate with their risk profiles. All insurance companies are required to maintain a minimum Capital Adequacy Ratio ("CAR") of 130% and an internal target capital level determined by BNM. The internal target will include additional capacity to absorb unexpected losses beyond those that are covered under the minimum required CAR.

The Company has met its regulatory requirements.

34. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and risk of change in the legal or economic conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company seeks to minimise underwriting risks through a formalised reinsurance arrangement with an appropriate mix and spread of business between classes of business based on its overall strategy. This is complemented by observing formalised underwriting guidelines, limits and standards.

The insurance risk of general insurance contracts consists of premium and reserve risks. Premium risk represents the risk of loss because of an unexpected high loss volume resulting in an insufficient coverage of premiums. Reserve risks represents the risk of loss resulting from deviations between payments for incurred losses that have not yet been definitely settled and the reserves set up to cover these payments, or the use of an insufficient basis for the calculation of reserves.

The table below sets out the concentration of the general insurance risk as at the statement of financial position date by type of contract.

	2010			2009		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Fire	172,082	(117,867)	54,215	251,030	(196,920)	54,110
Motor	627,580	(59,056)	568,524	559,573	(71,891)	487,682
Marine cargo, aviation cargo and transit	203,234	(181,877)	21,357	161,396	(139,827)	21,569
Miscellaneous	593,280	(454,790)	138,490	470,315	(341,822)	128,493
Total	1,596,176	(813,590)	782,586	1,442,314	(750,460)	691,854

34. Insurance risk (continued)

Key assumptions

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claims costs, claims handling cost and claims numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

No discounting is made to the recommended claims and premium liability provisions as a prudent measure. In addition, no explicit inflation adjustment has been made to claims amount payable in the future. However, implicit inflation is allowed for future claims to the extent evident in past claims development. It is worthwhile to note that discounting is unlikely to result in any material impact due to the short tail nature of almost all classes, coupled with the low prevailing interest rate environment.

The Company has based its risk margin for adverse deviation for the provisions for unexpired risks and insurance claims at the minimum 75% of sufficiency, according to the requirement set by Bank Negara Malaysia under the RBC Framework.

Sensitivities

The independent actuarial firm engaged by the Company re-runs its valuation models on various bases. Analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process in respect of its insurance contracts. The table presented below demonstrates the sensitivity of the insurance contract liabilities estimates to particular movements in assumptions used in the estimation process.

The analysis below is performed for reasonable 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 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.

Company No.735426-V

34. Insurance risk (continued)

Sensitivities (continued)

	Change in assumptions	Impact on Gross Liabilities	Impact on Net Liabilities	Impact on Profit before Tax	Impact on Equity*
31 December 2010		**RM'000**	**RM'000**	**RM'000**	**RM'000**
Average claim cost	+10%	152,401	74,311	(74,311)	(55,733)
Average number of claims	+10%	155,776	96,114	(96,114)	(72,085)
Average claim settlement period	Increased by 6 months	30,183	14,698	(14,698)	(11,024)
31 December 2009					
Average claim cost	+10%	124,531	66,359	(66,359)	(49,769)
Average number of claims	+10%	139,678	90,477	(90,477)	(67,858)
Average claim settlement period	Increased by 6 months	24,664	13,143	(13,143)	(9,857)

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

34. Insurance risk (continued)

Claims development table

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

While the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimate established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The management of the Company believes that the estimate of total claims outstanding as of 31 December 2010 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance contract liabilities for 2010:

Accident year	Before 2003 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	Total RM'000
At end of accident year	-	415,412	454,981	396,675	458,967	803,927	713,814	891,605	927,982	-
One year later	-	435,186	505,306	440,946	590,452	714,786	620,414	822,926	-	-
Two years later	-	425,834	463,428	511,483	574,627	671,939	623,649	-	-	-
Three years later	-	418,270	488,598	493,546	557,711	673,597	-	-	-	-
Four years later	-	423,724	483,627	486,373	558,000	-	-	-	-	-
Five years later	-	422,708	477,659	486,693	-	-	-	-	-	-
Six years later	-	418,013	473,983	-	-	-	-	-	-	-
Seven years later	-	416,289	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	416,289	473,983	486,693	558,000	673,597	623,649	822,926	927,982	-

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance contract liabilities for 2010:

Accident year	Before 2003 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	Total RM'000
At end of accident year	-	156,864	145,693	171,799	173,028	202,481	183,848	250,248	214,460	-
One year later	-	303,954	329,065	312,208	365,770	378,908	366,451	565,497	-	-
Two years later	-	351,162	360,368	348,788	420,153	447,535	445,223	-	-	-
Three years later	-	370,017	387,466	379,649	451,648	482,778	-	-	-	-
Four years later	-	378,397	404,171	402,374	470,711	-	-	-	-	-
Five years later	-	386,035	412,476	415,267	-	-	-	-	-	-
Six years later	-	391,887	427,621	-	-	-	-	-	-	-
Seven years later	-	383,714	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	383,714	427,621	415,267	470,711	482,778	445,223	565,497	214,460	-
Gross general insurance contract liabilities	18,328	32,575	46,362	71,426	87,289	190,819	178,426	257,429	713,522	1,596,176

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Net general insurance contract liabilities for 2010:

Accident year	Before 2003 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	Total RM'000
At end of accident year	-	296,867	307,213	328,056	376,869	448,280	458,017	516,806	578,051	-
One year later	-	275,753	306,556	321,692	388,947	410,175	438,935	483,710	-	-
Two years later	-	277,102	299,947	330,831	378,316	402,660	440,225	-	-	-
Three years later	-	275,955	308,197	322,115	367,380	403,299	-	-	-	-
Four years later	-	270,655	306,549	313,288	367,415	-	-	-	-	-
Five years later	-	269,596	300,879	313,983	-	-	-	-	-	-
Six years later	-	265,721	298,553	-	-	-	-	-	-	-
Seven years later	-	270,003	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	270,003	298,553	313,983	367,415	403,299	440,225	483,710	578,051	-

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Net general insurance contract liabilities for 2010:

Accident year	Before 2003 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	Total RM'000
At end of accident year	-	118,023	121,478	123,658	151,133	150,994	165,070	191,803	188,247	-
One year later	-	207,131	221,125	228,893	271,228	275,172	302,313	343,484	-	-
Two years later	-	228,742	242,202	254,287	291,736	306,459	350,112	-	-	-
Three years later	-	238,012	258,735	268,988	312,530	333,465	-	-	-	-
Four years later	-	244,351	268,727	282,380	328,164	-	-	-	-	-
Five years later	-	249,289	276,060	291,273	-	-	-	-	-	-
Six years later	-	254,302	285,685	-	-	-	-	-	-	-
Seven years later	-	259,825	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	259,825	285,685	291,273	328,164	333,465	350,112	343,484	188,247	-
Net general insurance contract liabilities	7,602	10,178	12,868	22,710	39,251	69,834	90,113	140,226	389,804	782,586

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance contract liabilities for 2009:

Accident year	Before 2002 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	Total RM'000
At end of accident year	-	237,888	415,412	454,981	396,675	458,967	803,927	713,814	891,605	-
One year later	-	319,333	435,186	505,306	440,946	590,452	714,786	620,414	-	-
Two years later	-	310,649	425,834	463,428	511,483	574,627	671,939	-	-	-
Three years later	-	310,049	418,270	488,598	493,546	557,711	-	-	-	-
Four years later	-	303,164	423,724	483,627	486,373	-	-	-	-	-
Five years later	-	300,465	422,708	477,659	-	-	-	-	-	-
Six years later	-	299,781	418,014	-	-	-	-	-	-	-
Seven years later	-	307,471	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	307,471	418,014	477,659	486,373	557,711	671,939	620,414	891,605	-

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Gross general insurance contract liabilities for 2009:

Accident year	Before 2002 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	Total RM'000
At end of accident year	-	96,033	159,864	145,693	171,799	173,028	202,481	183,848	250,248	-
One year later	-	219,329	303,954	329,065	312,208	365,770	378,908	366,451	-	-
Two years later	-	250,631	351,162	360,368	348,788	420,153	447,535	-	-	-
Three years later	-	263,757	370,017	387,466	379,649	451,648	-	-	-	-
Four years later	-	272,287	378,397	404,171	402,374	-	-	-	-	-
Five years later	-	278,530	386,035	412,476	-	-	-	-	-	-
Six years later	-	280,664	391,887	-	-	-	-	-	-	-
Seven years later	-	285,421	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	285,421	391,887	412,476	402,374	451,648	447,535	366,451	250,248	-
Gross general insurance contract liabilities	19,168	22,050	26,127	65,183	83,999	106,063	224,404	253,963	641,357	1,442,314

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Net general insurance contract liabilities for 2009:

Accident year	Before 2002 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	Total RM'000
At end of accident year	-	197,719	296,867	307,213	328,056	376,869	448,280	458,017	516,806	-
One year later	-	186,464	275,753	306,556	321,692	388,947	410,175	438,935	-	
Two years later	-	180,730	277,102	299,947	330,831	378,316	402,660	-	-	
Three years later	-	181,044	275,955	308,197	322,115	367,380	-	-	-	
Four years later	-	178,159	270,655	306,549	313,288	-	-	-	-	
Five years later	-	176,897	269,596	300,879	-	-	-	-	-	
Six years later	-	176,596	265,721	-	-	-	-	-	-	
Seven years later	-	178,385	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	178,385	265,721	300,879	313,288	367,380	402,660	438,935	516,806	-

Company No.735426-V

34. Insurance risk (continued)

Claims development table (continued)

Net general insurance contract liabilities for 2009:

Accident year	Before 2002 RM'000	2002 RM'000	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	Total RM'000
At end of accident year	-	65,512	118,023	121,478	123,658	151,133	150,994	165,070	191,803	-
One year later	-	135,755	207,131	221,125	228,893	271,228	275,172	305,313	-	-
Two years later	-	149,682	228,742	242,202	254,287	291,736	306,459	-	-	-
Three years later	-	157,468	238,012	258,735	268,988	312,530	-	-	-	-
Four years later	-	161,631	244,351	268,727	282,380	-	-	-	-	-
Five years later	-	165,375	249,289	276,060	-	-	-	-	-	-
Six years later	-	167,178	254,302	-	-	-	-	-	-	-
Seven years later	-	170,967	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	170,967	254,302	276,060	282,380	312,530	306,459	305,313	191,803	-
Net general insurance contract liabilities	7,614	7,418	11,419	24,819	30,908	54,850	96,201	133,622	325,003	691,854

35. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate yield risk, price risk) and operational risk arises in the normal course of the Company's business. The Company is guided by its risk management framework as well as policies and guidelines from the ultimate holding company, Allianz SE which set out its general risk management philosophy. Through financial risk management, business strategies are evaluated to ensure their appropriateness to the strategic, operational and financial risks tolerance.

35.1 Credit risk

Credit risk involves the potential losses that may result due to the default of counterparties to meet their contractual obligations. The Company is exposed to credit risk from the underwriting of general insurance business and the investment in fixed income instruments. Financial loss may materialise when the counterparty failed to meet payment obligations for various reasons.

The Company has credit policies in place to mitigate the credit risk from underwriting of insurance business and it is monitored on an ongoing basis. Reinsurance is prioritised to local insurers or reinsurers, and if the Company has to place oversea, only counterparties that have a credit rating that is acceptable to Allianz SE Group are used.

With effect from 12 September 2008, all bond investments must carry a minimum rating of AA- or P1 by rating agencies established in Malaysia or minimum rating of A- by any internationally recognised rating agency as outlined in the Company's Investment Mandate which is approved by the Board of Directors.

The Company considers rating BBB and above as investment grades and ratings below BBB as non-investment grade. Assets which are not rated by rating agencies are classified as non-rated.

Company No.735426-V

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure

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

	Neither past-due nor impaired		Past due but not impaired	Total
	Investment grade RM'000	Non-rated RM'000	RM'000	RM'000
31 December 2010				
Loans and receivables				
Commercial loans	5,525	-	-	5,525
Reinsurance assets	168,934	798,800	-	967,734
Insurance receivables	4,948	50,097	3,162	58,207
Cash and cash equivalents	243,107	1,394	-	244,501
Available-for-sale financial investments				
Malaysian government securities	-	825,353	-	825,353
Malaysian government guaranteed bonds	50,962	125,753	-	176,715
Multilateral development bank guaranteed bonds	135,367	8,030	-	143,397
Debt securities	532,650	-	-	532,650
Structured deposits and negotiable certificate deposits with licensed financial institutions	35,775	-	-	35,775
	1,177,268	1,809,427	3,162	2,989,857

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

	Neither past-due nor impaired			
	Investment grade RM'000	Non-rated RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2009				
Loans and receivables				
Commercial loans	7,345	-	-	7,345
Reinsurance assets	182,304	744,858	-	927,162
Insurance receivables	3,917	103,420	-	107,337
Cash and cash equivalents	165,516	1,436	-	166,952
Available-for-sale financial investments				
Malaysian government securities	-	849,796	-	849,796
Malaysian government guaranteed bonds	-	80,776	-	80,776
Multilateral development bank guaranteed bonds	73,622	8,144	-	81,766
Debt securities	388,781	-	-	388,781
Structured deposits and negotiable certificate deposits with licensed financial institutions	35,102	-	-	35,102
	856,587	1,788,430	-	2,645,017

