Allianz General Insurance Company (Malaysia) Berhad

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

Financial statements for the year ended 31 December 2011

(In Ringgit Malaysia)

Allianz General Insurance Company (Malaysia) Berhad

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Contents

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Directors' report for the financial year ended 31 December 2011

The Directors have pleasure in submitting their report and the audited financial statements of the Company for the financial year ended 31 December 2011.

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	130,479

Dividends

Since the end of the previous financial year, the Company paid 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 on 1 August and 3 August 2011 respectively.

The Directors do not recommend any dividend to be paid for the financial year under review.

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 2011 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

There were no 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 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 comprises 4 Independent Non-Executive Directors and 1 Non-Independent Non-Executive Director.

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.

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 6 Board Meetings held during the financial year ended 31 December 2011.

The attendance of the Directors at the Board Meetings held during the financial year ended 31 December 2011 is as follows:-

Name of Directors	No. of Board Meetings Held	No. of Board Meetings Attended
Tan Sri Razali Ismail	6	6
Dato' Seri Nik Abidin Bin Nik Omar	6	6
Dato' Dr. Thillainathan A/L Ramasamy	6	3 out of 3 meetings held after his appointment as Director on 6 June 2011
Foo San Kan	6	6
Jens Reisch	6	6

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 2011.

The attendance of the abovementioned Audit Committee members at the Audit Committee Meetings held during the financial year ended 31 December 2011 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.

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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)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Karl-Heinz Jung (Non-Independent Non-Executive Director of AMB)

There were 4 Risk Management Committee Meetings held by AMB during the financial year ended 31 December 2011.

The attendance of the abovementioned Risk Management Committee members at the Risk Management Committee Meetings held during the financial year ended 31 December 2011 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
Dato' Dr. Thillainathan A/L Ramasamy	4	2 out of 2 meetings held after his appointment as a member of the Risk Management Committee on 24 June 2011
Foo San Kan	4	4
Karl-Heinz Jung	4	2 out of 2 meetings held after his appointment as a member of the Risk Management Committee on 24 June 2011

The Risk Management Committee of AMB 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;

Corporate governance (continued)

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

(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;

(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.

Corporate governance (continued)

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)
Dato' Dr. Thillainathan A/L Ramasamy (Independent Non-Executive Director)
Foo San Kan (Independent Non-Executive Director)
Karl-Heinz Jung (Non-Independent Non-Executive Director of AMB)

There were 2 Nominating Committee Meetings held by AMB during the financial year ended 31 December 2011.

The attendance of the abovementioned Nominating Committee members at the Nominating Committee Meetings held during the financial year ended 31 December 2011 are as follows:-

Name of Members	No. of Nominating Committee Meetings Held	No. of Nominating Committee Meetings Attended
Dato' Seri Nik Abidin Bin Nik Omar	2	2
Tan Sri Razali Ismail	2	2
Dato' Dr. Thillainathan A/L Ramasamy	2	Not applicable*
Foo San Kan	2	2
Karl-Heinz Jung	2	Not applicable*

Note:
* Dato' Dr. Thillainathan A/L Ramasamy and Mr. Karl-Heinz Jung were appointed as members of the Nominating Committee of AMB on 24 June 2011. There was no Nominating Committee Meeting held following their appointment as members of the Nominating Committee of AMB.

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:-

Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

(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;

(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 Director.

(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 contributions 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.

Corporate governance (continued)

A3.3. Nominating Committee of AMB (continued)

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.

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)
Karl-Heinz Jung (Non-Independent Non-Executive Director of AMB)

There were 3 Remuneration Committee Meetings held by AMB during the financial year ended 31 December 2011.

The attendance of the abovementioned Remuneration Committee members at the Remuneration Committee Meetings held during the financial year ended 31 December 2011 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	3	3
Foo San Kan	3	3
Karl-Heinz Jung	3	1 out of 1 meeting held after his appointment as a member of the Remuneration Committee on 24 June 2011

Corporate governance (continued)

A3.4. Remuneration Committee of AMB (continued)

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.

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 package.

(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 contributions 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.

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:-

Dato' Dr. Thillainathan A/L Ramasamy (Chairman-Independent Non-Executive Director)
Jens Reisch (Non-Independent Non-Executive Director)
Zakri Mohd Khir (Non-Independent Non-Executive Director of AMB)
Ong Eng Chow (Non-Independent Executive Director of AMB)

There were 4 Investment Committee Meetings held by AMB during the financial year ended 31 December 2011.

The attendance of the abovementioned Investment Committee members at the Investment Committee Meetings held during the financial year ended 31 December 2011 are as follows:-

Name of Members	No. of Investment Committee Meetings Held	No. of Investment Committee Meetings Attended
Dato' Dr. Thillainathan A/L Ramasamy	4	2 out of 2 meetings held after his appointment as member/Chairman of the Investment Committee on 24 June 2011
Jens Reisch	4	4
Zakri Mohd Khir	4	4
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 and allocation of responsibilities

The organisational structure of the Company clearly shows lines of reporting responsibility for all levels of staff. The reporting lines are well structured, taking into consideration that management control is maintained at all levels throughout the organisation and that there is no gap in the reporting lines.

In order to ensure that each staff fully understand their job responsibilities, a documented job description setting out the duties and responsibilities and reporting line for each staff are made available to the staff concerned. In allocating job duties and responsibilities to the staff, the Company also took into consideration there are appropriate segregation of duties and that the staff are not assigned with potentially conflicting responsibilities.

Authority is delegated by the Board to the Chief Executive Officer and Senior Management Committee for the implementation of strategy and for managing and overseeing the Company's day-to-day operations. The operational authority limits are subsequently delegated by the Chief Executive Officer and Senior Management Committee to the respective operational units and staff. Such authority limits are documented and made available to all staff via the Group's staff e-portal.

In ensuring that the decision making process is transparent and to the best interest of the Company, all Directors and staff including the Chief Executive Officer are required to declare their interest in other entities on an annual basis. In addition, they are also required to disclose to the Company, any circumstance that may give rise to a conflict of interest situation during the course of carrying out their duties.

Corporate governance (continued)

B. Management Accountability (continued)

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 and published the same in the internal staff portal.
- Senior Management Committee meets regularly to discuss the financial performance, strategic, operational and compliance issues of the Company.
- Regular meetings were held by business units to review strategy, targets and results of the Company.
- Implementation of induction programs for all newly recruited staff covering amongst others, background of the Company, Code of Conduct for Business Ethics and Compliance, internal policies and procedures and performance management system ("PMS").
- Conduct regular staff dialogue/briefing.
- Monthly/quarterly staff newsletters are circulated to all staff of the Company.
- Regulatory guidelines, Company's policies and procedures, internal news, financial updates, operational and compliance data and external market information are disseminated through the Group's staff e-portal or e-mail to the relevant staff of the Company in a timely manner.

B3. Goal setting

The Company recognises the importance of aligning the staff individual goals with the corporate objectives.

The Performance Management System ("PMS") is implemented throughout all levels of staff in the Company to ensure that staff individual goals are in line with the corporate goals and staff performance appraisal are based on the achievement of staff and corporate goals. Under the PMS, corporate goals are cascaded into business unit goals and subsequently to individual goals on a yearly basis.

Staff's individual goals are set during the beginning of each assessment year by their respective superiors with the full participation of the staff concerned, following the finalisation of the corporate goals by the Chief Executive Officer for the said assessment year.

The achievement of the individual goals by the respective staff will be evaluated by their respective superiors at the end of the assessment year.

Corporate governance (continued)

C. Corporate Independence

C1. Related party transactions

The Company complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/003-3) 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.

The Group has also established a review procedure for related party transactions including Recurrent Transactions ("RPT Review Procedure") to ensure that they are:-

(i) undertaken on arm's length basis;
(ii) consistent with the Group's usual business practices and policies;
(iii) the transaction prices and terms are not more favourable to the related parties than those extended to third parties/public; and
(iv) are not to the detriment of the minority shareholders.

Under the RPT Review Procedure, a due diligence working group ("DDWG") was formed to review the related party transactions prior to the same being submitted to the Audit Committee of AMB for consideration. The Audit Committee of AMB will subsequently review the related party transactions prior to the same being submitted to the Board for approval.

The Audit Committee of AMB also reviews the RPT Review Procedure on an annual basis to ensure that the procedures and processes are sufficient and adequate to monitor, track and identify related party transactions including Recurrent Transactions in a timely and orderly manner.

