Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Financial statements for the year ended 31 December 2010

Domiciled in Malaysia
Principal place of business
Suite 3A-15, Level 15, Block 3A,
Plaza Sentral, Jalan Stesen Sentral 5,
Kuala Lumpur Sentral,
50470 Kuala Lumpur

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Directors' report for the financial year ended 31 December 2010

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

Principal activity

The Company is principally engaged in the underwriting of life insurance and investment-linked business. There has been no significant change in the nature of this activity during the financial year.

Results

	RM'000
Profit for the year	14,544

Dividend

No dividend was paid during the financial year and 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.

Life insurance liabilities

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that the life insurance 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 the 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 in the financial statements of the Company misleading or inappropriate.

Contingent and other liabilities

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

(i) 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

(ii) any contingent liabilities in respect of the Company that has arisen since the end of the financial year.

No contingent or other liabilities 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 and other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

Change of circumstances

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

Items of an unusual nature

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

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

Issue of shares

During the financial year, the Company:

a) increased its authorised share capital from 180,000,000 to 350,000,000 ordinary shares at RM1 each by the creation of 170,000,000 ordinary shares of RM1 each; and

b) increased its issued and paid-up share capital from 157,000,000 to 236,600,000 by way of the following allotment and issuance of ordinary shares:

   (i) 3,600,000 new ordinary shares of RM1 each at par to its immediate holding company, Allianz Malaysia Berhad ("AMB") for the purpose of repaying the subordinated loan of RM3,600,000 due and owing to AMB by the Company; and

   (ii) 76,000,000 new ordinary shares of RM1 each at par to its immediate holding company, AMB in order to increase the capital base of the Company to meet the capital requirement under the Risk-Based Capital Framework.

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

Options granted over unissued shares

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

Corporate governance

A. Board responsibilities and oversight

The Board of Directors ("Board") has overall responsibility for reviewing and adopting strategic plans for the Company, overseeing the conduct of business of the Company, implementing an appropriate system of risk management and ensuring the adequacy and integrity of the Company's internal control system.

The Company complied with all the prescriptive requirements of, and adopts management practices that are consistent with the prescriptive and best practices prescribed under the Prudential Framework of Corporate Governance for Insurers issued by BNM, the Malaysian Code on 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 interest of its shareholders and policyholders.

A1. Composition of the Board

The Board is made up of 4 Non-Executive Directors and 1 Executive Director. There are 3 Independent Non-Executive Directors on the Board.

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

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

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

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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 2010.

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

Name of Directors	**No. of Board Meetings Held**	**No. of Board Meetings Attended**
Tan Sri Razali Ismail	6	6
Dato' Seri Nik Abidin Bin Nik Omar	6	6
Foo San Kan	6	6
Craig Anthony Ellis	6	5
Jens Reisch	6	6

Corporate governance (continued)

A3. Board Committees

The Company has since 1 January 2008 formally used the services of the belowmentioned Board Committees of its immediate holding company, 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.

A.3.1 Audit Committee of AMB

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

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

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

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

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

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

Corporate governance (continued)

A.3.2 Risk Management Committee of AMB

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

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

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

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

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

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

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

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

Corporate governance (continued)

A.3.2 Risk Management Committee of AMB (continued)

(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 the risk methodology to facilitate risk assessment.

A.3.3 Nominating Committee of AMB

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

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

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

Corporate governance (continued)

A.3.3 Nominating Committee of AMB (continued)

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

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

The primary objective of the Nominating Committee of AMB is to establish a documented formal and transparent procedure for the appointment of Directors, Chief Executive Officers and Key Senior Officers of the Group and to assess the effectiveness of 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 of AMB are stated below and shall be applicable to the Group:

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

Corporate governance (continued)

A.3.3 Nominating Committee of AMB (continued)

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

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

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

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

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

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

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

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

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

Corporate governance (continued)

A.3.4 Remuneration Committee of AMB

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

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

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

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

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

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

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

Corporate governance (continued)

A.3.4 Remuneration Committee of AMB (continued)

(iv) be balanced against the need to ensure that the funds of the insurer are not used to subsidise excessive remuneration packages;

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

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

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

A.3.5 Investment Committee of AMB

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

Craig Anthony Ellis (Chairman-Non-Independent Non-Executive Director)
Jens Reisch (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 2010.

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Corporate governance (continued)

A.3.5 Investment Committee of AMB (continued)

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

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

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

B. Management Accountability

B1. Organisational structure

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

Corporate governance (continued)

B. Management Accountability (continued)

B1. Organisational structure (continued)

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

B2. Communication

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

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

B3. Corporate Independence

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

Corporate governance (continued)

C. Internal Controls and Operational Risk Management

The Board recognises the importance of having in place a risk management system to identify 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 the risk identification, evaluation and monitoring process of the Company. It is designed to formalise the risk management functions and practices across the Company and to increase awareness of the Company's employees to risk identification, measurement, control, ongoing monitoring and reporting.

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

Underwriting

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

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

The reinsurance treaty programs ensure that reinsurers have secured ratings from accredited rating agencies. The securities of treaty reinsurers are stringently reviewed on an annual basis.

Financial control procedures

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.

Corporate governance (continued)

C. Internal Controls and Operational Risk Management (continued)

Financial position

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

Investment

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

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

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

Information system

The Information Technology ("IT") Steering Committee is responsible for establishing effective IT plans, recommending to Senior Management Committee for approval on IT-related expenditure and monitoring the progress of approved IT projects.

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

Data management framework

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

Corporate governance (continued)

C. Internal Controls and Operational Risk Management (continued)

Internal audit

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

The Internal Audit function undertakes reviews of the Company's operations and its system of internal controls. It provides continuous monitoring of the controls and risk management procedures. Internal audit findings are discussed at management level and actions are taken in response to the internal audit recommendations. The Audit Committee of AMB reviews all internal audit findings and management responses. The requirements of BNM's Guidelines on Internal Audit Function of Licensed Institution (BNM/RH/GL 013-4) have been met.

Whistleblowing procedures

The Whistleblowing Committee of AMB has been 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 Committee are in place to handle, review, assess and take appropriate actions on complaints or concerns raised by the employees relating to any illegal or questionable activities in the Company. Such complaints or concerns may be made anonymously. The whistleblowing procedures will help to promote transparency and accountability throughout the Company.

Ethics and Compliance

The Ethics and Compliance Committee had been set up in 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 or concerns on agents. This will help to promote the professionalism of the sales force throughout the Company.

Anti-Fraud and Anti-Corruption

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

Corporate governance (continued)

C. Internal Controls and Operational Risk Management (continued)

Anti-Fraud and Anti-Corruption (continued)

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

Employees and Agents

Employees of the Company are required to make an annual declaration where they are required to reaffirm, inter alia, that they meet the "fit and proper" criteria and adhere to the Code of Ethics and Conduct issued by Life Insurance Association of Malaysia ("LIAM").

All agents and employees are also subject to the LIAM's Code of Ethics and Conduct where they are required to sign the declaration of observance which is then kept by the Company.

Product Development

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

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

New products launched in the financial year ended 31 December 2010 were Allianz Retirement Health, Credit Term Life Assurance, Income Generator, Income Provider, OneEB, Allianz Care Plus, Group/Individual HP Life, MyLife, MyLife PA Rider, Optimix Yield Plan and MyLife Cancer Rider. They were duly deliberated by the Senior Management Committee and approved in accordance with established procedures.

Corporate governance (continued)

C. Internal Controls and Operational Risk Management (continued)

Public accountability

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

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

Financial reporting

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

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

Corporate governance (continued)

C. Internal Controls and Operational Risk Management (continued)

Business Continuity Plans

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

Training and development

Training and development programs are conducted to enhance staff competencies and maintain a risk control conscious culture.

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)
Foo San Kan (Independent Non-Executive Director)
Craig Anthony Ellis (Non-Independent Non-Executive Director)
Jens Reisch (Executive Director)
Cornelius Alexander Ioannis Ankel (Resigned with effect from 4 August 2010)
(Executive Director)
Ong Eng Chow (Resigned with effect from 24 November 2010) (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 related corporations of the Company (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 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 Allianz Malaysia Berhad, a public limited company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Auditors

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

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

……………………………………………………….

Tan Sri Razali Ismail

……………………………………………………….

Jens Reisch

Kuala Lumpur,

Date: 22 March 2011

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(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 27 to 138 are drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

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

…………………………………………………………..
Tan Sri Razali Ismail

…………………………………………………………..
Jens Reisch

Kuala Lumpur,

Date: 22 March 2011

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

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

I, **Ong Eng Chow**, the officer primarily responsible for the financial management of Allianz Life Insurance Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 27 to 138 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

……………………………………..
Ong Eng Chow

Before me:

Independent Auditors' Report to the member of Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Allianz Life Insurance Malaysia Berhad, which comprise the statement of financial position as at 31 December 2010, the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 27 to 138.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of these financial statements that give a true and fair view in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines, and the Companies Act, 1965 in Malaysia and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/12(J)
Chartered Accountant

Petaling Jaya,

Date: 22 March 2011

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of financial position as at 31 December 2010

	Note	31.12.2010 RM'000	31.12.2009 RM'000 Restated	1.1.2009 RM'000 Restated
Assets				
Property, plant and equipment	3	16,773	15,828	16,715
Investment properties	4	2,650	2,650	2,620
Intangible assets	5	171	46	242
Deferred tax assets	13	-	2,005	6,430
Investments	6	2,904,567	2,122,089	1,694,559
Reinsurance assets	7	81,080	71,604	76,051
Insurance receivables	8	41,958	34,381	39,185
Other receivables, deposits and prepayments	9	76,271	42,794	51,699
Current tax assets		-	1,889	5,400
Cash and cash equivalents		227,218	307,234	152,407
Total assets		3,350,688	2,600,520	2,045,308
Equity, policyholders' funds and liabilities				
Share capital	10	236,600	157,000	157,000
Fair value reserve	11	711	(992)	938
Accumulated losses	11	(12,499)	(27,043)	(39,040)
Total equity		224,812	128,965	118,898
Insurance contract liabilities	12	2,849,319	2,255,230	1,764,197
Deferred tax liabilities	13	6,248	-	-
Other financial liabilities	14	1,582	1,704	3,033
Insurance payables	15	73,888	71,870	62,223
Other payables and accruals	16	134,381	101,992	61,397
Benefits and claims liabilities	17	59,545	37,159	31,960
Subordinated loan	18	-	3,600	3,600
Current tax liabilities		913	-	-
Total liabilities		3,125,876	2,471,555	1,926,410
Total equity, policyholders' funds and liabilities		3,350,688	2,600,520	2,045,308

The notes on pages 33 to 138 are an integral part of these financial statements.

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Income statement for the year ended 31 December 2010

	Note	2010 RM'000	2009 RM'000
Operating revenue	19	1,145,284	961,115
Gross earned premiums		1,029,459	868,727
Premiums ceded to reinsurers		(64,147)	(55,778)
Net earned premiums	20	965,312	812,949
Investment income	21	115,825	92,388
Realised gains and losses	22	36,671	18,119
Fair value gains and losses	23	195	23,709
Fee and commission income	24	7,498	8,268
Other operating income		6,211	17,736
Other revenue		166,400	160,220
Gross benefits and claims paid		(282,184)	(181,261)
Claims ceded to reinsurers		45,089	30,580
Gross change to contract liabilities		(534,600)	(498,815)
Change in contract liabilities ceded to reinsurers		9,476	(4,447)
Net benefits and claims	25	(762,219)	(653,943)
Fee and commission expense		(255,471)	(213,914)
Management expenses	26	(72,004)	(73,216)
Other operating expenses		(10,993)	(5,647)
Other expenses		(338,468)	(292,777)
Profit before tax		31,025	26,449
Tax expense	27	(16,481)	(14,452)
Net profit for the year		14,544	11,997

The notes on pages 33 to 138 are an integral part of these financial statements.