Company No.735426-V

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2010						
Loans and receivables						
Commercial loans	552	2,763	2,210	-	-	5,525
Reinsurance assets	767	36,763	129,924	1,480	798,800	967,734
Insurance receivables	48	589	4,139	172	53,259	58,207
Cash and cash equivalents	99,727	94,674	48,706	-	1,394	244,501
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	825,353	825,353
Malaysian government guaranteed bonds	50,962	-	-	-	125,753	176,715
Multilateral development bank guaranteed bonds	135,367	-	-	-	8,030	143,397
Debt securities	141,797	360,864	29,989	-	-	532,650
Structured deposits and negotiable certificate deposits with licensed financial institutions	35,775	-	-	-	-	35,775
	464,995	495,653	214,968	1,652	1,812,589	2,989,857

Company No.735426-V

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2009						
Loans and receivables						
Commercial loans	734	3,673	2,938	-	-	7,345
Reinsurance assets	1,304	10,789	170,144	67	744,858	927,162
Insurance receivables	3	59	3,846	9	103,420	107,337
Cash and cash equivalents	54,546	86,894	24,076	-	1,436	166,952
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	849,796	849,796
Malaysian government guaranteed bonds	-	-	-	-	80,776	80,776
Multilateral development bank guaranteed bonds	73,622	-	-	-	8,144	81,766
Debt securities	231,946	119,623	27,795	9,417	-	388,781
Structured deposits and negotiable certificate deposits with licensed financial institutions	35,102	-	-	-	-	35,102
	397,257	221,038	228,799	9,493	1,788,430	2,645,017

Company No.735426-V

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.1 Credit exposure (continued)

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counter-parties by credit rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2010						
Investment grade	464,995	495,653	214,968	1,652	-	1,177,268
Not rated	-	-	-	-	1,809,427	1,809,427
Past-due but not impaired	-	-	-	-	3,162	3,162
	464,995	495,653	214,968	1,652	1,812,589	2,989,857

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31 December 2009						
Investment grade	397,257	221,038	228,799	9,493	-	856,587
Not rated	-	-	-	-	1,788,430	1,788,430
Past-due but not impaired	-	-	-	-	-	-
	397,257	221,038	228,799	9,493	1,788,430	2,645,017

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.2 Age analysis of financial assets past-due but not impaired

	<30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	91 to 180 days RM'000	Total RM'000
31 December 2010					
Insurance receivables	2,198	844	-	120	3,162
31 December 2009					
Insurance receivables	-	-	-	-	-

35. Financial risks (continued)

35.1 Credit risk (continued)

35.1.3 Impaired Financial assets

At 31 December 2010, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM32,714,000 (2009: RM38,385,000). 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 Doubtful Debts accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivable is as follows:

	Insurance receivables		Loans and receivables	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**
At 1 January, as previously stated	38,385	14,866	3,236	3,236
Effect of adoption of FRS 139	(4,941)	-	-	-
At 1 January restated	33,444	14,866	3,236	3,236
Business transfer	-	34,787	-	-
Impairment loss reversed	(730)	(11,268)	-	-
At 31 December	32,714	38,385	3,236	3,236

35. Financial risks (continued)

35.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Company, refinancing is only possible at higher interest rates that assets may have to be liquidated at a discount.

Besides monitoring the liquidity position of the Company on a daily basis, the investment strategies particularly focus on the quality of investments and ensure a significant portion of liquid assets in the portfolio. Some other tools used by the Company include to ensure that its assets and liabilities are adequately matched and drawing down of funds to meet claims payment should the claims event exceed a certain amount as provided for in the reinsurance contracts.

35.2.1 Maturity profiles

The table below summarise the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest/profit payable and receivable.

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

Unearned premiums and the reinsurers’ share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

Company No.735426-V

35. Financial risks (continued)

35.2 Liquidity risk (continued)

35.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2010								
Insurance contract liabilities	2,161,314	1,345,113	519,207	157,424	139,570	-	-	2,161,314
Other financial liabilities	2,013	2,013	-	-	-	-	-	2,013
Insurance payables	217,852	201,263	15,533	1,056	-	-	-	217,852
Other payables	58,048	57,943	105	-	-	-	-	58,048
Subordinated loans	28,171	-	30,670	-	-	-		30,670
Total liabilities	2,467,398	1,606,332	565,515	158,480	139,570	-	-	2,469,897

Company No.735426-V

35. Financial risks (continued)

35.2 Liquidity risk (continued)

35.2.1 Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2009								
Insurance contract liabilities	1,978,580	1,293,082	454,844	137,165	93,489	-	-	1,978,580
Other financial liabilities	2,092	2,092	-	-	-	-	-	2,092
Insurance payables	205,537	187,854	15,929	1,754	-	-	-	205,537
Other payables	69,692	68,909	783	-	-	-	-	69,692
Subordinated loans	63,002	33,785	29,217	-	-	-	-	63,002
Total liabilities	2,318,903	1,585,722	500,773	138,919	93,489	-	-	2,318,903

35. Financial risks (continued)

35.3 Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices. This includes changes in market prices due to a worsening of market liquidity. Market risk comprises of currency risk, interest rate risk and equity price risk.

