**Allianz Malaysia Berhad** (12428-W)

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

Tel: +603 2264 1188 / 2264 0688
Fax: +603 2264 1199
Toll-free: 1300-88-1028

www.allianz.com.my
www.facebook.com/AllianzMalaysia

Allianz Malaysia Berhad (12428-W)

Annual Report 2011

**Allianz Malaysia Berhad** (12428-W)

# Annual Report 2011

## Allianz4Good
10 years in Malaysia

Allianz

# Contents

## ALLIANZ4GOOD

Over the past 10 years, Allianz has gained the trust of thousands of customers, agents, business partners, and shareholders in Malaysia. This year, to strengthen this trust, we have created Allianz4Good. Allianz4Good stands for our Corporate Responsibility and our distinct approach to integrate sustainability in our corporate culture. We do this by creating products and services that help people lead better lives and by combining long-term economic value creation with a holistic approach to environmental stewardship, social responsibility and corporate governance. Our future success relies on our focus on our customers and our commitment to sustainable development.

Allianz4Good – we are growing with you and we are here to stay.



Allianz

For more information visit
www.allianz.com.my

This Annual Report is printed on 100% recycled paper.

# Allianz' Key Figures

**RM2,606.79**
million

Gross Written Premium

**RM204.88**
million

Profit Before Tax

**RM7,932.66**
million

Total Assets

**RM1,392.92**
million

Shareholders' Fund

**RM1,646.38**
million

Market Capitalisation

**85.53**
sen

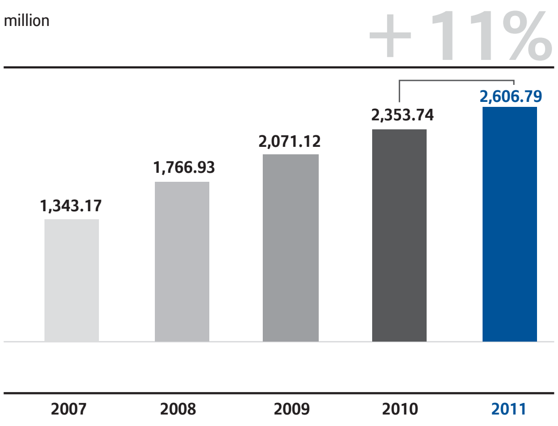
Basic Earnings per Ordinary Share

# Allianz at a Glance

## Financial Highlights

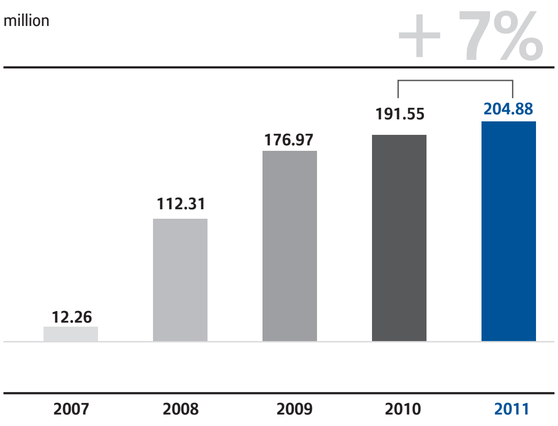
### Gross Written Premium

million



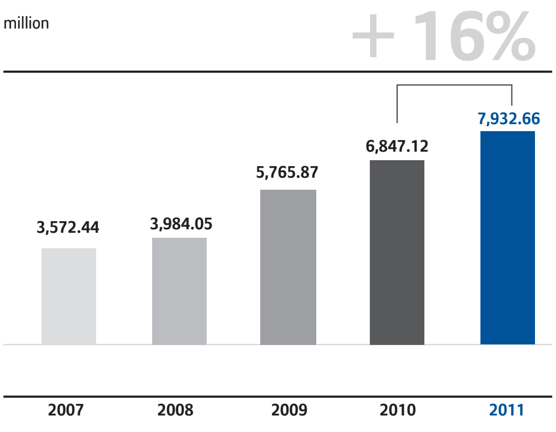

### Profit before Tax

million



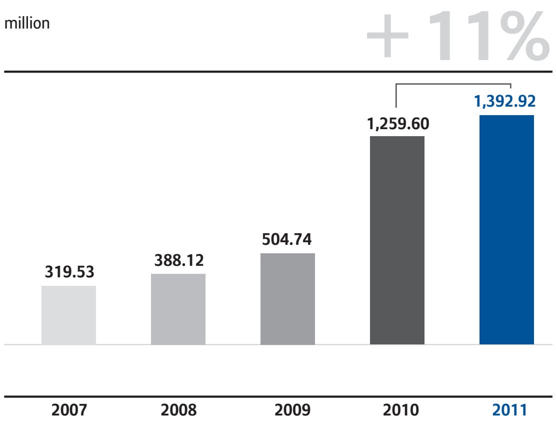

### Total Assets

million