Allianz Life Insurance Malaysia Berhad
(Company No. 104248-X)
(Incorporated in Malaysia)

Statement of comprehensive income for the year ended 31 December 2010

	2010 RM'000	2009 RM'000
Net profit for the year attributable to owners of the Company	14,544	11,997
Other comprehensive income:		
Available-for-sale fair value reserve	2,271	(2,573)
Tax effects thereon	(568)	643
Other comprehensive income for the year, net of tax	1,703	(1,930)
Total comprehensive income for the year attributable to owners of the Company	16,247	10,067

The notes on pages 33 to 138 are an integral part of these financial statements.

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

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

	Note	Non-distributable Share Capital RM'000	Non-distributable Fair Value Reserve RM'000	Distributable Accumulated Losses RM'000	Total Equity RM'000
At 1 January 2009		157,000	938	(39,040)	118,898
Total comprehensive income for the year		-	(1,930)	11,997	10,067
At 31 December 2009/1 January 2010		157,000	(992)	(27,043)	128,965
Total comprehensive income for the year		-	1,703	14,544	16,247
Issue of ordinary shares	10	79,600	-	-	79,600
At 31 December 2010		236,600	711	(12,499)	224,812

The notes on pages 33 to 138 are an integral part of these financial statements.

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Cash flow statement for the year ended 31 December 2010

	2010 RM'000	2009 RM'000
Cash flows from operating activities		
Profit before tax	31,025	26,449
Change in fair value of investment property	-	(30)
Investment income	(115,825)	(92,388)
Interest expense	1,343	1,340
Realised gains recorded in income statement	(36,676)	(18,197)
Fair value on investments recorded in income statement	(195)	(23,679)
Purchase of HTM financial investments	(188,137)	(446,374)
Maturity of HTM financial investments	40,000	-
Purchase of AFS financial investments	(1,093,917)	(851,605)
Maturity of AFS financial investments	104,362	18,565
Proceeds from sale of AFS financial investments	677,531	937,578
Reversal of impairment allowance	-	(9,320)
Purchase of HFT financial investments	(2,955,838)	(3,256,147)
Maturity of HFT financial investments	2,491,372	2,947,432
Proceeds from sale of HFT financial investments	431,429	304,516
Increase in LAR	(183,870)	(40,544)
Non-cash items:		
(Decrease)/increase in fair value changes	(59,489)	7,782
(Write back of)/allowance for doubtful debts	(333)	27
Amortisation of intangible assets	45	253
Depreciation of property, plant and equipment	1,677	1,802
Loss on disposal of property, plant and equipment	5	78
Property, plant and equipment written off	16	195
Changes in working capital:		
(Increase)/decrease in reinsurance assets	(9,476)	4,447
(Increase)/decrease in insurance receivables	(7,330)	4,831
(Increase)/decrease in other receivables, deposits and prepayments	(35,332)	8,906
Increase in contract liabilities	594,089	491,033
Decrease in other financial liabilities	(122)	(1,329)
Increase in insurance payables	2,018	9,647
Increase in other payables	30,318	40,594
Increase in benefits and claims liabilities	22,386	5,199
Cash (used in)/ generated from operating activities	**(258,924)**	**71,061**

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

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

	2010 RM'000	2009 RM'000
Tax paid	(8,500)	(4,765)
Dividend received	10,466	6,056
Coupon interest received	103,569	83,428
Rental income on investment properties received	186	219
Net cash flows (used in)/from operating activities	**(153,203)**	**155,999**
Investing activities		
Proceeds from disposal of property, plant and equipment	38	401
Acquisition of property, plant and equipment	(2,681)	(1,573)
Acquisition of intangible assets	(170)	-
Net cash flows used in investing activities	**(2,813)**	**(1,172)**
Financing activities		
Issue of ordinary shares	79,600	-
Decrease in subordinated loans	(3,600)	-
Net cash generated from financing activities	**76,000**	**-**
Net (decrease)/increase in cash and cash equivalents	(80,016)	154,827
Cash and cash equivalents at 1 January	307,234	152,407
Cash and cash equivalents at 31 December	**227,218**	**307,234**
Cash and cash equivalents comprises:		
Fixed and call deposits (with maturity less than three months):		
Licensed bank	220,820	301,024
Cash and bank balances	6,398	6,210
	227,218	**307,234**

The notes on pages 33 to 138 are an integral part of these financial statements.

Allianz Life Insurance Malaysia Berhad

(Company No. 104248-X)
(Incorporated in Malaysia)

Notes to the financial statements

Corporate information

Allianz Life Insurance Malaysia Berhad is a public limited liability 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, Malaysia

The Company is principally engaged in the underwriting of life insurance and investment-linked business.

The ultimate holding company is Allianz SE, a public company incorporated and domiciled in Germany. The immediate holding company is Allianz Malaysia Berhad, a public limited company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were approved by the Board of Directors on 22 March 2011.

1. Basis of preparation

1.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs") as modified by Guidelines/Circulars issued by BNM pursuant to section 90 of the Insurance Act, 1996, generally accepted accounting principles in Malaysia, the Companies Act, 1965 and the Insurance Act and Regulations, 1996.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

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

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

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

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

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

- Amendments to FRS 1, *First-Time Adoption of Financial Reporting Standards*
  - *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters*
  - *Additional Exemptions for First-time Adopters*
- Amendments to FRS 2, *Group Cash-settled Share-based Payment Transactions*
- Amendments to FRS 7, *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments*
- IC Interpretation 4, *Determining whether an Arrangement contains a Lease*
- IC Interpretation 18, *Transfers of Assets from Customers*
- Improvements to FRSs (2010)

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

- Amendments to IC Interpretation 14, *Prepayments of a Minimum Funding Requirement*
- IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

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

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

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

- from the annual period beginning on 1 January 2011 for those standards, amendments and interpretations that will be effective for annual periods beginning on or after 1 March 2010, 1 July 2010 and 1 January 2011, except for FRS 1 (revised), FRS 3 (revised), FRS 127 (revised), Amendments to FRS 2, IC Interpretation 12, Amendments to FRS 1 and IC Interpretation 18 which are not applicable to the Company.
- from the annual period beginning on 1 January 2012 for those standards, amendments and interpretations that will be effective for annual periods beginning on or after 1 July 2011 and 1 January 2012, except for Amendments to IC Interpretation 14, IC Interpretation 19 and IC Interpretation 15 which are not applicable to the Company.

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

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

<u>Risk-Based Capital Framework for Insurers</u>

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

During the financial year, the Company adopted FRS 4, Insurance Contracts, FRS 139, Financial Instruments: Recognition and Measurement and FRS 7, Financial Instruments: Disclosure.

1. Basis of preparation (continued)

1.1 Statement of compliance (continued)

The Company further adopted the Circular on Financial Reporting Guidelines for Insurers, issued on 22 July 2010, which principal objective is to address the requirements on the application of these new FRSs and information to be disclosed in the financial statements of insurers, as well as to bring the financial reporting requirements for insurers to be aligned with FRS requirements.

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

1.2 Basis of measurement

The financial statement have been prepared on the historical cost basis except for property, plant and equipment, investment properties and those financial instruments that have been measured at their fair value and life insurance liabilities in accordance with the valuation methods specified in the RBC Framework issued by BNM, as explained in their respective accounting policy notes.

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 presented in RM has been rounded to the nearest thousand, unless otherwise stated.

1.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 (b)(i) – revaluation of land and buildings
- Note 2 (c)(i) – valuation of investment properties
- Note 2 (f) – fair value of financial instruments
- Note 2 (u)(i) – insurance contract liabilities

2. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting period are retranslated to the functional currency at the exchange rate at that date.

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

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

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost/valuation less any accumulated depreciation and any accumulated impairment losses.

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 adjustment 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 the 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 the income statement.

2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(i) Recognition and measurement (continued)

Costs include 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 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 are transferred to retained earnings.

(ii) Subsequent costs

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

(iii) Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognised in the income statement.

2. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(iv) 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. Property, plant and equipment under construction 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:-

• buildings	50 years
• office equipment, furniture and fittings	10 years
• computers	5 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.

(c) Investment properties

(i) 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 but not for sale in the ordinary course of business. These include land held for a currently undetermined future use.

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

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

2. Significant accounting policies (continued)

(c) Investment properties (continued)

(i) Investment properties carried at fair value (continued)

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

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

(ii) Reclassification to/ from investment property

When an item of property, plant and equipment is transferred to investment property 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)

(c) Investment properties (continued)

(iii) Determination of fair value

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

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

In arriving at the market value, the directors adopted the comparison and investment 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. The investment method entails the capitalisation of a future net income stream from the property at an acceptable rate of return derived from analysis of market transactions. The gross rental income less all outgoings such as insurance, quit rent, assessment, maintenance charges, management fee and repairs to arrive at a net annual rent are capitalised to arrive at the market value of the subject property.

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

2. Significant accounting policies (continued)

(d) Intangible assets

(i) 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 accumulated amortisation and impairment losses.

(ii) Other intangible assets

Other intangible assets that are acquired by the Company are measured at cost less any accumulated amortisation and accumulated impairment losses.

(iii) 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 the income statement as incurred.

(iv) Amortisation

Intangible assets with finite useful lives are amortised from the date that they are available for use. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets.

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

• capitalised software development costs	5 years
• other intangible assets	3 years

2. Significant accounting policies (continued)

(e) Leased assets

(i) 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.

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.

(ii) Operating lease

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 on the Company's statement of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

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

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

2. Significant accounting policies (continued)

(e) Leased assets (continued)

(ii) Operating lease

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives received are recognised in the income statement as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to the income statement in the reporting period in which they are incurred.

(f) Financial instruments

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

(i) Initial recognition and measurement

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

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

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

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

The Company categorises and measures financial instruments as follows:

Financial assets

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

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

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

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

(2) Held-to-maturity investments

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

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

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

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

Financial assets (continued)

(3) Loans and receivables, excluding insurance receivables

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

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

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

The changes in the accounting policies do not have any material impact on the financial statements.

(4) 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)

(f) Financial instruments (continued)

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

Financial assets (continued)

(5) 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(g)(ii).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2(f)(v), 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(g)).

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.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

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

Financial liabilities (continued)

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

Other financial 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.

(iii) 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.

(iv) 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.

2. Significant accounting policies (continued)

(f) Financial instruments (continued)

(iv) Regular way purchase or sale of financial assets (continued)

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.

(v) 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. Significant accounting policies (continued)

(g) Impairment of financial assets

(i) Financial assets, excluding insurance receivables

All financial assets (except for financial assets categorised as fair value through profit or loss, investments in subsidiaries and associated 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(g)(ii) 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.

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

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

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

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

2. Significant accounting policies (continued)

(g) Impairment of financial assets (continued)

(ii) Insurance receivables

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

Prior to adoption of FRS 139, known bad debts are written off and specific allowances is made for any premiums, including agents and reinsurance balances, which remain outstanding for more than six (6) months from the date on which they become receivable and for all debts which are considered doubtful.

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

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

The change in the policy for making allowances for insurance receivables did not have any material impact on the financial statements.

2. Significant accounting policies (continued)

(h) Impairment of non-financial assets

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

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

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

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

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

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

2. Significant accounting policies (continued)

(i) Equity Instruments

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

Ordinary share capital

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

Dividends on ordinary share capital

Dividends on ordinary share 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 balance sheet date are dealt with as an event after the balance sheet date.