Corporate governance (continued)

C. Corporate Independence (continued)

C2. Group structure

The Company recognises the importance of corporate independence in ensuring that the interests of its policyholders, claimants, creditors and minority shareholders are not compromised. With this in mind, professional, experienced and delegated Independent Directors were appointed to the Board of the Company.

To date, corporate independence within the Company is well represented by an effective Board which is predominated by delegated experienced professional Independent Directors.

D. Internal Controls and Operational Risk Management

D1. Risk recognition and assessment

The Board recognises the importance of having in place a risk management system to identify key 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 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 risk management structure of the Group is supported by three main functions, namely Corporate Risk Department ("CRD"), Risk Management Working Committee ("RMWC") and Risk Management Committee.

CRD will act as an independent risk oversight function to coordinate and assist the Management to achieve its strategic goals and objectives by implementing risk management activities across the organisation which will include activities relating to risk identification, measurement, control, ongoing monitoring, reporting and implementation of Risk Management Committee's decisions.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D2. Internal audit

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

The Internal Audit function undertakes independent reviews or assessments of the Company's operations and its system of internal controls and provides continuous monitoring of the controls and risk management procedures. The internal audit personnel are independent from the day-to-day activities of the Company and have unrestricted access to all activities conducted by the Company.

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.

The Audit Committee of AMB plays a vital role in ensuring the effectiveness of the internal audit function. Accordingly, two private discussions are held by the Audit Committee of AMB with the Chief Internal Auditor on a yearly basis without the presence of the Management.

D3. Internal control activities

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

Underwriting and reinsurance

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.

Review on reinsurers is conducted on an annual basis to ensure that reinsurers have secured ratings from accredited rating agencies and complied with Allianz Se Group's reinsurance security listing.

Reinsurance arrangements are executed in accordance with the requirements as promulgated in the Insurance Act, 1996 and Insurance Regulations 1996. The reinsurers are selected based on the selection criteria prescribed by the Company.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal control activities (continued)

Financial control procedures

Financial control procedures are put in place and are documented in the procedural workflows of each business unit. These workflows are subject to reviews and improvements to reflect changing risks and process enhancement as and when required.

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 is responsible for managing the investment functions of the Group.

The Company adopted the Group Master Investment Manual which sets out the detailed investment 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 investment limits are set at various levels with limits which are more stringent than the regulatory limits as prescribed by BNM. The investment limits are monitored continuously to ensure compliance with the investment limits as specified in the Risk-Based Capital Framework for Insurers issued by BNM.

The investment performance and equity/bonds exposure reports are amongst the reports submitted to the Investment Committee of AMB for review at its regular meetings.

Information system

The Company complied with the BNM's Guidelines on Management of Information Technology ("IT") Environment (GPIS 1) and Internet Security (GPI 26) by establishing a reliable information security system and a Group Information Security Policy and Standard ("Policy") to protect information confidentiality, integrity, availability and non-repudiation.

All employees are required to strictly abide and comply with the Policy.

An IT Steering Committee is responsible for the overall strategic deployment of IT in tandem to the business objectives of the Company, establishing effective IT plans, recommending to Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal control activities (continued)

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 framework. The objective of the DMF is to manage data and disseminate information effectively and efficiently and to maximise the effective use of data assets. In addition, DMF aims to ensure the integrity of data assets by preventing unauthorised or inappropriate use of data and information.

Product development – Non motor

A Product Development Management Framework ("Framework") which sets out the policies and procedures on product development was established by the Company in accordance with the requirements of the Guideline on Introduction of New Products for Insurance Company and Takaful Operators issued by BNM.

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 segment.

Any new products launched will be developed in accordance with the requirements of the Framework and BNM Guidelines, approved by the Senior Management Committee, certified by the Qualified Actuary (for Health class) and lodged with BNM pursuant to Section 142 of the Insurance Act, 1996, prior to the same being market by the Company.

The ongoing product risk management is embedded within the risk management framework of the Company.

Whistleblowing procedures

The Whistleblowing Committee of AMB was established to further enhance 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 Whistleblowing Committee are in place to handle, review, assess and take appropriate actions to the 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.

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal control activities (continued)

Ethics and compliance

The Ethics and Compliance Committee was set up 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 are in place to handle, review, assess and take appropriate actions to address complaints against or concerns involving agents. This will help to promote the professionalism of the sales force throughout the Company.

Anti-fraud and anti-corruption

The Anti-Fraud Committee of AMB has been set up 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 SE Group's Anti-Corruption Program, the Company has adopted the Allianz SE Group's Anti-Corruption Policy ("Anti-Corruption Policy"). The Anti-Corruption Policy serves to outlines the Allianz SE 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.

Anti-money laundering/Counter financing terrorism

The Company has in place internal policies and procedures relating to Anti-Money Laundering and Counter Financing of Terrorism. These policies and procedures set out the basis and requirements to prevent money laundering and terrorism financing activities in the Company. The Company will co-operate with any national and any international competent authorities and law enforcement authorities in combating money laundering/financing of terrorist group operations.

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Corporate governance (continued)

D. Internal Controls and Operational Risk Management (continued)

D3. Internal control activities (continued)

Employees and agents

All staff are required to make an annual declaration that they fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Part XII of the Insurance Regulations 1996. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

(i) Related Party Transaction Declaration;
(ii) Disclosure of Data;
(iii) Conflict of Interest;
(iv) Allianz Group Code of Conduct;
(v) IT Security Policy and Guideline e-Awareness Declaration;
(vi) Allianz Anti-Corruption Policy; and
(vii) Anti-Fraud Awareness Declaration.

The Company's agents are subject to the Allianz Group Code of Conduct for Business Ethics and Compliance, Sales Policy, Sales Agent Code of Conduct and Persatuan Insuran Am Malaysia ("PIAM")'s Code of Ethics and Conduct where they are required to sign the declaration of observance to promote and maintain uniform ethical standards, and to uphold the trust and welfare of the customers at all times.

All internal control deficiencies or breaches are reported to the Senior Management Committee and/or the Board, where applicable, as soon as they are identified by the Compliance Department, Internal Audit Department, business units or BNM examiners. Corrective measures will be at the same time presented to the Senior Management Committee and/or the Board for consideration. The progress of the corrective measures will also be presented on a timely manner to the Senior Management Committee and/or the Board until the matters are fully resolved.

E. Public accountability

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

Corporate governance (continued)

E. Public accountability (continued)

Members of the public are also made aware of avenues for appeal against the Company's practices or decisions. The Company's policy contract contains a written disclosure alerting them to the existence of the Financial Mediation Bureau ("FMB") and BNM's Customer Services Bureau ("CSB"), their roles in investigating complaints into unfair market practices, their contact details and procedures for lodging complaints with the FMB or CSB. 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 CSB.

The Company has a well defined complaint management process to handle all complaints within the stipulated turnaround time. There is also an avenue for public to lodge complaints via the Group's website.

F. Financial reporting

Statutory reporting and public disclosure

The Company exercises due care and diligence 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, as well as maintaining appropriate accounting records. The Retention Period of Documents Policy has been in place to ensure that the Company's accounting records are properly kept.

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

The Company complied with Sections 87(1) and 89(1) of the Insurance Act, 1996 in respect of submission of annual audited financial statements, unaudited interim financial statements and quarterly returns to BNM.

The abridged audited financial statements of the Company are published in two daily national press and a copy of which are also exhibited at all branches in a conspicuous position. In addition, the audited financial statements and the unaudited interim financial statements of the Company are also made available in the Group's website at www.allianz.com.my.

Corporate governance (continued)

F. Financial reporting (continued)

Management reporting

Financial reports form the primary basis for decision making and strategies taken by the Senior Management Committee and the Board in respect of the Company's corporate objectives and day-to-day operations. To enable the Senior Management Committee and the Board to effectively monitor the financial condition and performance as well as challenges or risks faced by the Company towards achieving its corporate objectives and subsequently formulate appropriate strategies, various management reports including the risk base capital results are submitted to the Senior Management Committee and the Board for review at their regular meetings.

The financial and business performance reports as well as the yearly corporate goals target performance report are regular monthly reports submitted to the Senior Management Committee for review. These reports cover the performance of all key operational areas and highlight challenges faced by the Company, to enable the Management to assess the business development and financial condition of the Company at any point in time and formulate appropriate strategies in addressing operational problems or risks in a timely manner.

In addition, special purpose management reports prepared for decision making are also presented to the Senior Management Committee on a need to basis.