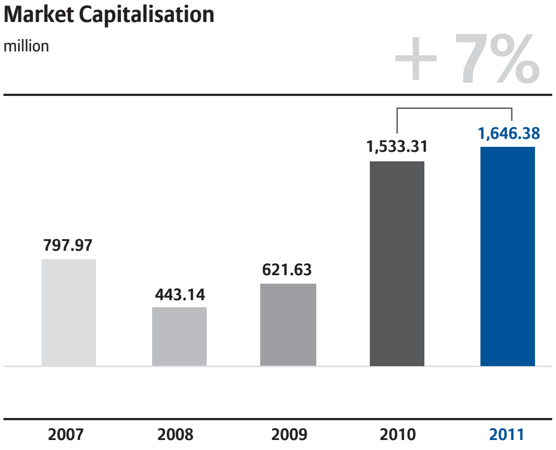

### Shareholders' Fund

million



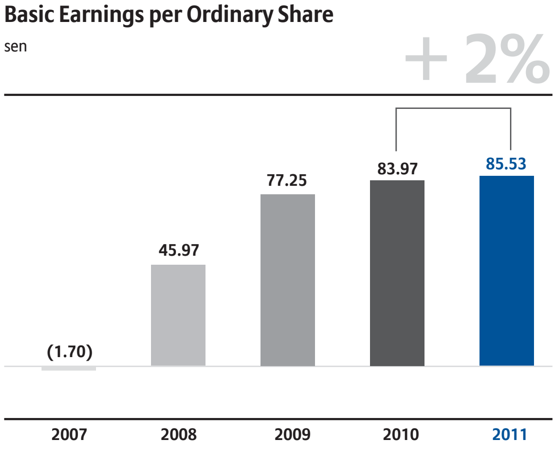

### Market Capitalisation

million




### Basic Earnings per Ordinary Share

sen



| | | Group | | | | |
|---|---|---|---|---|---|---|
| | | 2011 | 2010 | 2009 | 2008 | 2007 |
| Gross Written Premium | (RM million) | 2,606.79 | 2,353.74 | 2,071.12 | 1,766.93 | 1,343.17 |
| Profit before Tax | (RM million) | 204.88 | 191.55 | 176.97 | 112.31 | 12.26 |
| Total Assets | (RM million) | 7,932.66 | 6,847.12 | 5,765.87 | 3,984.05 | 3,572.44 |
| Shareholders' Fund | (RM million) | 1,392.92 | 1,259.60 | 504.74 | 388.12 | 319.53 |
| Market Capitalisation | (RM million) | 1,646.38 | 1,533.31 | 621.63 | 443.14 | 797.97 |
| Final gross dividend payable/paid per share # | | | | | | |
| – Ordinary Share | (sen) | 5.25 | 3.50 | 2.00 | 2.00 | 2.00 |
| – Preference Share* | (sen) | 6.30 | 4.20 | – | – | – |
| Total amount dividend payable/paid | (RM'000) | | | | | |
| – Ordinary Share | (RM'000) | 6,159.40 | 4,039.10 | 2,308.00 | 2,308.00 | 2,277.30 |
| – Preference Share* | (RM'000) | 11,956.00 | 8,078.10 | – | – | – |
| Return on Equity^ | | 9.9% | 14.6% | 26.6% | 20.0% | -0.8% |
| Return on Equity^ (include subordinated loan of RM490 million from Allianz SE) | | 9.9% | 11.5% | 12.7% | 8.4% | -0.5% |
| Gross Written Premium Growth | | 10.8% | 13.6% | 17.2% | 31.5% | 27.3% |
| Basic Earnings per Ordinary Share | (sen) | 85.53 | 83.97 | 77.25 | 45.97 | (1.70) |
| Diluted Earnings per Ordinary Share | (sen) | 35.26 | 50.33 | N/A | N/A | N/A |
| Net Asset Value per Ordinary Share | (RM) | 8.90 | 8.19 | 6.46 | 5.71 | 5.26 |
| Diluted Net Asset Value per Ordinary Share | (RM) | 4.02 | 3.64 | N/A | N/A | N/A |

^ The average of the opening (1 January) and closing (31 December) balances of Shareholders' Fund have been used in the computation of Return of Equity.