(j) Product classification

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

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

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

2. Significant accounting policies (continued)

(j) Product classification (continued)

Investment contracts are those contracts that do not transfer significant insurance risk.

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

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

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

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

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

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

2. Significant accounting policies (continued)

(k) 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 life insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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

2. Significant accounting policies (continued)

(l) Life insurance underwriting results

The surplus transferable from the Life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the liabilities to policyholders.

Gross premiums

Gross premiums are recognised as soon as the amount of the premiums can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

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

Reinsurance premiums

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

Benefits, claims and expenses

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

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

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

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

Commission and agency expenses

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

2. Significant accounting policies (continued)

(l) Life insurance underwriting results (continued)

Fees and commission income

Insurance policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as income 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.

(m) Life insurance contract liabilities

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

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

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

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

2. Significant accounting policies (continued)

(m) Life insurance contract liabilities (continued)

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

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

Adjustments to the liabilities at each reporting date are recorded in income statement. Profits originated from margins of adverse deviations on run-off contracts, are recognised in income statement over the life of the contract, whereas losses are fully recognised in income statement during the first year of run-off.

The liability is derecognised when the contract expires, is discharged or is cancelled.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of present value of in-force business ("PVIF") and deferred acquisition cost ("DAC") by using an existing liability adequacy test.

Any inadequacy is recorded in income statement, initially by impairing PVIF and DAC, and subsequently by establishing technical reserves for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists.

(n) Investment contract liabilities

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

2. Significant accounting policies (continued)

(n) Investment contract liabilities (continued)

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition, investment contract liabilities are remeasured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position.

Fair value adjustments are performed at each reporting date and are recognised in income statement. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the end of reporting period. The fund assets and fund liabilities used to determine the unit-prices at the end of reporting period are adjusted to take into account the effect of deferred tax on unrealised gains and losses on assets in the fund.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

(o) 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.

Rental income

Rental income from investment property 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.

Interest income

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

2. Significant accounting policies (continued)

(o) Other revenue recognition (continued)

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.

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 difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

(p) 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 for reporting purposes and the amounts used for taxation purposes. 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/(tax 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 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 profit will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2. Significant accounting policies (continued)

(q) 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.

(r) 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 fund are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

2. Significant accounting policies (continued)

(s) 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.

(t) 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.

(u) Significant accounting judgments, estimates and assumptions

(i) Valuation of life insurance contract liabilities

The valuation of life insurance contract liabilities is based on the Risk-Based Capital Framework for Insurers and the circular "Temporary Flexibility for Life Insurers Under the Risk-Based Capital Framework for Insurers". Both framework and circular were issued by BNM.

The life insurance contract liability is valued using a prospective actuarial valuation based on the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The expected future cash flow is determined using best estimate assumptions and with due regard to significant recent experience.

An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation of non-participating life policies and non-unit liabilities of investment-linked policies.

2. Significant accounting policies (continued)

(u) Significant accounting judgments, estimates and assumptions (continued)

(i) Valuation of life insurance contract liabilities (continued)

For 1-year life policy or a 1-year extension to a life policy covering contingencies other than death or survival, the premium and claim liabilities is valued separately at a probability of sufficiency level at 75%. Liability is calculated on the basis of the 1/24th method; to both claims and premiums, reduced by the percentage of accounted gross direct business commissions and agency-related expenses to corresponding premiums.

The risk-free discount rate is used for all cash flows to determine the liability of a non-participating life policy and the non-unit liability of an investment-linked policy. A discount rate based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund is used for all cash flows to determine the liability of participating policies.

Risk-free discount rate for durations of less than 15 years is weighted average of zero-coupon spot yields of Malaysian Government Securities (“MGS”) with matching duration. Risk-free discount rate for durations of 15 years or more is weighted average of zero-coupon spot yields of MGS with 15 years term to maturity. Duration is the term to maturity of each future cash flow. The MGS zero-coupon spot yields are obtained from a recognised bond pricing agency in Malaysia.

The weighted average referred is computed based on the spot yields on the valuation date and the simple average of the spot yields over 7 preceding quarters. The valuation date spot yield carries 30% weight while the simple average of the spot yields at the end of each of the quarters preceding the current quarter carries 70% weight.

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3. Property, plant and equipment

	Note	Land RM'000	Buildings RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation and partitions RM'000	Work-in progress RM'000	Total RM'000
Cost/Valuation								
At 1 January 2009		550	4,310	14,878	1,824	7,529	144	29,235
Transfer from prepaid lease payment		4,915	-	-	-	-	-	4,915
At 1 January 2009, restated		5,465	4,310	14,878	1,824	7,529	144	34,150
Additions		-	-	389	313	240	631	1,573
Disposals		-	-	(305)	(778)	-	-	(1,083)
Written off		-	-	(1,041)	(3)	(228)	(1)	(1,273)
Transfer to intangible assets	5	-	-	-	-	-	(57)	(57)
Reclassification		-	-	102	-	342	(444)	-
Revaluation of property		20	-	-	-	-	-	20
At 31 December 2009/1 January 2010, restated		5,485	4,310	14,023	1,356	7,883	273	33,330
Additions		-	-	1,359	-	163	1,159	2,681
Disposals		-	-	(951)	(102)	(43)	-	(1,096)
Written off		-	-	(391)	-	(16)	-	(407)
Reclassification		-	-	54	-	208	(262)	-
At 31 December 2010		5,485	4,310	14,094	1,254	8,195	1,170	34,508

3. Property, plant and equipment (continued)

	Land RM'000	Buildings RM'000	Office equipment, computers, furniture and fittings RM'000	Motor vehicles RM'000	Office renovation and partitions RM'000	Work-in progress RM'000	Total RM'000
Depreciation							
At 1 January 2009	-	150	12,091	874	4,137	-	17,252
Transfer from prepaid lease payment	183	-	-	-	-	-	183
At 1 January 2009, restated	183	150	12,091	874	4,137	-	17,435
Depreciation for the year	61	58	969	53	661	-	1,802
Disposals	-	-	(281)	(323)	-	-	(604)
Written off	-	-	(964)	-	(114)	-	(1,078)
Offset of accumulated depreciation on revaluation surplus	-	(53)	-	-	-	-	(53)
At 31 December 2009/1 January 2010, restated	244	155	11,815	604	4,684	-	17,502
Depreciation for the year	61	59	914	1	642	-	1,677
Disposals	-	-	(924)	(102)	(27)	-	(1,053)
Written off	-	-	(378)	-	(13)	-	(391)
At 31 December 2010	305	214	11,427	503	5,286	-	17,735
Carrying amounts							
At 1 January 2009, restated	5,282	4,160	2,787	950	3,392	144	16,715
At 31 December 2009, restated	5,241	4,155	2,208	752	3,199	273	15,828
At 31 December 2010	5,180	4,096	2,667	751	2,909	1,170	16,773

Included in property, plant and equipment are fully depreciated assets which are still in use costing RM14,229,000 (2009 – RM14,596,000).

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3. Property, plant and equipment (continued)

3.1 Property, plant and equipment under the revaluation model

The freehold land and buildings were revalued in November 2006 by independent professional qualified valuers using the comparison method.

Had the freehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been as follows:

	31.12.2010 RM'000	31.12.2009 RM'000
Freehold land	570	570
Buildings	4,096	4,155
	4,666	4,725

3.2 Land

Included in the carrying amounts of land are:

	31.12.2010 RM'000	31.12.2009 RM'000 Restated
Freehold land	570	570
Long term leasehold land	4,610	4,671
	5,180	5,241

4. Investment properties

	Note	31.12.2010 RM'000	31.12.2009 RM'000
At 1 January		2,650	2,620
Fair value changes	23	-	30
At 31 December		2,650	2,650
Included in the above are:			
At fair value:			
Freehold land		410	410
Buildings		2,240	2,240
		2,650	2,650

4. Investment properties (continued)

The fair value of the investment properties is determined based on valuations performed by an external independent valuer as at October 2009 using comparison and investment methods.

Investment properties comprise a number of commercial properties leased to third parties. Rental income from the properties is included in Investment Income – Note 21.

5. Intangible assets

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Software development costs			
Cost			
At 1 January		3,511	3,454
Transfer from property, plant and equipment	3	-	57
Additions from internal development		170	-
At 31 December		3,681	3,511
Amortisation			
At 1 January		3,465	3,212
Amortisation for the year	26	45	253
At 31 December		3,510	3,465
Carrying amounts			
At 1 January		46	242
At 31 December		171	46

The software development costs are in relation to the internal development expenditure incurred for the Open Product Underwriting System ("OPUS"), the on-going new integrated system to improve the efficiency of the business activity of the Company. These software development costs are amortised over a period of five years.

6. Investments

	31.12.2010 RM'000	31.12.2009 RM'000 Restated	1.1.2009 RM'000 Restated
Malaysian government securities	783,610	819,704	658,209
Malaysian government guaranteed bonds	190,998	154,817	92,211
Multilateral development bank guaranteed bonds	200,535	89,048	91,424
Quoted equity securities of corporations in Malaysia	340,476	187,025	83,153
Quoted equity securities of corporation outside Malaysia	15,912	-	-
Unquoted equity securities of corporations in Malaysia	2,147	2,147	2,147
Quoted bonds of corporations in Malaysia	3,798	4,616	5,030
Unquoted bonds of corporations in Malaysia	912,918	666,577	632,285
Quoted unit trusts in Malaysia	48,088	386	8,907
Unquoted unit trusts in Malaysia	384	319	242
Unquoted unit trusts outside Malaysia	30,002	34,999	23,065
Investment linked fund	-	210	
Negotiable certificate of deposits	15,196	19,429	15,598
Structured deposits	88,981	57,118	37,118
Commercial loans	197,225	9,606	10,795
Mortgage loans	97	121	171
Policy loans	9,819	7,752	6,147
Automatic premium loans	44,241	35,699	26,797
Other unsecured loans	-	36	-
Fixed and call deposits with:			
Licensed banks	20,140	32,480	1,260
	2,904,567	2,122,089	1,694,559

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6. Investments (continued)

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

	Current			Non-current			Total		
	31.12.2010 RM'000	**31.12.2009 RM'000**	**1.1.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**	**1.1.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**	**1.1.2009 RM'000**
Held-to-maturity financial assets ("HTM")	-	30,042	-	595,758	416,576	-	595,758	446,618	-
Available-for-sale financial assets ("AFS")	1,696,189	1,307,580	1,427,535	74,602	69,600	51,074	1,770,791	1,377,180	1,478,609
Loans and receivables ("LAR")	74,215	75,991	34,238	195,179	9,533	10,742	269,394	85,524	44,980
Held-for-trading ("HFT")	268,624	212,767	170,970	-	-	-	268,624	212,767	170,970
	2,039,028	1,626,380	1,632,743	865,539	495,709	61,816	2,904,567	2,122,089	1,694,559

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6. Investments (continued)

	Amortised cost 31.12.2010 RM'000	Fair value 31.12.2010 RM'000	Amortised cost 31.12.2009 RM'000	Fair value 31.12.2009 RM'000	Amortised cost 1.1.2009 RM'000	Fair value 1.1.2009 RM'000
Held-to-maturity						
Malaysian government securities	351,683	361,063	280,698	279,708	-	-
Malaysian government guaranteed bonds	126,098	134,197	93,054	92,984	-	-
Multilateral development bank guaranteed bonds	117,977	120,110	72,866	73,038	-	-
	595,758	615,370	446,618	445,730	-	-

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6. Investments (continued)