Annual business plans and budgets are reviewed by the Senior Management Committee before submitting to the Board for approval. Financial condition and business performance reports are also submitted to the Board for review at its regular meetings. These reports cover all key operational areas and provide a sound basis for the Board to assess the financial performance of the Company and to identify potential problems or risks faced by the Company, thus enabling the Board to effectively monitor on an ongoing basis, the affairs of the Company.

Similarly, comprehensive special purpose management reports prepared for decision making are also presented to the Board on a need to basis.

Corporate governance (continued)

F. Financial reporting (continued)

Business continuity plans

Business Continuity Plan for the Company has been formulated to ascertain that the Company will recover and restore any interrupted critical functions within a predetermined time upon the occurrence of any disastrous events.

The testing for Business Continuity Plan for all business functions and Disaster Recovery Plan test for all main application systems have been conducted during the financial year ended 31 December 2011 and submitted for the Board's endorsement.

Training and development

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 examinations and project assignments. Employees are encouraged to embrace the culture of continuous learning for personal competency and career development.

Directors of the Company

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)*
Dato' Dr. Thillainathan A/L Ramasamy (Appointed with effect from 6 June 2011)
(Independent Non-Executive Director)
Foo San Kan *(Independent Non-Executive Director)*
Jens Reisch *(Non-Independent Non-Executive Director)*
Craig Anthony Ellis (Resigned with effect from 6 June 2011)
(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 2012

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 32 to 128 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 2011 and of its financial performance and cash flows for the financial 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 2012

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 32 to 128 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 2012.

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 2011, the income statement, statements of comprehensive income, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 32 to 128.

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 judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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 2011 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 2012

Allianz General Insurance Company (Malaysia) Berhad

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

Statement of financial position as at 31 December 2011

	Note	2011 RM'000	2010 RM'000
Assets			
Property, plant and equipment	3	49,279	47,548
Investment properties	4	742	742
Intangible assets	5	3,892	5,569
Deferred tax assets	14	-	1,978
Investments	6		
Malaysian government securities		991,472	825,353
Malaysian government guaranteed bonds and loans		342,979	176,715
Multilateral development bank guaranteed bonds		135,539	143,397
Debt securities		535,955	532,650
Unquoted equity securities		*	*
Commercial loans		-	5,525
Structured deposits and negotiable certificates of deposits with licensed financial institutions		61,709	35,775
Reinsurance assets	7	1,071,126	967,734
Insurance receivables	8	68,158	58,207
Loans and other receivables	9	47,781	41,281
Deferred acquisition costs	10	49,667	42,598
Assets classified as held for sale		-	2,440
Cash and cash equivalents		196,769	244,501
Total assets		3,555,068	3,132,013

* Denotes RM4

Allianz General Insurance Company (Malaysia) Berhad

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

Statement of financial position as at 31 December 2011 (continued)

	Note	2011 RM'000	2010 RM'000
Equity and liabilities			
Share capital	11	334,990	334,990
Retained earnings	12	427,504	309,034
Other reserves	12	26,939	15,404
Total equity		789,433	659,428
Insurance contract liabilities	13	2,463,498	2,161,314
Deferred tax liabilities	14	791	-
Other financial liabilities	15	2,789	2,013
Insurance payables	16	198,191	217,852
Other payables and accruals	17	68,916	58,048
Subordinated loan	18	29,396	28,171
Current tax liabilities		2,054	5,187
Total liabilities		2,765,635	2,472,585
Total equity and liabilities		3,555,068	3,132,013

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 2011

	Note	2011 RM'000	2010 RM'000
Operating revenue	19	1,456,917	1,362,853
Gross earned premiums	20	1,375,522	1,295,410
Premiums ceded to reinsurers	20	(369,369)	(423,989)
Net earned premiums		1,006,153	871,421
Investment income	21	81,395	67,443
Realised gains and losses	22	1,263	4,979
Fee and commission income	23	64,615	77,212
Other operating income		2,004	18,748
Other income		149,277	168,382
Gross claims paid		(693,578)	(689,644)
Claims ceded to reinsurers		203,158	232,299
Gross change to claims liabilities		(214,623)	(153,862)
Change in claims liabilities ceded to reinsurers		72,799	63,130
Net claims incurred	24	(632,244)	(548,077)
Fee and commission expense	25	(164,514)	(154,131)
Management expenses	26	(173,530)	(163,103)
Other operating expenditure		(4,630)	(7,115)
Other expenses		(342,674)	(324,349)
Profit before tax		180,512	167,377
Tax expense	27	(50,033)	(45,009)
Net profit for the year		130,479	122,368

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 2011

	Note	2011 RM'000	2010 RM'000
Net profit for the year		130,479	122,368
Other comprehensive income:			
Available-for-sale fair value reserves		9,540	412
Revaluation reserve		5,425	-
Tax effects thereon		(3,430)	(103)
Total other comprehensive income for the year, net of tax		11,535	309
Total comprehensive income for the year		142,014	122,677
Profit attributable to:			
Owners of the Company		130,479	122,368
Total comprehensive income attributable to:			
Owners of the Company		142,014	122,677
Basic earnings per ordinary share (sen)	28	39.0	42.5

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 2011

		← Non-distributable			→	Distributable	
	Note	**Share capital**	**Fair value reserve**	**Capital reserve**	**Revaluation reserve**	**Retained earnings**	**Total equity**
		RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 January 2010		261,205	10,572	4,523	-	186,666	462,966
Fair value of available-for-sale financial assets		-	309	-	-	-	309
Profit for the year		-	-	-	-	122,368	122,368
Total comprehensive income for the year		-	309	-	-	122,368	122,677
Issue of ordinary shares	11	73,785	-	-	-	-	73,785
At 31 December 2010 / At 1 January 2011		334,990	10,881	4,523	-	309,034	659,428
Fair value of available-for-sale financial assets		-	7,155	-	-	-	7,155
Revaluation of property, plant and equipment		-	-	-	4,380	-	4,380
Total other comprehensive income for the year		-	7,155	-	4,380	-	11,535
Profit for the year		-	-	-	-	130,479	130,479
Total comprehensive income for the year		-	7,155	-	4,380	130,479	142,014
Dividend paid to the owners of the Company		-	-	-	-	(12,009)	(12,009)
At 31 December 2011		334,990	18,036	4,523	4,380	427,504	789,433

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 cash flow for the year ended 31 December 2011

	2011 RM'000	2010 RM'000
Operating activities		
Profit before tax	180,512	167,377
Investment income	(81,395)	(67,443)
Realised gains recorded in income statement	(1,263)	(4,979)
Purchases of available-for-sale investments	(788,214)	(1,002,659)
Proceeds from disposal of available-for-sale investments	101,904	369,433
Maturity of available-for-sale investments	338,650	357,994
Change in loans and receivables investments	5,525	1,820
Non-cash items:		
Depreciation of property, plant and equipment	7,928	7,722
Property, plant and equipment written off	11	35
Amortisation of intangible assets	2,410	2,264
Interest expense on subordinated loan	1,225	1,177
Reversal of allowance for impairment loss on receivables	(11,509)	(730)
Bad debts written off	6,525	2,951
Bad debts recovered	(233)	(122)
Impairment loss on assets held for sale	-	579
Impairment loss on property, plant and equipment	-	1,041
Changes in working capital:		
Change in reinsurance assets	(103,392)	(40,572)
Change in insurance receivables	(4,594)	51,972
Change in loans and other receivables	(6,776)	3,165
Change in deferred acquisition costs	(7,069)	(3,198)
Change in insurance contract liabilities	302,184	182,734
Change in other financial liabilities	776	(79)
Change in insurance payables	(19,661)	12,315
Change in other payables	11,558	(10,540)
Cash (used in)/generated from operating activities	(64,898)	32,257

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)

Statement of cash flow for the year ended 31 December 2011 (continued)

	2011 RM'000	2010 RM'000
Cash (used in)/generated from operating activities	(64,898)	32,257
Interest income received	86,502	64,313
Rental income received	53	51
Income tax paid	(53,827)	(53,921)
Net cash flows (used in) / generated from operating activities	(32,170)	42,700
Investing activities		
Proceeds from disposal of property, plant and equipment	2,116	1,165
Purchase of property, plant and equipment	(5,298)	(3,864)
Transfer of assets	-	(1,452)
Proceeds from disposal of investment property	468	-
Purchase of intangible assets	(149)	(1,349)
Net cash flows used in investing activities	(2,863)	(5,500)
Financing activities		
Proceeds from issuance of ordinary shares	-	73,785
Decrease in subordinated loan	-	(32,332)
Repayment of lease arrangements	(690)	(1,104)
Dividends paid	(12,009)	-
Net cash flows (used in) /from financing activities	(12,699)	40,349
Net (decrease)/increase in cash and cash equivalents	(47,732)	77,549
Cash and cash equivalents at beginning of year	244,501	166,952
Cash and cash equivalents at end of year	196,769	244,501
Cash and cash equivalents comprise:		
Fixed and call deposits with licensed financial institutions (with maturity of less than three months):	193,628	241,706
Cash and bank balances	3,141	2,795
	196,769	244,501

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 2012.