* Irredeemable Convertible Preference Shares ("ICPS") was listed on the Main Market of Bursa Malaysia Securities Berhad on 6 August 2010.

# The actual amount payable for financial year 2011 will be based on the numbers of Ordinary Shares and ICPS at the entitlement date for the dividends.


# 1

The best gift to your loved ones is yourself. Make it home safely!

**Encik Muhammad Heeza Bin Hassan**
*JKJR State Director, Federal Territory Kuala Lumpur*


**Allianz4Safety**

As an insurance company, managing risks is the core of our business. Through our partnership with the Road Safety Department of Malaysia ("JKJR"), we conduct advocacy campaigns and distribute safety items to encourage safe behavior on the roads.

**Delivering in moments of truth**

Allianz

# Allianz’ Vision and Mission

## Our Vision

**To be the most reliable partner, always delivering in moments of truth**

We aim to be the most reliable partner for all our customers, agents and business partners.

To achieve this, we will constantly ensure that all targets and tasks are done with speed, accuracy and consistency.

The Vision also ensures that we maintain our integrity and honesty at all times. For only with trust and honesty, we will be able to reach and realise our Vision.

## Our Mission

**Insurance solutions from A – Z**

# Allianz' Five Core Values

## Our Values

**Our values are who we are. These are and will be our guiding principles in achieving a sustainable growth for our shareholders, customers, business partners, employees and society.**

### Customer Focus
We create superior customer experience through innovative solutions that continuously exceed customers' expectations

### Integrity
We deliver promises whilst maintaining highest ethical standards, integrity and honesty in all aspects of our business

### High Performance Culture
We encourage, recognise and reward exceptional performance

### Open Communication
We practise and promote clear, open and transparent communication

### Corporate Social Responsibility
We care and are committed to building the community through socially responsible initiatives

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 38th Annual General Meeting of Allianz Malaysia Berhad will be held at Junior Ballroom, Level 2, Hotel InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 Kuala Lumpur on Wednesday, 27 June 2012 at 10.00 a.m. for the following purposes:-

## AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 December 2011 and the Directors' and Auditors' Reports thereon. **Resolution 1**

2. To approve the payment of a first and final dividend of 5.25 sen per ordinary share less 25 percent tax for the financial year ended 31 December 2011. **Resolution 2**

3. To approve the payment of Directors' fees of RM247,982 for the financial year ended 31 December 2011 (2010: RM214,395). **Resolution 3**

4. To re-elect the following Directors:-

   (a) Mr. Foo San Kan, who retires by rotation in accordance with Article 96 of the Articles of Association of the Company and being eligible, offers himself for re-election. **Resolution 4**

   (b) Mr. Ong Eng Chow, who retires by rotation in accordance with Article 96 of the Articles of Association of the Company and being eligible, offers himself for re-election. **Resolution 5**

   (c) Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy, who retires in accordance with Article 102 of the Articles of Association of the Company and being eligible, offers himself for re-election. **Resolution 6**

5. To re-appoint Y. Bhg. Tan Sri Razali Ismail as a Director of the Company and to hold office until the conclusion of the next Annual General Meeting of the Company pursuant to Section 129(6) of the Companies Act, 1965. **Resolution 7**

6. To re-appoint Messrs KPMG as Auditors and to authorise the Directors to fix their remuneration. **Resolution 8**

7. **Special Business**

   To consider and if thought fit, pass the following ordinary resolution:- **Resolution 9**

   **Proposed Renewal of Shareholders' Mandate**

   "THAT subject to the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, approval be and is hereby given to the Company and its subsidiaries to enter into the category of Recurrent Related Party Transactions of a revenue or trading nature which are necessary for its day-to-day operations with the Related Parties as specified in section 2.2 of the Circular dated 5 June 2012, provided that the transactions are in the ordinary course of business and are on terms not more favourable than those generally available to the public and not to the detriment of the minority shareholders.