	Fair value		
	31.12.2010 RM'000	31.12.2009 RM'000	1.1.2009 RM'000
Available-for-sale			
Malaysian government securities	424,291	523,318	652,946
Malaysian government guaranteed bonds	64,900	61,763	92,211
Multilateral development bank guaranteed bonds	77,540	16,182	91,424
Quoted equity securities of corporations in Malaysia	204,045	75,934	26,900
Quoted equity securities of corporations outside Malaysia	15,912	-	-
Unquoted equity securities of corporations in Malaysia	2,147	2,147	2,147
Quoted bonds of corporations in Malaysia	3,023	3,673	3,964
Unquoted bonds of corporations in Malaysia	845,194	613,724	554,907
Quoted unit trusts in Malaysia	47,856	-	3,694
Unquoted unit trusts in Malaysia	384	319	242
Investment-linked fund	-	210	-
Unquoted unit trusts outside Malaysia	10,897	10,310	-
Negotiate certificate deposits with other licensed financial institutions	14,642	14,600	15,174
Structured deposits with licensed banks	59,960	55,000	35,000
	1,770,791	1,377,180	1,478,609

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6. Investments (continued)

	Amortised cost 31.12.2010 RM'000	Fair value 31.12.2010 RM'000	Amortised cost 31.12.2009 RM'000	Fair value 31.12.2009 RM'000	Amortised cost 1.1.2009 RM'000	Fair value 1.1.2009 RM'000
Loans and receivables						
Government guaranteed loans	188,000	188,000	-	-	-	-
Commercial loans	7,097	7,097	9,436	9,436	10,605	10,605
Fixed and call deposits with:						
Licensed banks	20,140	20,140	32,480	32,480	1,260	1,260
Mortgage loans	97	97	121	121	171	171
Policy loans	9,819	9,819	7,752	7,752	6,147	6,147
Automatic premium loans	44,241	44,241	35,699	35,699	26,797	26,797
Other unsecured loans	-	-	36	36	-	-
	269,394	269,394	85,524	85,524	44,980	44,980

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6. Investments (continued)

	Fair value		
	31.12.2010 RM'000	31.12.2009 RM'000	1.1.2009 RM'000
Held-for-trading			
Malaysian government securities	7,636	15,688	5,263
Quoted equity securities of corporations in Malaysia	136,431	111,091	56,253
Multilateral development bank guaranteed bonds	5,018	-	-
Quoted bonds of corporations in Malaysia	775	943	1,066
Unquoted bonds of corporations in Malaysia	67,724	52,853	77,378
Quoted unit trusts in Malaysia	232	386	5,213
Unquoted unit trusts outside Malaysia	19,105	24,689	23,065
Commercial loan	2,128	170	190
Negotiable certificate deposits with other licensed financial institutions	554	4,829	424
Structured deposits with licensed banks	29,021	2,118	2,118
	268,624	212,767	170,970

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6. Investments (continued)

Carrying Values of Financial Instruments

	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	Total RM'000
At 1 January 2009	-	1,478,609	44,980	170,970	1,694,559
Purchases/placements	446,374	851,605	4,450,503	3,256,147	9,004,629
Maturities	-	(18,565)	(4,409,959)	(2,947,432)	(7,375,956)
Disposals	-	(932,856)	-	(291,041)	(1,223,897)
Fair value gains/(losses) recorded in:					
Income statement					
- Unrealised (losses)/gains	-	-	-	23,679	23,679
Insurance contract liabilities	-	(8,459)	-	-	(8,459)
Other comprehensive income	-	(2,573)	-	-	(2,573)
Movement in impairment allowance	-	9,320	-	-	9,320
Amortisation of premiums	(72)	(2,985)	-	(312)	(3,369)
Accretion of discounts	316	3,084	-	756	4,156
At 31 December 2009	446,618	1,377,180	85,524	212,767	2,122,089

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6. Investments (continued)

Carrying Values of Financial Instruments (continued)

	HTM RM'000	AFS RM'000	LAR RM'000	HFT RM'000	Total RM'000
At 1 January 2010	446,618	1,377,180	85,524	212,767	2,122,089
Purchases/placements	188,137	1,093,917	9,231,235	2,955,838	13,469,127
Maturities	(40,000)	(104,362)	(9,047,365)	(2,491,372)	(11,683,099)
Disposals	-	(661,842)	-	(410,442)	(1,072,284)
Fair value gains/(losses) recorded in:					
Income statement					
- Unrealised (losses)/gains	-	(1,309)	-	1,504	195
Insurance contract liabilities	-	64,662	-		64,662
Other comprehensive income	-	2,271	-	-	2,271
Amortisation of premiums	(416)	(2,868)	-	(123)	(3,407)
Accretion of discounts	1,419	3,142		452	5,013
At 31 December 2010	595,758	1,770,791	269,394	268,624	2,904,567

6. Investments (continued)

Fair values of financial investments

The Company's basis in estimation of fair values for financial instruments is as follows:

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

- The fair values of quoted equity securities of corporations quoted in Malaysia, quoted bonds of corporations in Malaysia and quoted unit trusts in Malaysia are based on quoted closing market price as at the end of the reporting period;

- The unquoted equity securities in and outside Malaysia are stated at cost. Where in the opinion of the Directors, there is a decline other than temporary in value of unquoted equity securities, the allowance for impairment is recognised as an expense in the financial year in which the decline is identified;

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

- The fair values of unquoted unit trusts in and outside Malaysia are based on the net asset values of the unit trusts as at the date of the statements of assets and liabilities obtained from fund managers; and

- The carrying amount of government guaranteed loan, commercial loans, policy loans, mortgage loans, automatic premium loans, other secured loans, other unsecured loans, bankers' acceptances and fixed and call deposits are assumed to approximate their fair values.

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

7. Reinsurance assets

	31.12.2010 RM'000	31.12.2009 RM'000 Restated	1.1.2009 RM'000 Restated
Reinsurance of insurance contracts			
Actuarial liabilities			
- Current	4,185	4,446	5,039
- Non-current	76,895	67,158	71,012
	81,080	71,604	76,051

8. Insurance receivables

	31.12.2010 RM'000	31.12.2009 RM'000
Current		
Due premium including agents, brokers and co-insurers balances	41,849	34,391
Due from reinsurers and cedants	564	532
Group claims receivable	273	433
	42,686	35,356
Less: Allowance for impairment	(728)	(975)
	41,958	34,381

9. Other receivables, deposits and prepayments

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Other receivables		4,547	3,037
Malaysian Institute of Insurance ("MII") bonds		100	100
		4,647	3,137
Current			
Other receivables		17,401	1,668
Sundry deposits		1,475	1,381
Less: Allowance for impairment		(369)	(455)
		18,507	2,594
Income due and accrued		26,417	23,841
Due from related companies	9.1	463	379
Due from inter-fund	16	26,237	12,843
		71,624	39,657
		76,271	42,794

9.1 Amounts due from related companies

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

10. Share capital

	Amount 31.12.2010 RM'000	Number of shares 31.12.2010 '000	Amount 31.12.2009 RM'000	Number of shares 31.12.2009 '000
Authorised:				
Ordinary shares of RM1 each				
At 1 January	180,000	180,000	180,000	180,000
Created during the year	170,000	170,000	-	-
At 31 December	350,000	350,000	180,000	180,000
Issued and fully paid:				
Ordinary shares of RM1 each				
On issue at 1 January	157,000	157,000	157,000	157,000
Issued during the year	79,600	79,600	-	-
On issue at end of the year	236,600	236,600	157,000	157,000

During the financial year, the Company:

a) increased its authorised share capital from 180,000,000 to 350,000,000 ordinary shares of RM1 each by the creation of 170,000,000 ordinary shares of RM1 each; and

b) increased its issued and paid-up share capital from 157,000,000 to 236,600,000 by way of the following allotment and issuance of ordinary shares:

(i) 3,600,000 new ordinary shares of RM1 each at par to its immediate holding company, AMB for the purpose of repaying the subordinated loan of RM3,600,000 due and owing to AMB by the Company; and

(ii) 76,000,000 new ordinary shares of RM1 each at par to its immediate holding company, AMB in order to increase the capital base of the Company to meet the capital requirement under the Risk-Based Capital Framework.

11. Reserves

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2007. As such, the remaining Section 108 tax credit as at 31 December 2010 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

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12. Insurance contract liabilities

	31.12.2010			31.12.2009			1.1.2009		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net	Gross	Re-insurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Actuarial liabilities	2,107,457	(81,080)	2,026,377	1,645,956	(71,604)	1,574,352	1,235,056	(76,051)	1,159,005
Unallocated surplus	414,316	-	414,316	349,081	-	349,081	299,981	-	299,981
Available-for-sale fair value reserves	51,707	-	51,707	(7,782)	-	(7,782)	-	-	-
Net asset value attributable to unitholders	274,877	-	274,877	267,013	-	267,013	228,198	-	228,198
Revaluation reserve	962	-	962	962	-	962	962	-	962
	2,849,319	(81,080)	2,768,239	2,255,230	(71,604)	2,183,626	1,764,197	(76,051)	1,688,146

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12. Insurance contract liabilities (continued)

	Gross			Reinsurance			
	With DPF RM'000	**Without DPF RM'000**	**Total RM'000**	**With DPF RM'000**	**Without DPF RM'000**	**Total RM'000**	**Net RM'000**
At 1 January 2009	987,787	776,410	1,764,197	(4,567)	(71,484)	(76,051)	1,688,146
Premiums received	487,360	381,367	868,727	(8,658)	(47,120)	(55,778)	812,949
Liabilities paid for death, maturities, surrenders, benefits and claims	(57,380)	(123,881)	(181,261)	5,850	24,730	30,580	(150,681)
Benefits and claims experience variation	23,089	21,143	44,232	4,182	(16,728)	(12,546)	31,686
Fees deducted	(170,970)	(116,150)	(287,120)	918	7,350	8,268	(278,852)
Credit of interest or change in unit-prices	3,457	-	3,457	-	-	-	3,457
Adjustments due to changes in assumptions	-	(45,223)	(45,223)	-	33,923	33,923	(11,300)
Net asset value attributable to unitholders	-	46,903	46,903	-	-	-	46,903
Available-for-sale fair value reserves	(8,343)	(116)	(8,459)	-	-	-	(8,459)
Unallocated surplus	23,505	25,595	49,100	-	-	-	49,100
Deferred tax effects:							
Available-for-sale fair value reserves	668	9	677	-	-	-	677
At 31 December 2009	1,289,173	966,057	2,255,230	(2,275)	(69,329)	(71,604)	2,183,626

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12. Insurance contract liabilities (continued)

	Gross			Reinsurance			
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	Net RM'000
At 1 January 2010	1,289,173	966,057	2,255,230	(2,275)	(69,329)	(71,604)	2,183,626
Premiums received	509,309	520,150	1,029,459	(8,586)	(55,561)	(64,147)	965,312
Liabilities paid for death, maturities, surrenders, benefits and claims	(61,451)	(220,733)	(282,184)	5,922	39,167	45,089	(237,095)
Benefits and claims experience variation	21,126	(38,557)	(17,431)	1,274	18,189	19,463	2,032
Fees deducted	(139,313)	(188,153)	(327,466)	1,511	5,987	7,498	(319,968)
Credit of interest or change in unit-prices	4,896	-	4,896	-	-	-	4,896
Adjustments due to changes in assumptions	(1,902)	37,755	35,853	-	(17,379)	(17,379)	18,474
Net asset value attributable to unitholders	-	26,238	26,238	-	-	-	26,238
Available-for-sale fair value reserves	49,428	15,234	64,662	-	-	-	64,662
Unallocated surplus	39,470	25,765	65,235	-	-	-	65,235
Deferred tax effects:							
Available-for-sale fair value reserves	(3,954)	(1,219)	(5,173)	-	-	-	(5,173)
At 31 December 2010	1,706,782	1,142,537	2,849,319	(2,154)	(78,926)	(81,080)	2,768,239

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13. Deferred tax assets and liabilities

13.1 Recognised deferred tax assets and liabilities

Deferred tax on the shareholders' portion of unallocated surplus has not been accounted for in the financial statements as the surplus will be taxed only upon transfer to the shareholders' fund. The deferred tax impact on the shareholders' portion of unallocated surplus is RM 67,384,000 (2009: RM 60,943,000) based on the Malaysian tax rate of 25%.