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.

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 July 2011

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

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

FRS 124, Related Party Disclosures (revised)
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to FRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets
Amendments to FRS 112, Income Taxes - Deferred Tax: Recovery of Underlying Assets

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

Amendments to FRS 101, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

FRS 10, Consolidated Financial Statements
FRS 11, Joint Arrangements
FRS 12, Disclosure of Interests in Other Entities
FRS 13, Fair Value Measurement
FRS 119, Employee Benefits (2011)
FRS 127, Separate Financial Statements (2011)
FRS 128, Investment in Associates and Joint Ventures (2011)
IC Interpretation 20, Stripping Costs in the Production Phase of a Surface Mine
Amendments to FRS 7, Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

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 2013 (continued)

Amendments to FRS 7, Financial Instruments: Disclosures – Mandatory Date FRS9 and Transition Disclosures

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

Amendments to FRS 132, Financial Instruments: Presentation – offsetting Financial Assets and Financial Liabilities

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

FRS 9, Financial Instruments (2009)
FRS 9, Financial Instruments (2010)

The Company's next set of financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") issued by the MASB that will also comply with International Financial Reporting Standards ("IFRS"). As a result, the Company will not be adopting the above FRSs, Interpretations and amendments that are effective for annual periods beginning on or after 1 January 2012.

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. Basis of preparation (continued)

1.4 Use of estimates and judgements

The preparation of financial statements in conformity with FRSs 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) – Valuation of general insurance claims 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.

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 not retranslated at the end of the reporting date 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 the comparison method. The comparison method entails critical analysis 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. 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.

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.

2. Significant accounting policies (continued)

2.2 Property, plant and equipment (continued)

(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 derecognized to income statement. 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 lease 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 for the period in which they arise.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

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.

(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

An external, independent valuation firm, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment properties portfolio annually.

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.

The determination of the fair values involves a degree of judgement. As such, the fair value of the investment properties may be different from its 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 based on the cost of an intangible asset less its residual value. 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.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

(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.

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.

Leasehold land which in substance is an operating lease is classified as prepaid lease payments.

2. Significant accounting policies (continued)

2.6 Financial instruments

(a) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position 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, and only if, it is not closely related to the economic characteristics and risks of the 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.

(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.

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.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

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

Financial assets (continued)

(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.

(iii) Loans and receivables, excluding insurance receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market that include staff loans, other receivables and cash and cash equivalents.

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

(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).

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

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

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.

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.

2. Significant accounting policies (continued)

2.6 Financial instruments (continued)

(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 financial asset's acquisition cost (net of any principal repayment and amortisation) and the financial 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 financial 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 classified as available-for-sale are 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 financial 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.

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

2.8 Impairment of other assets

The carrying amounts of other 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 (known as "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 or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated 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 cash-generating units and then to reduce the carrying amount of the other assets in the cash-generating unit (or a group of cash-generating units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at the end of each reporting period 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 financial year in which the reversals are recognised.

2. Significant accounting policies (continued)

2.9 Equity instruments

Instrument classified as equity are measured 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 end of the reporting period are dealt with as a subsequent event.

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 measurable 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 the end of the reporting period, the method that most accurately reflects the actual unearned premium used is as follows:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8th 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 end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, 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 while 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 investment 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 be applied 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 the end of each reporting period 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 contributions 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 end of the reporting period.

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 include factors such as 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.

3. Property, plant and equipment

	Note	Land	Buildings	Land and buildings*	Office equipment, 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 2010		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 / 1 January 2011		10,639	10,830	1,459	39,144	220	17,087	3,617	82,996	
Additions		-	-	-	1,682	-	425	3,191	5,298	
Disposals		-	-	-	(1,213)	(217)	-	-	(1,430)	
Reclassification		-	-	-	3,702	-	1,473	(5,759)	(584)	#
Written off		-	-	-	(69)	-	-	-	(69)	
Revaluation		2,656	607	-	-	-	-	-	3,263	
At 31 December 2011		13,295	11,437	1,459	43,246	3	18,985	1,049	89,474	

Certain work-in-progress were reclassified as software development costs (intangible assets), see Note 5.

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3. Property, plant and equipment (continued)

	Note	Land RM'000	Buildings RM'000	Land and buildings* RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovations and partitions RM'000	Work in progress RM'000	Total RM'000
Depreciation									
At 1 January 2010		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 / 1 January 2011		390	1,719	59	26,122	89	7,069	-	35,448
Depreciation for the year	26	133	595	17	5,380	18	1,785	-	7,928
Elimination of accumulated depreciation on revaluation		(373)	(1,789)	-	-	-	-	-	(2,162)
Disposals		-	-	-	(857)	(104)	-	-	(961)
Written off		-	-	-	(58)	-	-	-	(58)
At 31 December 2011		150	525	76	30,587	3	8,854	-	40,195

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3. Property, plant and equipment (continued)

	Note	Land	Buildings	Land and buildings*	Office equipment, 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 amounts									
At 1 January 2010		10,019	11,510	2,470	12,041	222	11,564	7,463	55,289
At 31 December 2010 / 1 January 2011		10,249	9,111	1,400	13,022	131	10,018	3,617	47,548
At 31 December 2011		13,145	10,912	1,383	12,659	-	10,131	1,049	49,279

* 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 during the year by C H Williams Talhar & Wong Sdn Bhd and Henry Butcher Malaysia Sdn Bhd, independent professional qualified valuers using the comparison method.

Had the land and buildings of the Company been carried under the cost model, their carrying amounts would have been as follows:

	2011	2010
	RM'000	RM'000
Land	10,169	10,249
Buildings	8,748	9,111
Land and buildings	1,383	1,400
	20,300	20,760

3.2 Leased computers

At 31 December 2011, the net carrying amounts of leased computers of the Company was RM 162,000 (2010 – RM1,156,000).

3.3 Land

Included in the carrying amounts of land are:

	2011	2010
	RM'000	RM'000
Freehold land	6,599	5,190
Long term leasehold land	6,546	5,059
	13,145	10,249

4. Investment properties

	2011 RM'000	2010 RM'000
At 1 January	742	1,662
Transfer to assets held for sale	-	(920)
At 31 December	742	742
Included in the above are:		
At fair value:		
Long term leasehold land	242	242
Buildings	500	500
	742	742

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

5. Intangible assets

Software development cost	**Note**	**2011 RM'000**	**2010 RM'000**
Cost			
At 1 January		11,318	8,838
Reclassification		584	1,131
Additions		149	1,349
At 31 December		12,051	11,318
Amortisation			
At 1 January		5,749	3,485
Additions	26	2,410	2,264
At 31 December		8,159	5,749
Carrying amounts			
At 1 January		5,569	5,353
At 31 December		3,892	5,569

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.