The following risk mitigation actions are in place to control and monitor such risk:

- Investment Committee is actively monitoring the investment activities undertaken by the Company
- The Investment Policy and Mandate which formulated the single counter limits, group limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to RMWC/RMC on a quarterly basis.
- Stop loss policy is in place

35.3.1 Currency risk

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

The Company's primary transactions are carried out in Ringgit Malaysia ("RM"). 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 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 liabilities are expected to be settled.

As 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.

35. Financial risks (continued)

35.3 Market risk (continued)

35.3.2 Interest rate risk

The Company is affected by changes in market interest rate due to the impact of such changes on interest income from investments and will incur an economic loss when the interest rates drop since the duration of policy liabilities is generally longer than the duration of the fixed income financial assets.

Besides the uncertainty of the cash flows of the insurance funds and scarcity of the longer dated instruments, it is not possible to hold assets that will perfectly match the policy liabilities.

The analysis below is performed for reasonable possible movements in interest rate with all other variables held constant, showing the impact of statement of comprehensive income and equity (due to changes in fair value of available-for-sale financial assets).

	Change in variables	**Impact on Profit before Tax**	**Impact on Equity**
31 December 2010		**RM'000**	**RM'000**
Interest rate	+ 100 basis points	-	(35,193)
Interest rate	+ 50 basis points	-	(17,596)
31 December 2009			
Interest rate	+ 100 basis points	-	(22,820)
Interest rate	+ 50 basis points	-	(11,410)

35. Financial risks (continued)

35.3 Market risk (continued)

35.3.3 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 Company's equity price risk policy requires it to prioritise capital preservation besides setting limits on overall portfolio, single security and sector holdings. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

35.4 Operational risk

Operational risk is an event or action that may potentially impact partly or completely the achievement of the Company's objectives resulting from inadequate or failed internal processes and systems, human factors or external events.

The Company put in place the following controls to monitor and mitigate such risk:

- Effective segregation of duties;
- Access controls, authorisation and reconciliation procedures;
- Automation of process where possible;
- Staff training;
- Evaluating procedures such as internal audit.

36. Regulatory capital requirements

The capital structure of the Company as at 31 December 2010, as prescribed under the RBC Framework is provided below:

	2010 RM'000	2009 RM'000
Tier 1 Capital		
Paid up share capital	334,990	261,205
Retained earnings	309,034	182,573
	644,024	443,778
Tier 2 Capital		
Reserves	12,906	10,572
Subordinated loans	20,900	53,233
	33,806	63,805
Amounts deducted from capital	(1,978)	-
Total capital available	675,852	507,583

37. Comparatives

The following comparative figures as at 31 December 2009 have been reclassified to conform with current year's presentation pursuant to the adoption of the FRS 4, Insurance contracts and FRS 7, Financial Instruments: Disclosure.

	As restated RM'000	As previously stated RM'000
Statement of financial position		
Property, plant and equipment	55,289	50,150
Prepaid lease payments	-	5,139
Investments	1,443,566	1,408,464
Reinsurance assets	927,162	-
Deferred acquisition costs	39,400	-
Placements with financial institutions	-	165,915
Cash and cash equivalents	166,952	1,037
Insurance contract liabilities	1,978,580	-
Insurance premium liabilities	-	320,164
Insurance claims liabilities	-	691,854
Other financial liabilities	2,092	-
Insurance payables	205,537	207,628

Prior to the adoption of FRS 4, income and expenses from reinsurance contracts are offset against the income or expenses from the related insurance contracts for disclosure purposes. Following the adoption of FRS 4, the income and expenses from reinsurance contracts are presented on gross basis. The income statement for the year ended 31 December 2009 has been restated to comply with the requirements of FRS 4.

The adoption of FRS 101 (revised) effective for the financial year ended 31 December 2010 resulted in the following:

- Income statements for the year ended 31 December 2009 have been re-presented as two statements, namely income statement and statement of comprehensive income. All non-owner changes in equity that were presented in the statement of changes in equity are now included in the statement of comprehensive income as other comprehensive income. Consequently, components of comprehensive income are not presented in the statement of changes in equity; and

- a statement of financial position at the beginning of the earliest comparative period, i.e. 1 January 2009 have been included following the change in the comparative figures for 31 December 2009 to conform with current year's presentation.