13.2 Deferred tax assets / (liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	31.12.2010 RM'000	**31.12.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**
Property, plant and equipment	-	-	(399)	(392)	(399)	(392)
Tax losses carry-forward	-	2,371	-	-	-	2,371
Fair value reserve of securities available-for-sale	-	1,008	(4,733)	-	(4,733)	1,008
Fair value movement to income statement	-	-	(1,116)	(982)	(1,116)	(982)
Net tax assets/ (liabilities)	-	3,379	(6,248)	(1,374)	(6,248)	2,005

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13. Deferred tax assets and liabilities (continued)

13.3 Movement in temporary differences during the year

	At 1 January 2009	Recognised in insurance contract liabilities (Note 27)	Recognised in income statement (Note 27)	Recognised in other comprehen-sive income (Note 27)	At 31 December 2009/ 1 January 2010	Recognised in insurance contract liabilities (Note 27)	Recognised in income statement (Note 27)	Recognised in other comprehen-sive income (Note 27)	At 31 December 2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment	(308)	(73)	(11)	-	(392)	-	(7)	-	(399)
Tax losses carry-forward	6,373	-	(4,002)	-	2,371	-	(2,371)	-	-
Fair value reserve of securities available-for-sale	(312)	677	-	643	1,008	(5,173)	-	(568)	(4,733)
Fair value movement to income statement	(69)	-	(913)	-	(982)	-	(134)	-	(1,116)
Other items	746	-	(746)	-	-	-	-	-	-
Net tax assets/ (liabilities)	6,430	604	(5,672)	643	2,005	(5,173)	(2,512)	(568)	(6,248)

14. Other financial liabilities

	31.12.2010 RM'000	31.12.2009 RM'000
Non-current		
Deposits received from reinsurers	1,582	1,697
Current		
Outstanding purchases of investment securities	-	7
	1,582	1,704

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

15. Insurance payables

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Current			
Due to reinsurers and cedants		6,386	6,595
Due to agents, brokers and co-insurers and insurers		67,457	63,369
Due to a related company	a	45	1,906
		73,888	71,870

Note a

The amounts due to a related company are unsecured, interest free and repayable on demand.

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

16. Other payables and accruals

	Note	31.12.2010 RM'000	31.12.2009 RM'000
Non-current			
Other payables	a, b	49,817	37,365
Current			
Other payables and accrued expenses	a, b	57,942	51,203
Due to immediate holding company	c	385	581
Due to inter-fund		26,237	12,843
		84,564	64,627
		134,381	101,992

Note a
Included in other payables as at 31 December 2010 is an amount of RM61,428,000 (2009 – RM45,826,000) relating to premium received in advance.

Note b
Included in other payables and accrued expenses is an amount of RM15,102,000 (2009 – RM14,347,000) relating to premium deposits.

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

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

17. Benefits and claims liabilities

	31.12.2010 RM'000	31.12.2009 RM'000
Current		
Gross benefits and claims liabilities	68,852	42,716
Less: Recoverable from reinsurers	(9,307)	(5,557)
Net benefits and claims liabilities	59,545	37,159

18. Subordinated loan

On 20 December 2004, with the approval from BNM, the immediate holding company, AMB extended a RM3,600,000 subordinated loan to the Company. The subordinated loan is for a period of 2 years, interest free and cannot be repaid without the prior approval from BNM.

With the approval from BNM, the tenure of the subordinated loan was extended to 22 December 2006 and subsequently to 22 December 2008.

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

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

The Company had on 4 June 2010 repaid the RM3,600,000 subordinated loan via issuance and allotment of 3,600,000 new ordinary shares of RM1.00 each at par to AMB.

19. Operating revenue

	Note	2010 RM'000	2009 RM'000
Gross earned premiums	20	1,029,459	868,727
Investment income	21	115,825	92,388
		1,145,284	961,115

20. Net earned premiums

	2010 RM'000	2009 RM'000
Gross earned premiums	1,029,459	868,727
Premiums ceded to reinsurers	(64,147)	(55,778)
Net earned premiums	965,312	812,949

21. Investment income

	2010 RM'000	2009 RM'000
Rental of premises from investment property	186	219
Held for trading financial assets		
Coupon income from:		
- Malaysian government securities	308	581
- Multilateral development bank guarantee bonds	1	-
- Government guaranteed loan	47	-
- Quoted bonds of corporations in Malaysia	25	29
- Unquoted bonds of corporations in Malaysia	2,779	3,312
- Commercial loan	10	13
Dividend income from:		
- Quoted equity securities in Malaysia	3,334	2,284
- Quoted unit trusts in Malaysia	1,595	2,275
Interest income from financial institutions:		
- Negotiable certificate of deposits	1,089	1,167
- Structured deposits	126	110
Accretion of discounts on:		
- Malaysian government securities	56	1
- Quoted bonds of corporations in Malaysia	54	34
- Unquoted bonds of corporations in Malaysia	342	721
Amortisation of premiums on:		
- Malaysian government securities	(20)	(88)
- Unquoted bonds of corporations in Malaysia	(96)	(216)
- Negotiable certificate of deposits	(7)	(8)
Available-for-sale financial assets		
Coupon income from:		
- Malaysian government securities	15,622	22,045
- Malaysian government guaranteed bonds	2,550	2,764
- Multilateral development bank guarantee bonds	2,589	3,279
- Quoted bonds of corporations in Malaysia	97	111
- Unquoted bonds of corporations in Malaysia	35,475	29,444
Dividend income from:		
- Quoted equity securities in Malaysia	4,474	1,478
- Quoted unit trusts in Malaysia	1,056	32
- Unquoted unit trusts in Malaysia	8	8

21. Investment income (continued)

	2010 RM'000	2009 RM'000
Available-for-sale financial assets (continued)		
Accretion of discounts on:		
- Malaysian government securities	443	610
- Malaysian government guaranteed bonds	313	1,349
- Multilateral development bank guarantee bonds	9	48
- Quoted bonds of corporations in Malaysia	221	40
- Unquoted bonds of corporations in Malaysia	2,156	1,037
Amortisation of premiums on:		
- Malaysian government securities	(1,705)	(1,828)
- Multilateral development bank guarantee bonds	-	(11)
- Unquoted bonds of corporations in Malaysia	(888)	(871)
- Negotiable certificate of deposits	(275)	(275)
Interest income from financial institutions:		
- Negotiable certificate of deposits	949	949
- Structured deposits	2,891	2,925
Held to maturity financial assets		
Coupon income from:		
- Malaysian government securities	14,014	11,188
- Malaysian government guaranteed bonds	5,801	423
- Multilateral development bank guaranteed bonds	3,949	510
Accretion of discounts on:		
- Malaysian government securities	589	57
- Malaysian government guaranteed bonds	463	248
- Multilateral development bank guaranteed bonds	367	11
Amortisation of premiums on:		
- Malaysian government securities	(111)	(69)
- Multilateral development bank guaranteed bonds	(255)	(3)
- Malaysian government guaranteed bonds	(50)	-
Loans and receivables		
Interest income from:		
- Government guaranteed loan	4,218	-
- Commercial loans	566	737
- Mortgage loans	(3)	12
- Policy loans	642	504
- Automatic premium loans	3,038	2,360
Interest income from financial institutions:		
- Fixed and call deposits	6,783	2,842
	115,825	92,388

22. Realised gains and losses

	2010 RM'000	2009 RM'000
Realised losses on disposal of property, plant and equipment	(5)	(78)
Realised gains on disposal of investments in debt and equity securities:		
Malaysian government securities	3,485	1,130
Quoted equity securities of corporations in Malaysia	34,301	25,492
Quoted unit trusts in Malaysia	74	-
Quoted bonds of corporations in Malaysia	1,058	86
Unquoted bonds of corporations in Malaysia	28	771
Realised losses on disposal of investments in debt and equity securities:		
Quoted unit trusts in Malaysia	-	(1,871)
Quoted unit trusts outside Malaysia	(2,270)	(7,411)
	36,671	18,119

23. Fair value gains and losses

	Note	2010 RM'000	2009 RM'000
Investment properties	4	-	30
Financial assets – held for trading	6	195	23,679
		195	23,709

24. Fee and commission income

	2010 RM'000	2009 RM'000
Reinsurance commission income	7,498	8,268

25. Net benefits and claims

	2010 RM'000	2009 RM'000
Gross benefits and claims paid	(282,184)	(181,261)
Claims ceded to reinsurers	45,089	30,580
Net claims paid	(237,095)	(150,681)
Gross change in contract liabilities	(534,600)	(498,815)
Change in contract liabilities ceded to reinsurers	9,476	(4,447)
	(762,219)	(653,943)

26. Management expenses

	Note	2010 RM'000	2009 RM'000
Advertising and marketing expenses		1,319	10,784
Amortisation of intangible assets	5	45	253
Auditors' remuneration		210	195
(Write back of)/allowance for doubtful debts		(333)	27
Bank charges		6,876	5,907
Depreciation on property, plant and equipment	3	1,677	1,802
Employee benefits expense	26(a)	39,484	33,848
Directors' fee and remuneration		281	281
Levies		88	104
Rental of premises:			
Third parties		3,502	3,342
Other expense		18,855	16,673
		72,004	73,216

(a) Employee benefits expense

	2010 RM'000	2009 RM'000
Wages and salaries	19,957	19,658
Social security contributions	188	180
Contributions to Employee's Provident Fund	3,873	3,207
Other benefits	15,466	10,803
	39,484	33,848

26. Management expenses (continued)

(b) Key management personnel compensation

	2010 RM'000	2009 RM'000
Executive directors:		
Salaries	1,349	1,114
Bonus	1,232	779
Contributions to Employee's Provident Fund	228	78
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	445	1,604
	3,254	3,575
Non-executive directors:		
Fees	195	195
Remuneration	86	86
Estimated money value of benefits-in-kind	32	72
	313	353
	3,567	3,928
Other key management personnel:		
Short term employee benefits	4,092	3,978

Other key management personnel comprise other than the Directors of the Company, having authority and responsibility for planning, directing and controlling the activities of the entity either directly or indirectly.

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

	Number of directors 2010	2009
Executive director:		
RM1,000,000 and above	1	1
Below RM1,000,000	1	1
Non-executive directors:		
Below RM50,000	-	-
RM50,000 – RM100,000	3	3
RM100,001 – RM150,000	-	-

26. Management expenses (continued)

(c) The details of remuneration receivable by the CEO during the year are as follows:

	2010 RM'000	2009 RM'000
Salaries and other emoluments	907	691
Bonus	846	362
Contributions to Employee's Provident Fund	120	-
Estimated money value of benefits-in-kind	432	1,580
	2,305	2,633
Amount included in Employee Benefits Expense	2,305	2,633

27. Tax expense

	2010 RM'000	2009 RM'000
(a) Recognised in the income statement		
Current tax expense		
Current year	13,963	8,769
Under provision in prior years	6	12
	13,969	8,781
Deferred tax expense		
Origination and reversal of temporary differences	2,572	5,628
(Over)/under provision in prior year	(60)	43
	16,481	14,452

The income tax provided for in the life fund for the current and previous financial years is in respect of investment income which is taxed at a tax rate of 8% applicable for life insurance business and 25% (2009: 25%) on income other than investment income which is taxed under Section 60(8) of the Income Tax Act, 1967.