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6. Investments

	2011 RM'000	2010 RM'000
Malaysian government securities	991,472	825,353
Malaysian government guaranteed bonds and loans	342,979	176,715
Multilateral development bank guaranteed bonds	135,539	143,397
Debt securities	535,955	532,650
Unquoted equity securities	*	*
Commercial loans	-	5,525
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	35,775
	2,067,654	1,719,415

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

	Current		Non-current		Total	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
Loans and receivables ("LAR")	-	-	-	5,525	-	5,525
Available-for-sale financial assets ("AFS")	2,067,654	1,713,890	-	-	2,067,654	1,713,890
	2,067,654	1,713,890	-	5,525	2,067,654	1,719,415

* Denotes RM4

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6. Investments (continued)

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

	2011		2010	
	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

	2011		2010	
	Carrying value RM'000	**Fair value RM'000**	**Carrying value RM'000**	**Fair value RM'000**
Available-for-sale				
Malaysian government securities	991,472	991,472	825,353	825,353
Malaysian government guaranteed bonds and loans	342,979	342,979	176,715	176,715
Multilateral development bank guaranteed bonds	135,539	135,539	143,397	143,397
Debt securities:				
Quoted in Malaysia	-	-	5,404	5,404
Unquoted in Malaysia	535,955	535,955	527,246	527,246
Unquoted equity securities	*	*	*	*
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	61,709	35,775	35,775
	2,067,654	2,067,654	1,713,890	1,713,890

* Denotes RM4

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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 2010	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
Purchases	-	788,214	788,214
Maturities	-	(338,650)	(338,650)
Disposals	(5,525)	(100,316)	(105,841)
Fair value gains recorded in other comprehensive income	-	9,540	9,540
Accretion	-	1,512	1,512
Amortisation	-	(6,536)	(6,536)
At 31 December 2011	-	2,067,654	2,067,654

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7. Reinsurance assets

	Note	2011 RM'000	2010 RM'000
Non-current			
Reinsurance of insurance contracts			
Claims liabilities		467,178	425,520
Current			
Reinsurance of insurance contracts			
Claims liabilities		419,211	388,070
Premium liabilities	13.2	184,737	154,144
		603,948	542,214
		1,071,126	967,734

8. Insurance receivables

	Note	2011 RM'000	2010 RM'000
Current			
Due premiums including agent, brokers and co-insurers balances		42,567	46,688
Due from reinsurers and cedants		41,370	38,034
		83,937	84,722
Allowance for impairment		(21,065)	(32,714)
		62,872	52,008
Due from related companies	8.1	5,286	6,199
		68,158	58,207

8.1 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	2011 RM'000	2010 RM'000
Non-current			
Staff loans			
Mortgage loans		2,683	2,598
Other secured loans		503	649
		3,186	3,247
Other receivables			
Other receivables, deposits and prepayments		3,965	4,235
Malaysian Institute of Insurance ("MII") bonds		490	490
		4,455	4,725
Current			
Staff loans			
Mortgage loans		386	505
Other secured loans		241	312
		627	817
Other receivables			
Other receivables, deposits and prepayments		21,969	15,640
Allowance for impairment		(3,376)	(3,236)
		18,593	12,404
Income due and accrued		19,936	20,072
Due from ultimate holding company	9.1	300	-
Due from related companies	9.1	684	16
		39,513	32,492
Total loans and other receivables		47,781	41,281

Estimation of fair value

The fair values of mortgage loans and other secured loans are derived by discounting future cash flows, using interest rates for similar instruments, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 31 December 2011, the estimated fair values of the loans approximate their carrying amounts.

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 ultimate holding company and related companies

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

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10. Deferred acquisition costs

	Note	Gross RM'000	Reinsurance RM'000	Net RM'000
At 1 January 2010		59,679	(20,279)	39,400
Movement during the year	23,25	(32)	3,230	3,198
At 31 December 2010/ 1 January 2011		59,647	(17,049)	42,598
Movement during the year	23,25	11,086	(4,017)	7,069
At 31 December 2011		70,733	(21,066)	49,667

11. Share capital

	2011		2010	
	Number of shares '000	Amount RM'000	Number of shares '000	Amount RM'000
Ordinary shares of RM1 each:				
Authorised				
On 1 January	500,000	500,000	300,000	300,000
Creation during the year	-	-	200,000	200,000
On 31 December	500,000	500,000	500,000	500,000
Issued and fully paid				
On issue at 1 January	334,990	334,990	261,205	261,205
Issued during the year	-	-	73,785	73,785
On issue at 31 December	334,990	334,990	334,990	334,990

11. Share capital (continued)

In 2010, 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 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 and other reserves

12.1 Capital reserve

The capital reserve comprises the equity portion of financial instruments issued.

12.2 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

12.3 Revaluation reserve

The revaluation reserve represents the surplus on revaluation of land and buildings.

12.4 Section 108 tax credit

The Company had fully utilised its Section 108 tax credit in year 2011. As such, the Company will distribute single tier exempt dividend to its shareholders out of its retained earnings.

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13. Insurance contract liabilities

General insurance contract liabilities consist of:

		2011			2010		
	Note	Gross RM'000	Reinsurance RM'000 (Note 7)	Net RM'000	Gross RM'000	Reinsurance RM'000 (Note 7)	Net RM'000
Provision for claims reported by policyholders		1,357,126	(699,336)	657,790	1,227,631	(658,994)	568,637
Provision for incurred but not reported claims ("IBNR")		453,673	(187,053)	266,620	368,545	(154,596)	213,949
Provision for outstanding claims	13.1	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586
Provision for unearned premiums	13.2	652,699	(184,737)	467,962	565,138	(154,144)	410,994
		2,463,498	(1,071,126)	1,392,372	2,161,314	(967,734)	1,193,580

13. Insurance contract liabilities (continued)

13.1 Provision for outstanding claims

	2011			2010		
	Gross RM'000	Re-insurance RM'000	Net RM'000	Gross RM'000	Re-insurance RM'000	Net RM'000
At 1 January	1,596,176	(813,590)	782,586	1,442,314	(750,460)	691,854
Claims incurred in the current accident year	863,518	(240,597)	622,921	808,271	(290,468)	517,803
Other movements in claims incurred in prior accident years	44,683	(35,360)	9,323	35,235	(4,961)	30,274
Claims paid during the year	(693,578)	203,158	(490,420)	(689,644)	232,299	(457,345)
At 31 December	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586

13. Insurance contract liabilities (continued)

13.2 Provision for unearned premiums

		2011			2010		
	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
At 1 January		565,138	(154,144)	410,994	536,266	(176,702)	359,564
Premiums written in the year	20	1,463,083	(399,962)	1,063,121	1,324,282	(401,431)	922,851
Premiums earned during the year		(1,375,522)	369,369	(1,006,153)	(1,295,410)	423,989	(871,421)
At 31 December		652,699	(184,737)	467,962	565,138	(154,144)	410,994

14. Deferred tax assets / (liabilities)

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

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	-	-	(3,438)	(2,223)	(3,438)	(2,223)
Intangible assets	-	-	(973)	(1,393)	(973)	(1,393)
Provisions	-	496	(240)	-	(240)	496
Investments	-	-	(6,012)	(3,627)	(6,012)	(3,627)
Assets held for sale	-	145	-	-	-	145
Other items	9,872	8,580	-	-	9,872	8,580
Net tax assets/(liabilities)	9,872	9,221	(10,663)	(7,243)	(791)	1,978

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

14.2 Movement in temporary differences during the year

	Note	At 1 January 2010	Recognised in income statement (Note 27)	Recognised in other comprehen-sive income (Note 27)	At 31 December 2010 / At 1 January 2011	Recognised in income statement (Note 27)	Recognised in other comprehen-sive income (Note 27)	At 31 December 2011
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment		(2,309)	86	-	(2,223)	(170)	(1,045)	(3,438)
Intangible assets		(1,338)	(55)	-	(1,393)	420	-	(973)
Provisions		937	(441)	-	496	(736)	-	(240)
Investments	27.3	(3,524)	-	(103)	(3,627)	-	(2,385)	(6,012)
Assets held for sale		-	145	-	145	(145)	-	-
Other items		379	8,201	-	8,580	1,292	-	9,872
		(5,855)	7,936	(103)	1,978	661	(3,430)	(791)

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15. Other financial liabilities

	2011 RM'000	2010 RM'000
Current		
Deposits received from reinsurers	2,789	2,013

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

16. Insurance payables

	Note	2011 RM'000	2010 RM'000
Non-current			
Performance bond deposits	16.1	13,351	16,589
Current			
Due to reinsurers and cedants		61,761	91,354
Due to agents and intermediaries		42,563	54,874
Performance bond deposits	16.1	45,405	48,201
Due to related companies	16.2	35,111	6,834
		184,840	201,263
		198,191	217,852

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	2011 RM'000	2010 RM'000
Non-current			
Finance lease liabilities	17.2	64	105
Current			
Due to immediate holding company	17.1	630	616
Due to related companies	17.1	-	126
Finance lease liabilities	17.2	103	752
Other payables and accrued expenses		68,119	56,449
		68,852	57,943
		68,916	58,048

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 2011 RM'000	Interest 2011 RM'000	Principal 2011 RM'000
Less than one year	111	8	103
Between one and five years	68	4	64
	179	12	167

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18. Subordinated loan

	Note	2011 RM'000	2010 RM'000
Non-current			
Subordinated loan	18.1	-	28,171
Current			
Subordinated loan	18.1	29,396	-
		29,396	-
		29,396	28,171

18.1 Subordinated loan

The Subordinated loan arising from the Assets Purchase Agreement dated 26 March 2009 ("APA") of RM30,670,000, entered into between AMB and the Company.