   AND THAT such authority shall take effect from the passing of this Ordinary Resolution and shall continue in force until:-

   (i) the conclusion of the next Annual General Meeting ("AGM") of the Company, at which time it will lapse, unless by ordinary resolution passed at the said AGM, the authority is renewed; or

(ii) the expiration of the period within which next AGM is required to be held pursuant to Section 143(1) of the Companies Act, 1965 (but shall not extend to such extension as may be allowed pursuant to Section 143(2) of the Companies Act, 1965); or

(iii) revoked or varied by resolution passed by the shareholders in a general meeting;

whichever is the earlier;

AND THAT the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things including executing all documents as may be required to give effect to the transactions contemplated and/or authorised by this Ordinary Resolution."

8. To transact any other business for which due notice shall have been given.

## NOTICE OF DIVIDEND ENTITLEMENT AND PAYMENT

NOTICE IS HEREBY GIVEN THAT the first and final dividend of 5.25 sen per ordinary share less 25 percent tax in respect of the financial year ended 31 December 2011, if approved at the 38th Annual General Meeting, will be paid on 8 August 2012 to shareholders whose names appear in the Register of Members and/or the Record of Depositors at the close of business on 16 July 2012.

A Depositor shall qualify for entitlement to the dividends only in respect of:-

(a) Shares transferred into the Depositor's Securities Account before 4.00 p.m. on 16 July 2012 in respect of transfers;

(b) Shares deposited into the Depositor's Securities Account before 12.30 p.m. on 12 July 2012 in respect of shares exempted from mandatory deposit; and

(c) Shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the Rules of Bursa Malaysia Securities Berhad.

By Order of the Board

NG SIEW GEK
Company Secretary

Kuala Lumpur
5 June 2012

## NOTES ON APPOINTMENT OF PROXY

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote instead of him. If two (2) proxies are appointed, the instrument of proxy must specify the proportion of his shareholdings to be represented by each proxy.
2. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing a proxy/proxies must be in writing under the hand of the appointor or his attorney. If the appointor is a corporation, under its common seal or the hand of its attorney.
5. The instrument of proxy shall be deposited at the Registered Office of the Company at Suite 3A-15, Level 15, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not later than forty-eight (48) hours before the appointed time for holding the Annual General Meeting.

## NOTE TO HOLDERS OF IRREDEEMABLE CONVERTIBLE PREFERENCE SHARE ("ICPS")

The holders of the ICPS shall entitle to attend the 38th Annual General Meeting but have no right to vote at the said Annual General Meeting. The voting rights of the ICPS holders are detailed on page 95 of this Annual Report.

## EXPLANATORY NOTES ON SPECIAL BUSINESS

**Resolution 9 – Proposed Renewal of Shareholders' Mandate**

This proposed resolution, if passed, will enable the Company and/or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature with the Related Parties.

Detailed information in relation to the Proposed Renewal of Shareholders' Mandate are set out in the Circular to Shareholders dated 5 June 2012, despatched together with this Annual Report.

## STATEMENT ACCOMPANYING NOTICE OF 38TH ANNUAL GENERAL MEETING

**(A) Directors who are retiring at the 38th Annual General Meeting**

(I) Directors who are retiring by rotation in accordance with Article 96 of the Articles of Association of the Company:-
- Mr. Foo San Kan
- Mr. Ong Eng Chow

(II) Directors who are retiring in accordance with Article 102 of the Articles of Association of the Company:-
- Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy
- Mr. Karl-Heinz Jung

Save for Mr. Karl-Heinz Jung, all the above Directors who are retiring at the 38th Annual General Meeting have offered themselves for re-election as Director of the Company at the 38th Annual General Meeting.

Mr. Karl-Heinz Jung who retires in accordance with Article 102 of the Articles of Association of the Company has expressed his intention not to seek re-election at the 38th Annual General Meeting of the Company and therefore he shall retire at the conclusion of the 38th Annual General Meeting.

**(B) Director who is seeking re-appointment pursuant to Section 129(6) of the Companies Act, 1965, at the 38th Annual General Meeting**

- Y. Bhg. Tan Sri Razali Ismail

The details of the above Directors who are seeking re-election/re-appointment are set out in the Board of Directors' profiles on pages 22 to 37 of this Annual Report.