For the shareholders' fund, the corporate tax rate is at 25% for year of assessment 2010 and subsequent years of assessment. Consequently, deferred tax assets and liabilities of shareholders' fund are measured using these tax rates. The taxes of respective funds are disclosed in Note 35 – Insurance funds.

27. Tax expense (continued)

(b) Reconciliation of tax expense

	2010 RM'000	2009 RM'000
Profit before tax	31,025	26,449
Tax at Malaysian tax rates of 25%	7,756	6,612
Tax rate differential of 17% in respect of Life Fund	(1,941)	(1,776)
Life fund assessable investment income	10,568	9,561
Other items	151	-
(Over)/under provision in prior years	(53)	55
Total tax expense	16,481	14,452

(c) Income tax recognised directly in other comprehensive income

	2010 RM'000	2009 RM'000
Fair value reserve		
At 1 January	(331)	-
Change in accounting policy:		
Effect of adopting the fair value measurement for securities available-for-sale	-	312
At 1 January, restated	(331)	312
Net gain arising from change in fair value	568	(643)
At 31 December	237	(331)

(d) Income tax recognised in insurance contract liabilities

	2010 RM'000	2009 RM'000
Available-for-sale fair value reserves		
At 1 January	(677)	-
Net gain arising from change in fair value	5,173	(677)
At 31 December	4,496	(677)

28. Operating leases

Leases as lessee

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

	2010 RM'000	2009 RM'000
Less than one year	949	3,794
Between one and five years	897	4,254
	1,846	8,048

The Company leases a number of offices under operating leases. The leases typically run for a period of 1-5 years, with an option to renew the lease after that date. None of the leases includes contingent rentals.

Leases as lessor

The Company leases out its investment property under operating leases. The future minimum lease receipts under non-cancellable leases are as follows:

	2010 RM'000	2009 RM'000
Less than one year	49	96
Between one and five years	-	80
	49	176

29. Capital commitments

	2010 RM'000	2009 RM'000
Property, plant and equipment		
Authorised but not contracted for	6,779	3,250
Contracted but not provided for	2,585	1,055
	9,364	4,305

30. Related parties

(a) 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 include all the Directors of the Company, and members of senior management committee of the Company. There were no significant transactions with the Company during the financial year other than key management personnel compensation as disclosed in Note 26.

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30. Related parties (continued)

(b) The significant related party transactions of the Company, other than key management personnel compensation, are as follows:

	2010		2009	
	Transactions Amount for the year ended 31 December RM'000	Balance Outstanding at 31 December RM'000	Transactions Amount for the year ended 31 December RM'000	Balance Outstanding at 31 December RM'000
Ultimate holding company				
Reinsurance premium	(186)	-	(12)	-
Group equity incentive	(16)	-	(54)	-
Payment of IT service costs	(138)	-	(117)	-
Payment of global marketing expenses	(557)	-	(443)	-
Immediate holding company				
Rental expenses	(11)	-	(38)	-
Reimbursement of other expenses	(80)	-	(82)	-
Sharing of common expenses	(3,054)	-	(3,585)	-
Related companies				
Reinsurance premium and commission	(44,632)	(45)	(38,564)	(1,906)
Insurance premium	-	-	473	-
Motor insurance premium	(130)	-	(80)	-
Investment in foreign unit trust	-	-	(10,000)	-
Payment of fund management fees and advisory fees	(755)	-	(471)	-
Reimbursement of personnel expenses	11	-	(131)	-
Reimbursement of other expenses	80	-	285	-
Rental expenses	(84)	-	(11)	-
Rental income	90	-	130	-
Payment of intranet portal network cost	(170)	-	(110)	-
Sharing of common expenses	1,022	(385)	1,102	(581)
Telemarketing fee	(1,252)	-	(2,134)	-

* Related companies are companies within the Allianz S.E. group.

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

31. Risk management framework

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

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

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

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

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

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

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

31. Risk management framework (continued)

Risk governance structure

The Board assumes ultimate responsibility over the effectiveness of the Company's risk management and internal control systems by establishing and supervising the operation of the risk management framework. The Board has delegated the Risk Management Committee ("RMC") to discharge their 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 the risk management process is in place and functioning effectively. The RMC is responsible for driving the risk management framework of AMB and to report to the Board on its recommendations and/or decisions. Through structured reporting from Risk Management Working Committee ("RMWC"), the RMC will consolidate the status of the risks and present them to the Board for consideration.

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

31. Risk management framework (continued)

Governance and regulatory framework

The Company is required to comply with the requirements of the Insurance Act, relevant laws and guidelines from BNM, Bursa Malaysia and LIAM.

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.

Capital management - regulatory capital

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

The Company has met its regulatory requirements.

32. Insurance risk

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the 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 and limits and standards applied to the security of reinsurers.

32. Insurance risk (continued)

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

The table below shows the concentration of life insurance contract liabilities with and without DPF by type of contract.

	Gross			Reinsurance			
	With DPF RM '000	Without DPF RM '000	Total RM '000	With DPF RM '000	Without DPF RM '000	Total RM '000	Net RM '000
31 December 2010							
Whole life	946,918	118,379	1,065,297	-	(14,192)	(14,192)	1,051,105
Endowment	335,448	238,613	574,061	-	(1,091)	(1,091)	572,970
Mortgage	-	133,648	133,648	-	(56,216)	(56,216)	77,432
Riders and others	241,173	93,278	334,451	(2,154)	(7,427)	(9,581)	324,870
Total	1,523,539	583,918	2,107,457	(2,154)	(78,926)	(81,080)	2,026,377
31 December 2009							
Whole life	702,304	76,023	778,327	-	(7,536)	(7,536)	770,791
Endowment	268,457	189,238	457,695	-	(576)	(576)	457,119
Mortgage	-	120,736	120,736	-	(56,466)	(56,466)	64,270
Riders and others	220,113	69,085	289,198	(2,275)	(4,751)	(7,026)	282,172
Total	1,190,874	455,082	1,645,956	(2,275)	(69,329)	(71,604)	1,574,352

The entire life insurance business is conducted in Malaysia. Life insurance business does not contain investment contract.

32. Insurance risk (continued)

Key assumptions

Significant judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experiences, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

- Mortality and morbidity rates
  Experience study on mortality and morbidity rates is carried out on annual basis. The actual claim experience is compared against industrial mortality table and reinsurers' mortality risk charges. Mortality and morbidity assumptions vary by product type and underwriting procedures.

  For investment-linked contracts, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Longevity
  The Company is not exposed to longevity risk.

32. Insurance risk (continued)

Key assumptions (continued)

- Expenses
  Expense assumption was set during initial pricing stage. Expense assumption is inflated annually to reflect higher cost of underwriting, issuing and maintaining the policies. Expense assumption varies by premium term, distribution channel, policy duration and underwriting procedures. The expense assumption is reviewed annually, it is compared to actual expense that the Company incurred.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

- Lapse and surrender rates
  Experience study on lapse and surrender rates is carried out on annual basis using statistical method. Lapse and surrender rates vary by product type, distribution channel and policy duration.

  An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

32. Insurance risk (continued)

Key assumptions (continued)

- Discount rate
  In the valuation of the total benefits insurance liabilities of participating life policies, the Company has assumed a long term gross rate of return of 4.50% - 6.50% per annum. The long term gross rate of return is derived based on a basket of strategic asset allocations. The Company calculates long term gross rate by assuming each asset class will earn the targeted yield. The strategic asset allocation and targeted yield are reviewed annually in accordance to the Company's investment philosophy, market condition and the prevailing long term market return for each asset class.

  In accordance to BNM/RH CIR 003-19: Temporary Flexibility for Life Insurers Under the Risk-Based Capital Framework for Insurers, weighted MGS rate is used in the valuation of non-participating life policies, the guaranteed benefits insurance liabilities of participating life policies, and non-unit actuarial liabilities of investment-linked policies.

32. Insurance risk (continued)

The assumptions that have significant effects on the gross insurance contract liabilities and reinsurance assets are listed below.

	Mortality and morbidity rates[1]		Lapse and surrender rate		Discount rate	
	2010	2009	2010	2009	2010	2009
	%	%	%	%	%	%
Type of business						
With fixed and guaranteed terms And with DFP contracts						
Life insurance	70-80	70-100	3-30	3-30	4.50-6.50	4.50-6.50
Without DPF contracts						
Life insurance	70-150	70-150	3-35	3-35	Weighted MGS yield	Weighted MGS yield

[1] Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003

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32. Insurance risk (continued)

Sensitivities

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

	Change in Assumptions %	Impact on Profit before tax# RM'000	Impact on Gross Liabilities* RM'000	Impact on Net Liabilities* RM'000
Life insurance contracts				
31 December 2010				
Mortality	+5%	-	16,052	12,912
Discount rate	-0.5%	(15,000)	240,121	229,534
Expenses	+10%	-	25,899	22,896
Lapse and surrender rates	-10%	-	25,859	25,593
31 December 2009				
Mortality	+5%	-	17,717	13,663
Discount rate	-0.5%	-	191,597	184,924
Expenses	+10%	-	26,903	23,678
Lapse and surrender rates	-10%	-	25,784	24,167

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

32. Insurance risks

Sensitivities (continued)

The above illustration is only prepared for adverse scenario, where the key assumptions are being moved in an unfavourable direction. In respect of Life fund, it would affect the insurance contract liabilities and correspondingly surplus available for transfer from life insurance fund to shareholders' fund.

* The impact on gross and net liabilities only reflects the changes in the prescribed assumptions above without adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

33. Financial risks

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

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 life 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 overseas, 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 consider 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.

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33. Financial risks (continued)

Credit exposure

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position.

	Insurance and Shareholders' Funds RM '000	Unit-linked RM '000	Total RM '000
31 December 2010			
HTM financial investments			
Malaysian government securities	351,683	-	351,683
Malaysian government guaranteed bonds	126,098		126,098
Multilateral development bank guaranteed bonds	117,977	-	117,977
LAR			
Debt securities	195,097	-	195,097
Other loans	54,157	-	54,157
Fixed and call deposits	20,140	-	20,140
AFS financial investments			
Malaysian government securities	424,291	-	424,291
Malaysian government guaranteed bonds	64,900	-	64,900
Multilateral development bank guaranteed bonds	77,540	-	77,540
Debt securities	848,217	-	848,217
Negotiable certificate deposits	14,642	-	14,642
Structured deposits	59,960	-	59,960

33. Financial risks (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' Funds RM'000	Unit-linked RM'000	Total RM'000
31 December 2010 (continued)			
HFT financial investments			
Malaysian government securities	4,042	3,594	7,636
Multilateral development bank guaranteed bonds	1,506	3,512	5,018
Debt securities	10,577	60,050	70,627
Negotiable certificate deposits	-	554	554
Structured deposits	-	29,021	29,021
Reinsurance assets	81,080	-	81,080
Insurance receivables	41,958	-	41,958
Cash and cash equivalent	196,726	30,492	227,218
	2,690,591	127,223	2,817,814

33. Financial risks (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' Funds RM '000	Unit-linked RM '000	Total RM '000
31 December 2009			
HTM financial investments			
Malaysian government securities	280,698	-	280,698
Malaysian government guaranteed bonds	93,054		93,054
Debt securities	72,866	-	72,866
LAR			
Debt securities	9,436	-	9,436
Other loans	43,608	-	43,608
Fixed and call deposits	32,480	-	32,480
AFS financial investments			
Malaysian government securities	523,318	-	523,318
Malaysian government guaranteed bonds	61,763	-	61,763
Multilateral development bank guaranteed bonds	16,182		16,182
Debt securities	617,397	-	617,397
Negotiable certificate deposits	14,600	-	14,600
Structured deposits	55,000	-	55,000

33. Financial risks (continued)

Credit exposure (continued)

The table below shows the maximum exposure to credit risk for the financial assets on the statement of financial position (continued).