On 9 January 2012, the Company sought BNM's consideration for the proposed repayment of the subordinated loan via cash consideration to AMB for an amount equivalent to RM30,670,000. BNM had on 1 March 2012 approved the application for the proposed repayment of the subordinated loan of the Company.

19. Operating revenue

	Note	2011 RM'000	2010 RM'000
Gross earned premiums	20	1,375,522	1,295,410
Investment income	21	81,395	67,443
		1,456,917	1,362,853

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20. Net earned premiums

	Note	2011 RM'000	2010 RM'000
Gross premiums	13.2	1,463,083	1,324,282
Change in unearned premiums provision		(87,561)	(28,872)
Gross earned premiums	13.2	1,375,522	1,295,410
Gross premiums ceded	13.2	(399,962)	(401,431)
Change in unearned premiums provision		30,593	(22,558)
Premiums ceded to reinsurers		(369,369)	(423,989)
Net earned premiums		1,006,153	871,421

21. Investment income

	2011 RM'000	2010 RM'000
Rental income	53	51
Available-for-sale financial investments:		
Interest/profit income		
Malaysian government securities	33,586	26,087
Malaysian government guaranteed bonds and loans	11,036	5,802
Multilateral development bank guaranteed bonds	5,839	5,738
Unquoted bonds of corporations in Malaysia	22,893	21,978
Quoted bonds of corporations in Malaysia	471	577
Structured deposits and negotiable certificates of deposits with licensed financial institutions	2,781	1,526
Loans and receivables financial investments:		
Interest/profit income		
Commercial loans	143	441
Loans and receivables and cash and cash equivalents interest/profit income	4,593	5,243
	81,395	67,443

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22. Realised gains and losses

	2011 RM'000	2010 RM'000
Property, plant and equipment		
Realised (loss)/gain	(93)	136
Investment property		
Realised loss	(232)	-
Available-for-sale financial investments		
Realised gains:		
Unquoted debt securities in Malaysia	1,587	65
Quoted debt securities in Malaysia	1	64
Malaysian government securities	-	4,714
Total realised gains for available-for-sale financial investments	1,588	4,843
	1,263	4,979

23. Fee and commission income

	Note	2011 RM'000	2010 RM'000
Reinsurance commission income		46,534	50,645
Deferred acquisition cost	10	(4,017)	3,230
Service charges		22,098	23,337
		64,615	77,212

24. Net claims incurred

	Note	2011 RM'000	2010 RM'000
Gross claims paid less salvage	13.1	693,578	689,644
Claims ceded to reinsurers	13.1	(203,158)	(232,299)
Net claims paid	13.1	490,420	457,345
Gross change in claims liabilities:			
At 31 December	13.1	1,810,799	1,596,176
At 1 January	13.1	(1,596,176)	(1,442,314)
		214,623	153,862
Change in claims liabilities ceded to reinsurers:			
At 31 December	13.1	(886,389)	(813,590)
At 1 January	13.1	813,590	750,460
		(72,799)	(63,130)
		632,244	548,077

25. Fee and commission expense

	Note	2011 RM'000	2010 RM'000
Gross direct commission		175,600	154,099
Deferred acquisition cost	10	(11,086)	32
		164,514	154,131

26. Management expenses

	Note	2011 RM'000	2010 RM'000
Employee benefit expenses	26.1	98,757	87,288
Non-executive directors' remuneration	26.2	345	217
Auditors' remuneration:			
- statutory audits		240	190
Depreciation of property, plant and equipment	3	7,928	7,722
Amortisation of intangible assets	5	2,410	2,264
Reversal of allowance for impairment loss on receivables		(11,509)	(730)
Bad debts recovered		(233)	(122)
Bad debts written off		6,525	2,951
Bank charges		133	75
Advertising expenses		952	1,907
PIDM premium		3,190	2,504
Rental of office equipment		121	100
Rental of premises		5,763	6,209
Other expenses		58,908	52,528
		173,530	163,103

26.1 Employee benefit expenses

	2011 RM'000	2010 RM'000
Wages and salaries	57,107	54,826
Bonus	29,325	21,875
Social security contributions	621	579
Contribution to Employee's Provident Fund	11,468	9,120
Other benefits	236	888
	98,757	87,288

26. Management expenses (continued)

26.2 Key management personnel compensation

	Note	2011 RM'000	2010 RM'000
Executive director:			
Salaries and other emoluments		-	2,425
Bonus		-	936
Social security contributions		-	1
Contribution to Employees' Provident Fund		-	105
Estimated money value of benefits-in-kind		-	24
		-	3,491
Non-executive directors:			
Fees		228	195
Other remuneration		117	22
		345	217
Other key management personnel*			
Short-term employee benefits		4,687	3,479
		5,032	7,187

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

	Number of directors 2011	2010
Executive director		
RM3,000,000 to RM4,000,000	-	1
Non-executive directors:		
Below RM100,000	3	3
RM100,000 to RM200,000	1	-

* 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

	2011 RM'000	2010 RM'000
Salaries and other emoluments	480	2,456
Bonus	627	965
Social security contributions	1	1
Contribution to Employees' Provident Fund	144	109
Estimated money value of benefits-in-kind	19	26
	1,271	3,557
Amount included in employee benefits expenses	1,252	3,531

27. Tax expense

27.1 Recognised in the income statement

	Note	2011 RM'000	2010 RM'000
Current tax expense			
Current year		49,575	44,309
Under provision in prior year		1,119	8,636
		50,694	52,945
Deferred tax expense			
Origination and reversal of temporary differences		(450)	1,685
Over provision in prior year		(211)	(9,621)
	14.2	(661)	(7,936)
Tax expense		50,033	45,009

27. Tax expense (continued)

27.2 Reconciliation of tax expense

	2011 RM'000	2010 RM'000
Profit before tax	180,512	167,377
Tax at Malaysian tax rate of 25%	45,128	41,844
Non-deductible expenses	3,793	4,253
Other items	204	(103)
	49,125	45,994
Under/(Over) provision in prior year	908	(985)
Tax expense	50,033	45,009

27.3 Income tax recognised directly in other comprehensive income

	Note	2011 RM'000	2010 RM'000
Fair value reserve			
At 1 January		3,627	3,524
Net gain arising from change in fair value		2,385	103
At 31 December	14.2	6,012	3,627

	Note	2011 RM'000	2010 RM'000
Revaluation reserve			
At 1 January		-	-
Net gain arising from revaluation reserve		1,045	-
At 31 December	14.2	1,045	-

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28. Earnings per ordinary share

28.1 Profit for the year attributable to ordinary 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:

	2011 RM'000	2010 RM'000
Profit for the year attributable to ordinary shareholders	130,479	122,368

28.2 Weighted average number of ordinary shares

	2011	2010
Issued ordinary shares at 1 January	334,989,993	261,205,197
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	334,989,993	287,656,724

28.3 Basic earnings per ordinary share

	2011 Sen	2010 Sen
Basis earnings per ordinary share	39.0	42.5

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. Operating leases

29.1 Leases as lessee

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

	2011 RM'000	2010 RM'000
Less than one year	4,490	4,657
Between one and five years	4,069	7,478
	8,559	12,135

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.

30. Capital expenditure commitments

	2011 RM'000	2010 RM'000
Property, plant and equipment		
Approved but not contracted for	17,861	10,272
Contracted but not provided for	331	2,184

31. 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 or 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:

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31. Related parties (continued)

	Amount transacted for the year ended 31 December 2011 RM'000	Amount transacted for the year ended 31 December 2010 RM'000
Non-trade		
Ultimate holding company		
Payment for global marketing costs	(492)	(495)
Payment of staff costs	(49)	(109)
Payment of E-learning	-	(109)
Reimbursement of expenses made on behalf	202	-
Immediate holding company		
Expenses related to common resources	(4,290)	(4,374)
Rental of office premises received/(paid)	9	(19)
Reimbursement from/(Payment to) expenses made on behalf	12	(4)
Related companies*		
Reimbursement from/(Payment to) expenses related to common resources	19	(1,209)
Reimbursement from/(Payment to) expenses made on behalf	1,254	(554)
Rental of office premises paid	(111)	(37)
Insurance payment	(298)	(196)
Payment for investment advisory fees	(358)	(376)
Payment for intranet portal network cost	(135)	(247)
Risk survey fees	-	(10)
Disposal of motor vehicle	380	-
Payment of service fees	(4,548)	-
Trade		
Related companies		
Reinsurance premium	(142,210)	(120,309)
Reinsurance commission	22,233	19,781

* Related companies are companies within the Allianz SE group.