	Insurance and Shareholders' Funds RM'000	Unit-linked RM'000	Total RM'000
31 December 2009 (continued)			
HFT financial investments			
Malaysian government securities	-	15,688	15,688
Debt securities	-	53,966	53,966
Negotiable certificate deposits	-	4,829	4,829
Structured deposits	-	2,118	2,118
Reinsurance assets	71,604	-	71,604
Insurance receivables	34,381	-	34,381
Cash and cash equivalents	253,499	53,735	307,234
	2,179,886	130,336	2,310,222

33. Financial risks (continued)

Credit exposure by credit rating

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

	Neither past-due nor impaired Investment grade RM '000	Not rated RM '000	Unit-linked RM '000	Past-due but not impaired RM '000	Total RM '000
31 December 2010					
HTM financial investments					
Malaysian government securities	-	351,683	-	-	351,683
Malaysian government guaranteed bonds		126,098	-	-	126,098
Multilateral development bank guaranteed bonds	78,781	39,196	-	-	117,977
LAR					
Debt securities	-	195,097	-	-	195,097
Other loans	-	54,157	-	-	54,157
Fixed and call deposits	10,140	10,000	-	-	20,140
AFS financial investments					
Malaysian government securities	-	424,291	-	-	424,291
Malaysian government guaranteed bonds	-	64,900	-	-	64,900
Multilateral development bank guaranteed bonds	70,573	6,967	-	-	77,540
Debt securities	848,217	-	-	-	848,217
Negotiable certificate deposits	14,642	-	-	-	14,642
Structured deposits	59,960	-	-	-	59,960

33. Financial risks (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired Investment grade RM '000	Not rated RM '000	Unit-linked RM '000	Past-due but not impaired RM '000	Total RM '000
31 December 2010 (continued)					
HFT financial investments					
Malaysian government securities	-	4,042	3,594	-	7,636
Multilateral development bank guaranteed bonds	1,506	-	3,512	-	5,018
Debt securities	8,577	2,000	60,050	-	70,627
Negotiable certificate deposits	-	-	554	-	554
Structured deposits	-	-	29,021	-	29,021
Reinsurance assets	-	81,080	-	-	81,080
Insurance receivables	-	36,815	-	5,143	41,958
Cash and cash equivalent	196,714	12	30,492	-	227,218
	1,289,110	1,396,338	127,223	5,143	2,817,814

* Investment grade is defined as investment with rating BBB and above.

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33. Financial risks (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired Investment grade RM '000	Not rated RM '000	Unit-linked RM '000	Past-due but not impaired RM '000	Total RM '000
31 December 2009					
HTM financial investments					
Malaysian government securities	-	280,698	-	-	280,698
Malaysian government guaranteed bonds	-	93,054	-	-	93,054
Multilateral development bank guaranteed bonds	23,545	49,321	-	-	72,866
LAR					
Debt securities	-	9,436	-	-	9,436
Other loans	-	43,608	-	-	43,608
Fixed and call deposits	32,480	-	-	-	32,480
AFS financial investments					
Malaysian government securities	-	523,318	-	-	523,318
Malaysian government guaranteed bonds	-	61,763	-	-	61,763
Multilateral development bank guaranteed bonds	9,277	6,905	-	-	16,182
Debt securities	617,397	-	-	-	617,397
Negotiable certificate deposits	14,600	-	-	-	14,600
Structured deposits	55,000	-	-	-	55,000

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33. Financial risks (continued)

Credit exposure by credit rating (continued)

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

	Neither past-due nor impaired Investment grade RM '000	Not rated RM '000	Unit-linked RM '000	Past-due but not impaired RM '000	Total RM '000
31 December 2009 (continued)					
HFT financial investments					
Malaysian government securities	-	-	15,688	-	15,688
Debt securities	-	-	53,966	-	53,966
Negotiable certificate deposits	-	-	4,829	-	4,829
Structured deposits			2,118		2,118
Reinsurance assets	-	71,604	-	-	71,604
Insurance receivables	-	32,910	-	1,471	34,381
Cash and cash equivalent	253,488	11	53,735	-	307,234
	1,005,787	1,172,628	130,336	1,471	2,310,222

* Investment grade is defined as investment with BBB rating and above.

33. Financial risks (continued)

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

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not rated RM '000	Unit-linked RM '000	Total RM '000
31 December 2010							
HTM financial investments							
Malaysian government securities	-	-	-	-	351,683	-	351,683
Malaysian government guaranteed bonds	-	-	-	-	126,098	-	126,098
Multilateral development bank guaranteed bonds	78,781	-	-	-	39,196	-	117,977
LAR							
Debt securities	-	-	-	-	195,097	-	195,097
Other loans	-	-	-	-	54,157	-	54,157
Fixed and call deposits	2,500	1,951	5,689	-	10,000	-	20,140
AFS financial investments							
Malaysian government securities	-	-	-	-	424,291	-	424,291
Malaysian government guaranteed bonds	-	-	-	-	64,900	-	64,900
Multilateral development bank guaranteed bonds	70,573	-	-	-	6,967	-	77,540
Debt securities	298,191	478,161	66,982	4,883	-	-	848,217
Negotiable certificate deposits	14,642	-	-	-	-	-	14,642
Structured deposits	59,960	-	-	-	-	-	59,960

33. Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit 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 (continued).

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not rated RM '000	Unit-linked RM '000	Total RM '000
31 December 2010 (continued)							
HFT financial investments							
Malaysian government securities	-	-	-	-	4,042	3,594	7,636
Multilateral development bank guaranteed bonds	1,506	-	-	-	-	3,512	5,018
Debt securities	1,000	7,577	-	-	2,000	60,050	70,627
Negotiable certificate deposits	-	-	-	-	-	554	554
Structured deposits	-	-	-	-	-	29,021	29,021
Reinsurance assets	-	-	-	-	81,080	-	81,080
Insurance receivables	-	-	-	-	41,958	-	41,958
Cash and cash equivalent	108,964	55,393	32,357	-	12	30,492	227,218
	636,117	543,082	105,028	4,883	1,401,481	127,223	2,817,814

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33. Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit 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.(continued)

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not rated RM '000	Unit-linked RM '000	Total RM '000
31 December 2009							
HTM financial investments							
Malaysian government securities	-	-	-	-	280,698	-	280,698
Malaysian government guaranteed bonds	-	-	-	-	93,054	-	93,054
Multilateral development bank guaranteed bonds	23,545	-	-	-	49,321	-	72,866
LAR							
Debt securities	-	-	-	-	9,436	-	9,436
Other loans	-	-	-	-	43,608	-	43,608
Fixed and call deposits	-	21,307	11,173	-	-	-	32,480
AFS financial investments							
Malaysian government securities	-	-	-	-	523,318	-	523,318
Malaysian government guaranteed bonds	-	-	-	-	61,763	-	61,763
Multilateral development bank guaranteed bonds	9,277	-	-	-	6,905	-	16,182
Debt securities	258,812	301,454	57,131	-	-	-	617,397
Negotiable certificate deposits	14,600	-	-	-	-	-	14,600
Structured deposits	55,000	-	-	-	-	-	55,000

33. Financial risks (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the credit 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.(continued)

	AAA RM '000	**AA RM '000**	**A RM '000**	**BBB RM '000**	**Not rated RM '000**	**Unit-linked RM '000**	**Total RM '000**
31 December 2009 (continued)							
HFT financial investments						-	
Malaysian government securities	-	-	-	-	-	15,688	15,688
Debt securities	-	-	-	-	-	53,966	53,966
Negotiable certificate deposits	-	-	-	-	-	4,829	4,829
Structured deposits	-	-	-	-	-	2,118	2,118
Reinsurance assets	-	-	-	-	71,604	-	71,604
Insurance receivables	-	-	-	-	34,381	-	34,381
Cash and cash equivalent	58,137	158,811	36,540	-	11	53,735	307,234
	419,371	481,572	104,844	-	1,174,099	130,336	2,310,222

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33. Financial risks (continued)

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

	AAA RM '000	AA RM '000	A RM '000	BBB RM '000	Not rated RM '000	Unit-linked RM '000	Total RM '000
31 December 2010							
Investment grade	636,117	543,082	105,028	4,883	-	123,501	1,412,611
Not rated	-	-	-	-	1 ,396,518	3,722	1,400,240
Past due but not impaired	-	-	-	-	5,143	-	5,143
	636,117	543,082	105,028	4,883	1,401,661	127,223	2,817,994
31 December 2009							
Investment grade	419,371	481,572	104,844	-	-	114,479	1,120,266
Not rated	-	-	-	-	1,172,628	15,857	1,188,485
Past due but not impaired	-	-	-	-	1,471	-	1,471
	419,371	481,572	104,844	-	1,174,099	130,336	2,310,222

33. Financial risks (continued)

The Company has not provided the credit risk analysis for the financial asset of the unit-linked business. This is due to the fact that, in unit-linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities and the shareholders have no direct exposure to any credit risk in those assets.

Age analysis of financial assets past-due but not impaired

Insurance receivables	**< 90 days RM'000**	**91-180 days RM'000**	**Unit-linked RM'000**	**Total RM'000**
31 December 2010	5,143	-	-	5,143
31 December 2009	1,471	-	-	1,471

33. Financial risks (continued)

Impaired financial assets

At 31 December 2010, based on combination of collective and individual assessment of receivables , there are impaired insurance receivables of RM 728,000 (2009: RM 975,000) and other receivables of RM369,000 (2009: RM455,000) respectively. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for insurance receivables and other receivables in separate Allowance for Doubtful debts accounts. A reconciliation of the allowance for impairment losses for insurance receivable and other receivables are as follows:

	Insurance receivables		Other receivables	
	31.12.2010 RM'000	31.12.2009 RM'000	31.12.2010 RM'000	31.12.2009 RM'000
At 1 January	975	1,002	455	401
(Recoveries)/allowances made	(247)	(27)	(86)	54
At 31 December	728	975	369	455

33. Financial risks (continued)

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 that assets may have to be liquidated at a discount.

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

Maturity profiles

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

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

Unit-linked liabilities are repayable or transferable on demand and are included in the “up to a year” column. Repayments which are subject to notice are treated as if notice were to be given immediately.

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33. Financial risks (continued)

Liquidity risk (continued)

Maturity profiles (continued)

	Carrying value RM'000	Up to a year RM'000	1-3 years RM'000	3-5 years RM'000	5-15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Total RM'000
31 December 2010								
Insurance contract liabilities								
With DPF	1,706,782	(39,989)	(452,448)	(16,457)	1,921,606	5,369,122	-	6,781,834
Without DPF	1,142,537	551,640	76,744	28,358	331,541	588,750	-	1,577,033
Other financial liabilities	1,582	-	1,582	-	-	-	-	1,582
Insurance payables	73,888	73,888	-	-	-	-	-	73,888
Other payables	134,381	84,564	49,817	-	-	-	-	134,381
Benefits and claims liabilities	59,545	59,545	-	-	-	-	-	59,545
Total liabilities	3,118,715	729,648	(324,305)	11,901	2,253,147	5,957,872	-	8,628,263
31 December 2009								
Insurance contract liabilities								
With DPF	1,289,175	(64,987)	(368,361)	(66,951)	1,653,600	3,790,136	-	4,943,437
Without DPF	966,055	476,464	7,181	6,153	299,859	583,197	-	1,372,854
Other financial liabilities	1,704	7	1,697	-	-	-	-	1,704
Insurance payables	71,870	71,870	-	-	-	-	-	71,870
Other payables	101,992	64,627	37,365	-	-	-	-	101,992
Benefits and claims liabilities	37,159	37,159	-	-	-	-	-	37,159
Total liabilities	2,467,955	585,140	(322,118)	(60,798)	1,953,459	4,373,333	-	6,529,016

33. Financial risks (continued)

Market risk

Market risk is the risk of loss arising due to changes in market prices or parameters influencing market prices, and in particular the resultant interest rate guarantee risks from asset liability management or from changes to the participations. 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, company limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to Risk Management Working Committee / Risk Management Committee on a quarterly basis.
- Perform stress test as and when needed.
- Stop loss policy is in place.