The terms and conditions for the above transactions are based on normal trade terms.

Significant related party balances related to the above transactions are disclosed in Note 8, 9, 16, 17 and 18.

32. Risk management framework

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

This comprehensive framework ensures that risks are identified, analysed and evaluated. Risk appetite is defined by the Company's risk strategy and limit structure. Close monitoring and reporting allows the Company to detect deviations from its risk tolerance limit at an 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 form 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 and whether the profile is within the delegated limits and authorities.

Risk strategy and risk appetite

The Company's risk strategy clearly defined its risk appetite. It ensures that returns 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 process. This also keeps risk strategy and business objectives consistent with each other and allows the Company to take opportunities within its risk appetite.

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 sustainable positive impact on valuation and financing.

32. 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. The Board has delegated the responsibility to establish and supervise the operation of the risk management framework to the Risk Management Committee (“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 the Risk Management Working Committee (“RMWC”), RMC will consolidate the status of the risks and present them to the Board for consideration.

RMC serves and provides as a platform for two way communications between the management and the Board on matters of the Company’s risk management framework and its strategies. RMWC are responsible in formulating risk management strategies, policies and risk tolerance for RMC review and onward transmission of recommendation to the Board. RMWC determines the allocation of risks by cascading and/or escalating to the relevant owners. RMWC also oversees the compliance of all risk management process by all departments of the Company and provides pre-emptive recommendations to ensure timely action is taken in managing and mitigating the identified risks.

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 apply.

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33. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, 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 represent the risk of loss resulting from deviations between payments for incurred losses that have not yet been 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 end of the reporting period by type of contract.

	2011			2010		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Fire	259,557	(199,759)	59,798	172,082	(117,867)	54,215
Motor	773,748	(65,939)	707,809	627,580	(59,056)	568,524
Marine cargo, aviation cargo and transit	189,716	(167,025)	22,691	203,234	(181,877)	21,357
Miscellaneous	587,778	(453,666)	134,112	593,280	(454,790)	138,490
Total	1,810,799	(886,389)	924,410	1,596,176	(813,590)	782,586

33. 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 BNM 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. It should be noted that movements in these assumptions are non-linear.

33. 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 2011		**RM'000**	**RM'000**	**RM'000**	**RM'000**
Average claim cost	+10%	177,511	89,844	(89,844)	(67,383)
Average number of claims	+10%	120,217	88,265	(88,265)	(66,199)
Average claim settlement period	Increased by 6 months	22,709	9,457	(9,457)	(7,092)
31 December 2010					
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)

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

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

33. 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 2011 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.

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33. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	-	454,981	396,675	458,967	696,740	600,933	800,472	808,271	863,518	-
One year later	-	505,306	440,946	569,098	704,712	581,075	819,547	828,768	-	-
Two years later	-	463,428	501,045	567,365	661,421	587,257	827,424	-	-	-
Three years later	-	484,221	490,653	552,186	664,919	593,676	-	-	-	-
Four years later	-	482,009	482,932	552,987	650,794	-	-	-	-	-
Five years later	-	476,105	483,850	550,076	-	-	-	-	-	-
Six years later	-	472,675	481,752	-	-	-	-	-	-	-
Seven years later	-	497,069	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	497,069	481,752	550,076	650,794	593,676	827,424	828,768	863,518	-

33. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	-	145,693	171,799	173,028	202,481	183,848	250,248	214,460	244,889	-
One year later	-	329,065	312,208	365,770	378,908	366,451	565,497	454,277	-	-
Two years later	-	360,368	348,788	420,153	447,535	445,223	683,192	-	-	-
Three years later	-	387,466	379,649	451,648	482,778	482,302	-	-	-	-
Four years later	-	404,171	402,374	470,711	502,784	-	-	-	-	-
Five years later	-	412,476	415,267	480,258	-	-	-	-	-	-
Six years later	-	427,621	420,591	-	-	-	-	-	-	-
Seven years later	-	439,283	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	439,283	420,591	480,258	502,784	482,302	683,192	454,277	244,889	-
Gross general insurance claims liabilities (direct and facultative)	22,514	57,786	61,161	69,818	148,010	111,374	144,232	374,491	618,629	1,608,015
Gross general insurance claims liabilities (treaty inward)										18,894
Best estimate of claims liability										1,626,909
Claims handling expenses										7,241
PRAD at 75% confidence level										176,649
Gross general insurance claims liabilities										1,810,799

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33. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	-	307,213	328,056	376,869	397,343	419,318	472,716	517,803	622,921	-
One year later	-	306,556	321,692	377,596	401,498	422,319	479,710	494,994	-	-
Two years later	-	299,947	323,723	373,040	395,653	431,658	493,315	-	-	-
Three years later	-	305,192	319,372	363,464	398,007	441,584	-	-	-	-
Four years later	-	305,147	311,223	364,426	394,074	-	-	-	-	-
Five years later	-	299,970	312,445	361,628	-	-	-	-	-	-
Six years later	-	298,097	312,947	-	-	-	-	-	-	-
Seven years later	-	306,013	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	306,013	312,947	361,628	394,074	441,584	493,315	494,994	622,921	-

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33. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year	-	121,478	123,658	151,133	150,994	165,070	191,803	188,247	201,756	-
One year later	-	221,125	228,893	271,229	275,172	305,313	343,484	352,308	-	-
Two years later	-	242,202	254,287	291,736	306,459	350,112	408,146	-	-	-
Three years later	-	258,735	268,988	312,530	333,465	376,842	-	-	-	-
Four years later	-	268,727	282,380	328,164	346,469	-	-	-	-	-
Five years later	-	276,060	291,273	335,861	-	-	-	-	-	-
Six years later	-	285,685	295,103	-	-	-	-	-	-	-
Seven years later	-	290,684	-	-	-	-	-	-	-	-
Cumulative payments to-date	-	290,684	295,103	335,861	346,469	376,842	408,146	352,308	201,756	-
Net general insurance claims liabilities (direct and facultative)	9,594	15,329	17,844	25,767	47,605	64,742	85,169	142,686	421,165	829,901
Net general insurance claims liabilities (treaty inward)										17,795
Best estimate of claims liability										847,696
Claims handling expenses										5,695
PRAD at 75% confidence level										71,019
Net general insurance claims liabilities										924,410

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33. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims 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	696,740	600,933	800,472	808,271	-
One year later	-	435,186	505,306	440,946	569,098	704,712	581,075	819,547	-	-
Two years later	-	425,834	463,428	501,045	567,365	661,421	587,257	-	-	-
Three years later	-	418,270	484,221	490,653	552,186	664,919	-	-	-	-
Four years later	-	422,270	482,009	482,932	552,987	-	-	-	-	-
Five years later	-	422,233	476,105	483,850	-	-	-	-	-	-
Six years later	-	417,542	472,675	-	-	-	-	-	-	-
Seven years later	-	415,639	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	415,639	472,675	483,850	552,987	664,919	587,257	819,547	808,271	-

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33. Insurance risk (continued)

Claims development table (continued)

Gross general insurance claims 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 claims liabilities (direct and facultative)	18,328	31,925	45,054	68,583	82,276	182,141	142,034	254,050	593,811	1,418,202
Gross general insurance claims liabilities (treaty inward)										16,867
Best estimate of claims liability										1,435,069
Claims handling expenses										5,001
PRAD at 75% confidence level										156,106
Gross general insurance claims liabilities										1,596,176

33. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims 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	397,343	419,318	472,716	517,803	-
One year later	-	275,753	306,556	321,692	377,596	401,498	422,319	479,710	-	-
Two years later	-	277,102	299,947	323,723	373,040	395,653	431,658	-	-	-
Three years later	-	275,955	305,192	319,372	363,464	398,007	-	-	-	-
Four years later	-	269,582	305,147	311,223	364,426	-	-	-	-	-
Five years later	-	269,160	299,970	312,445	-	-	-	-	-	-
Six years later	-	265,511	298,097	-	-	-	-	-	-	-
Seven years later	-	269,753	-	-	-	-	-	-	-	-
Current estimate of cumulative claims incurred	-	269,753	298,097	312,445	364,426	398,007	431,658	479,710	517,803	-

33. Insurance risk (continued)

Claims development table (continued)

Net general insurance claims 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	271,229	275,172	305,313	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 claims liabilities (direct and facultative)	7,602	9,928	12,412	21,172	36,262	64,542	81,546	136,226	329,556	699,246
Net general insurance claims liabilities (treaty inward)										15,293
Best estimate of claims liability										714,539
Claims handling expenses										4,027
PRAD at 75% confidence level										64,020
Net general insurance claims liabilities										782,586

34. Financial risks

Exposure to credit, liquidity, market (currency risk, interest rate 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.

34.1 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.

34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.1 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			
	Investment grade RM'000	Non-rated RM'000	Past due but not impaired RM'000	Total RM'000
31 December 2011				
Loans and receivables				
Commercial loans	-	-	-	-
Cash and cash equivalents	195,463	1,306	-	196,769
Available-for-sale financial investments				
Malaysian government securities	-	991,472	-	991,472
Malaysian government guaranteed bonds and loans	50,894	292,085	-	342,979
Multilateral development bank guaranteed bonds	135,539	-	-	135,539
Debt securities	535,955	-	-	535,955
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	-	-	61,709
Reinsurance assets	169,759	529,577	-	699,336
Insurance receivables	5,076	60,418	2,664	68,158
	1,154,395	1,874,858	2,664	3,031,917

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34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.1 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 2010				
Loans and receivables				
Commercial loans	5,525	-	-	5,525
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 and loans	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 certificates of deposits with licensed financial institutions	35,775	-	-	35,775
Reinsurance assets	168,934	490,060	-	658,994
Insurance receivables	4,948	50,097	3,162	58,207
	1,177,268	1,500,687	3,162	2,681,117

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34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.1 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	Non-rated RM'000	Total RM'000
31 December 2011						
Loans and receivables						
Commercial loans	-	-	-	-	-	-
Cash and cash equivalents	131,818	63,602	43	-	1,306	196,769
Available-for-sale financial investments						
Malaysian government securities	-	-	-	-	991,472	991,472
Malaysian government guaranteed bonds and loans	50,894	-	-	-	292,085	342,979
Multilateral development bank guaranteed bonds	135,539	-	-	-	-	135,539
Debt securities	149,528	376,845	9,582	-	-	535,955
Structured deposits and negotiable certificates of deposits with licensed financial institutions	61,709	-	-	-	-	61,709
Reinsurance assets	67	11,266	156,459	1,967	529,577	699,336
Insurance receivables	85	177	4,421	393	63,082	68,158
	529,640	451,890	170,505	2,360	1,877,522	3,031,917

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34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.1 Credit exposure (continued)

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2010						
Loans and receivables						
Commercial loans	552	2,763	2,210	-	-	5,525
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 and loans	135,367	-	-	-	8,030	143,397
Debt securities	141,797	360,864	29,989	-	-	532,650
Structured deposits and negotiable certificates of deposits with licensed financial institutions	35,775	-	-	-	-	35,775
Reinsurance assets	767	36,763	129,924	1,480	490,060	658,994
Insurance receivables	48	589	4,139	172	53,259	58,207
	464,995	495,653	214,968	1,652	1,503,849	2,681,117

Company No.735426-V

34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.1 Credit exposure (continued)

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

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2011						
Investment grade	529,640	451,890	170,505	2,360	-	1,154,395
Non-rated	-	-	-	-	1,874,858	1,874,858
Past-due but not impaired	-	-	-	-	2,664	2,664
	529,640	451,890	170,505	2,360	1,877,522	3,031,917

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Non-rated RM'000	Total RM'000
31 December 2010						
Investment grade	464,995	495,653	214,968	1,652	-	1,177,268
Non-rated	-	-	-	-	1,500,687	1,500,687
Past-due but not impaired	-	-	-	-	3,162	3,162
	464,995	495,653	214,968	1,652	1,503,849	2,681,117

34. Financial risks (continued)

34.1 Credit risk (continued)

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

The Company maintains an ageing analysis in respect of insurance receivables only. The ageing of insurance receivables that are past due as at the reporting date but not impaired is as follows:

	<30 days RM'000	31 to 60 days RM'000	61 to 90 days RM'000	More than 90 days RM'000	Total RM'000
31 December 2011					
Insurance receivables	906	672	277	809	2,664
31 December 2010					
Insurance receivables	2,198	844	-	120	3,162

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34. Financial risks (continued)

34.1 Credit risk (continued)

34.1.3 Impaired financial assets

At 31 December 2011, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM21,065,000 (2010: RM32,714,000). 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 Impairment' accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivable is as follows:

	Insurance receivables		Loans and receivables	
	2011 RM'000	2010 RM'000	2011 RM'000	2010 RM'000
At 1 January	32,714	33,444	3,236	3,236
Impairment loss (reversed)/recognised	(11,649)	(730)	140	-
At 31 December	21,065	32,714	3,376	3,236

34. Financial risks (continued)

34.2 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 or 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.

34.2.1 Maturity profiles

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

For provision for claims, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

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34. Financial risks (continued)

34.2 Liquidity risk (continued)

34.2.1 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 2011								
Provision for claims	1,357,126	638,320	430,584	159,909	128,313	-	-	1,357,126
Other financial liabilities	2,789	2,789	-	-	-	-	-	2,789
Insurance payables	198,191	184,840	12,245	1,106	-	-	-	198,191
Other payables	68,916	68,916	-	-	-	-	-	68,916
Subordinated loan	29,396	30,670	-	-	-	-	-	30,670
Total liabilities	1,656,418	925,535	442,829	161,015	128,313	-	-	1,657,692

34. Financial risks (continued)

34.2 Liquidity risk (continued)

34.2.1 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								
Provision for claims	1,227,631	599,885	399,326	121,075	107,345	-	-	1,227,631
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 loan	28,171	-	30,670	-	-	-		30,670
Total liabilities	1,533,715	861,104	445,634	122,131	107,345	-	-	1,536,214

34. Financial risks (continued)

34.3 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

34.3.1 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.

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.2 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 on 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 2011		**RM'000**	**RM'000**
Interest rate	+ 100 basis points	-	(48,594)
Interest rate	+ 50 basis points	-	(24,297)
31 December 2010			
Interest rate	+ 100 basis points	-	(35,193)
Interest rate	+ 50 basis points	-	(17,596)

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

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

34. Financial risks (continued)

34.3 Market risk (continued)

34.3.3 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 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.

34.4 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.

34. Financial risks (continued)

34.5 Fair value of financial instruments

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

(a) The fair values of structured deposits and negotiable certificates of deposits are based on the indicative market prices from the issuing banks;

(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 Malaysian government securities, Malaysian government guaranteed bonds and loans, multilateral development bank guaranteed bonds and unquoted bonds of corporations are based on the indicative market yields obtained from three financial institutions;

(d) The carrying amount of commercial loans are assumed to approximate their fair values;

(e) The carrying amounts of cash and cash equivalents, insurance receivables and other receivables approximate fair values due to the relatively short term nature of these financial instruments; and

(f) The carrying amounts of subordinated loan is calculated based on the present value of future cash flow, discounted at the market rate of interest at the date of issuance.

Estimating the fair values of Malaysian government securities, Malaysian government guaranteed bonds and loans, 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. There 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.

It was not practicable to estimate the fair value of the Company's investment in unquoted shares due to the lack of comparable quoted market prices and the inability to estimate fair value without incurring excessive costs.

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34. Financial risks (continued)

34.5 Fair value of financial instruments (continued)

34.5.1 Fair value hierarchy

Comparative figures have not been presented for 31 December 2010 by virtue of paragraph 44G of FRS 7.

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

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

2011

Financial assets

RM'000	**Level 1**	**Level 2**	**Level 3**	**Total**
Malaysian government securities	-	991,472	-	991,472
Malaysian government guaranteed bonds and loans	-	342,979	-	342,979
Multilateral development bank guaranteed bonds	-	135,539	-	135,539
Unquoted debt securities	-	535,955	-	535,955
Unquoted equity securities	-	-	*	*
Structured deposits with licensed financial institutions	-	61,709	-	61,709

Financial liabilities

RM'000				
Subordinated loan	-	29,396	-	29,396

* Denotes RM4

35. Capital management

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 been in compliance with the said requirement.

Regulatory capital requirements

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

	2011 RM'000	2010 RM'000
Tier 1 Capital		
Paid up share capital	334,990	334,990
Retained earnings	427,504	309,034
	762,494	644,024
Tier 2 Capital		
Reserves	25,665	12,906
Subordinated loan	20,900	20,900
	46,565	33,806
Amounts deducted from capital	-	(1,978)
Total capital available	809,059	675,852