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

33. Financial risks (continued)

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 (RM) as its insurance contract liabilities. Thus the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

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.

All currency risk in unit-linked funds is borne by policyholders.

Denominated in	Financial assets RM'000	Unit-linked RM'000
31 December 2010		
USD	10,897	19,105
HKD	15,911	-
AUD	-	26,920
31 December 2009		
USD	10,311	24,689
HKD	-	-

33. Financial risks (continued)

Interest Rate/Profit Yield 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 variable held constant, showing the impact on the profit before tax, equity and insurance contract liabilities.

	Change in variables	Impact on profit before tax# RM'000	Impact on equity* RM'000	Impact on Insurance contract liabilities** RM'000
31 December 2010				
Interest rate	+100 basis points	(15,000)	(17,111)	(69,314)
Interest rate	+200 basis points	(15,000)	(22,506)	(130,713)
31 December 2009				
Interest rate	+100 basis points	-	(5,105)	(65,888)
Interest rate	+200 basis points	-	(9,826)	(126,562)

The above illustration is only prepared for adverse scenario, where interest rate is being raised. The impact on profit would be dependent on whether the interests risk resides in shareholders' fund or life insurance fund and where the interests risk resides in shareholders' fund, the impact will be directly to profit and equity of the Company. In respect of Life fund, it would affect the insurance contract liabilities and correspondingly surplus available for transfer from life insurance fund to shareholders fund. The above sensitivity test would yield proxy results if interest rate were to move in the opposite direction, with the Company.

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

**The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

33. Financial risks (continued)

Price risk

Price risk is the risk that 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 or currency risk), whether those changes are caused by factors specific to the individual financial instrument of its issuer or factors affecting similar financial instruments traded in the market.

The Company's price risk exposures relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investments securities not held for the account of the unit-linked business.

The Company's 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.

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

		31 December 2010			31 December 2009		
	Changes in variable	**Impact on profit before tax#**	**Impact on equity***	**Impact on insurance contract liabilities** RM'000**	**Impact on profit before tax#**	**Impact on equity***	**Impact on insurance contract liabilities** RM'000**
Market indices							
Market value	-10%	-	-	(38,637)	-	-	(19,203)
Market value	-20%	(15,000)	(11,250)	(77,275)	-	-	(38,405)

33. Financial risks (continued)

Price risk (continued)

The above illustration is only prepared for adverse scenario, where market price is being moved in an unfavourable direction. The impact on profit would be dependent on whether the change in market price risk resides in shareholders' fund or life insurance fund and where the change in market price resides in shareholders' fund, the impact will be directly to profit and equity of the Company. In respect of Life Fund, it would affect the insurance contract liabilities and correspondingly surplus available for transfer from life insurance fund to shareholders fund. The above sensitivity test would yield proxy results if market price were to move in the opposite direction, with the Company.

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

** The impact on insurance contract liabilities only reflects the changes in the prescribed assumptions above without any adjustment to policyholders' bonuses for the life participating business. Impact on insurance contract liabilities also reflects adjustments for tax, where applicable.

Operational risks

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 processes where possible;
- Staff training;
- Evaluation procedures such as internal audit.

34. Regulatory capital requirements

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

	Note	2010 RM'000	2009 RM'000
Tier 1 Capital			
Paid up share capital	10	236,600	157,000
Reserves, including retained earnings		401,816	322,038
Capital instruments which qualifies as Tier 1 Capital		476,347	459,394
		1,114,763	938,432
Tier 2 Capital			
Revaluation reserves		962	962
Available-for-sale reserves		52,419	(8,774)
		53,381	(7,812)
Amount deducted from Capital		(1,393)	(5,053)
Total capital available		1,166,751	925,567

35. Insurance funds

The Company's activities are organised by funds and segregated into life and shareholders' funds in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996.

The Company's statement of financial position and income statement have been further analysed by funds.

The life insurance business offers a wide range of participating and non-partipating Whole Life, Term Assurance, Endownment and , as well as Unit-linked products.

Statement of financial position by funds
As at 31 December

	Shareholders' fund		Life fund		Total	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets						
Property, plant and equipment	-	-	16,773	15,828	16,773	15,828
Investment properties	-	-	2,650	2,650	2,650	2,650
Intangible assets	-	-	171	46	171	46
Deferred tax assets	-	2,702	-	(697)	-	2,005
Investments	176,447	108,750	2,728,120	2,013,339	2,904,567	2,122,089
Reinsurance assets	-	-	81,080	71,604	81,080	71,604
Insurance receivables	-	-	41,958	34,381	41,958	34,381
Other receivables, deposits and prepayments	17,498	13,701	58,773	29,093	76,271	42,794
Current tax assets	-	2,063	-	(174)	-	1,889
Cash and cash equivalents	31,776	5,398	195,442	301,836	227,218	307,234
	225,721	132,614	3,124,967	2,467,906	3,350,688	2,600,520

35. Insurance funds (continued)

Statement of financial position by funds (continued)
As at 31 December

	Shareholders' fund		Life fund		Total	
	31.12.2010 RM'000	**31.12.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**	**31.12.2010 RM'000**	**31.12.2009 RM'000**
Total equity	224,812	128,965	-	-	224,812	128,965
Insurance contract liabilities	-	-	2,849,319	2,255,230	2,849,319	2,255,230
Insurance payables	-	-	73,888	71,870	73,888	71,870
Other financial liabilities	-	-	1,582	1,704	1,582	1,704
Other payables and accruals	48	49	134,333	101,943	134,381	101,992
Deferred tax liabilities	237	-	6,011	-	6,248	-
Current tax liabilities	624	-	289	-	913	-
Benefits and claims liabilities	-	-	59,545	37,159	59,545	37,159
Subordinated loans	-	3,600	-	-	-	3,600
	909	3,649	3,124,967	2,467,906	3,125,876	2,471,555
Total policyholders' funds and liabilities	225,721	132,614	3,124,967	2,467,906	3,350,688	2,600,520

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35. Insurance funds (continued)

Income statement/Revenue accounts by funds
For the year ended 31December

	Shareholders' fund		Life fund		Total	
	2010	2009	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	5,236	4,007	1,140,048	957,108	1,145,284	961,115
Gross earned premiums	-	-	1,029,459	868,727	1,029,459	868,727
Premiums ceded to reinsurers	-	-	(64,147)	(55,778)	(64,147)	(55,778)
Net premiums	-	-	965,312	812,949	965,312	812,949
Investment income	5,235	4,007	110,590	88,381	115,825	92,388
Realised gains and losses	(605)	1	37,276	18,118	36,671	18,119
Fair value gains and losses	-	-	195	23,709	195	23,709
Fee and commission income	-	-	7,498	8,268	7,498	8,268
Other operating income	-	-	6,211	17,736	6,211	17,736
Other revenue	4,630	4,008	161,770	156,212	166,400	160,220
Gross benefits and claims paid	-	-	(282,184)	(181,261)	(282,184)	(181,261)
Claims ceded to reinsurers	-	-	45,089	30,580	45,089	30,580
Gross change to contract liabilities	-	-	(534,600)	(498,815)	(534,600)	(498,815)
Change in contract liabilities ceded to reinsurers	-	-	9,476	(4,447)	9,476	(4,447)
Net benefits and claims	-	-	(762,219)	(653,943)	(762,219)	(653,943)
Fee and commission expense	-	-	(255,471)	(213,914)	(255,471)	(213,914)
Management expenses	(9)	(9)	(71,995)	(73,207)	(72,004)	(73,216)
Other operating expenses	(18)	-	(10,975)	(5,647)	(10,993)	(5,647)
Other expenses	(27)	(9)	(338,441)	(292,768)	(338,468)	(292,777)
Transfer from revenue accounts	15,000	12,000	(15,000)	(12,000)	-	-
Profit/surplus before tax	19,603	15,999	11,422	10,450	31,025	26,449
Tax expense (Note 27)	(5,059)	(4,002)	(11,422)	(10,450)	(16,481)	(14,452)
Net profit/surplus after tax	14,544	11,997	-	-	14,544	11,997

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35. Insurance funds (continued)

Investment-linked fund statement of financial position
As at 31 December

	31.12.2010 RM'000	31.12.2009 RM'000
Assets		
Investments	249,586	212,767
Other receivables, deposits and prepayments	7,274	1,869
Cash and cash equivalents	30,492	53,735
Total assets	287,352	268,371
Liabilities		
Deferred tax liabilities	1,102	982
Other financial liabilities	-	7
Other payables and accruals	124	139
Benefits and claims liabilities	11,247	230
Current tax liabilities	2	-
Total liabilities	12,475	1,358
Net asset value of funds (Note 12)	274,877	267,013

35. Insurance funds (continued)

Investment-linked fund income statement
For the year ended 31 December

	2010 RM'000	2009 RM'000
Investment income	9,415	10,216
Realised gains and losses	20,927	18,847
Fair value gain and losses	1,320	23,679
Other operating income	2,895	14
	34,557	52,756
Other operating expenses	(5,874)	(2,730)
Profit before tax	28,683	50,026
Tax expense	(2,445)	(3,123)
Net profit for the year	26,238	46,903

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35. Insurance funds (continued)

Information on cash flows by funds
As at 31 December

	Shareholders' fund		Life fund		Investment-linked fund		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Cash flows from:								
Operating activities	(49,622)	(6,523)	(80,338)	162,732	(23,243)	(210)	(153,203)	155,999
Investing activities	-	-	(2,813)	(1,172)	-	-	(2,813)	(1,172)
Financing activities	76,000	-	-	-	-	-	76,000	-
Net increase/(decrease) in cash and cash equivalents	26,378	(6,523)	(83,151)	161,560	(23,243)	(210)	(80,016)	154,827
At beginning of year	5,398	11,921	248,101	86,541	53,735	53,945	307,234	152,407
At end of year	31,776	5,398	164,950	248,101	30,492	53,735	227,218	307,234

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36. Comparatives

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

	As restated RM'000	As previously stated RM'000
Statement of financial position		
Assets		
Property, plant and equipment	15,828	11,157
Prepaid lease payments	-	4,671
Investments	2,122,089	-
Reinsurance assets	71,604	-
Other receivables, deposits and prepayments	42,794	40,567
Cash and cash equivalents	307,234	6,210
Investment in debt and equity securities	-	1,969,454
Loans	-	45,835
Placements with financial institutions	-	410,051
Liabilities		
Insurance contract liabilities	(2,255,230)	-
Other financial liabilities	(1,704)	-
Other payables and accruals	(101,992)	(103,696)
Life policyholders' funds		
Life policyholders' fund	-	(2,190,446)
Life assets revaluation reserve	-	(962)
Life fair value reserve	-	7,782

36. Comparatives (continued)

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

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

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

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