# Corporate Information

## Stock Exchange Listing
Main Market of Bursa Malaysia Securities Berhad

## Class of Shares
Ordinary Share
Irredeemable Convertible Preference Share

## Stock Code
1163
1163PA

## Company Secretary
Ng Siew Gek

## Registered Office
Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
Tel : 03-22641188 / 22640688
Fax : 03-22641186

## Head Office
Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
Tel : 03-22641188 / 22640688
Fax : 03-22641199
www.allianz.com.my

## Share Registrars
Tricor Investor Services Sdn Bhd
Level 17, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Tel : 03-22643883
Fax : 03-22821886

## Auditors
KPMG
Level 10, KPMG Tower
8, First Avenue, Bandar Utama
47800 Petaling Jaya
Selangor
Tel : 03-77213388
Fax : 03-77213399

## Principal Bankers
CIMB Bank Berhad
Citibank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad

## Principal Solicitors
Wong & Partners

## Senior Management

**Jens Reisch**
Chief Executive Officer
of Allianz Malaysia Berhad (“AMB”) and Allianz Life Insurance Malaysia Berhad (“ALIM”)

**Zakri Bin Mohd Khir**
Chief Executive Officer
of Allianz General Insurance Company (Malaysia) Berhad (“AGIC”)

**Ong Eng Chow**
Chief Financial Officer of AMB and ALIM

**Wang Wee Keong**
Chief Operations Officer of AMB and AGIC

**Chiang Bin Fong**
Group Head of IT

**Lim Li Meng**
Group Chief Market Management Officer

**Wong Woon Man**
Group Head of Human Resources

**Chin Tze How**
Appointed Actuary of ALIM

**Giam Hock Hai**
Chief Operations Officer of ALIM

**Ong Pin Hean**
Chief Sales Officer of ALIM

**Horst Hermann Habbig**
Chief Sales Officer of AGIC

**Lee Chi Kwan**
Head of Finance of AGIC

# Nationwide Network

## ALLIANZ GENERAL INSURANCE COMPANY (MALAYSIA) BERHAD NETWORK OF OFFICES

**CUSTOMER CONTACT / SERVICE CENTRE**
Ground Floor, Block 2A
Plaza Sentral
Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur
Tel : 03-22640700
Fax : 03-22636000
Toll-free : 1300-88-1028
www.allianz.com.my

### CENTRAL REGION

**CENTRAL REGION OFFICE**
5th Floor, Wisma Allianz
No. 33, Jalan Gereja
50100 Kuala Lumpur
Tel : 03-20312211
Fax : 03-20724628

**KUALA LUMPUR**
Wisma Allianz
No. 33, Jalan Gereja
50100 Kuala Lumpur
Tel : 03-20312211
Fax : 03-20789918

**PETALING JAYA**
No. 15, Jalan 8/1D, Section 8
Petaling Jaya 46050
Selangor Darul Ehsan
Tel : 03-79564629/79564621
Fax : 03-79548210/79556727

**KLANG**
No. 11, Jalan Tiara 2D/KU1
Bandar Baru Klang
Klang 41150
Selangor Darul Ehsan
Tel : 03-33429008/33420639
Fax :03-33421901

**KAJANG**
No. 17 & 17A, Jalan M/J1
Taman Majlis Jaya
Sungai Chua
Kajang 43000
Selangor Darul Ehsan
Tel : 03-87339078/87337395
: 03-87340371/87340501
Fax : 03-87336985

**MALURI**
No. 27, Jalan Jejaka 7
Taman Maluri
55100 Kuala Lumpur
Tel : 03-92825587
Fax : 03-92825629

**KEPONG**
No. 1, Jalan Prima 9
Pusat Niaga Metro Prima
Kepong 52100
Kuala Lumpur
Tel : 03-62586888
Fax : 03-62592554

**SEREMBAN**
No. 44, Jalan S2 B18
Biz Avenue, Seremban 2
Seremban 70300
Negeri Sembilan Darul Khusus
Tel : 06-6013636
Fax : 06-6013344

## PERAK STATE

### IPOH
Unit No. A-G-1 & A-1-1
Ground & 1st Floor
Greentown Square
Jalan Dato' Seri Ahmad Said
Ipoh 30450
Perak Darul Ridzuan
Tel : 05-2549150/2555103
Fax : 05-2542988

### TELUK INTAN
No. 77-G, Ground Floor
Jalan Intan 4, Bandar Baru
Teluk Intan 36000
Perak Darul Ridzuan
Tel : 05-6215882/6217731
: 05-6217732
Fax : 05-6225229

### TAIPING
No. 62, Ground Floor
Jalan Barrack
Taiping 34000
Perak Darul Ridzuan
Tel : 05-8068688/8068976
Fax : 05-8088975

## NORTHERN REGION

### NORTHERN REGION OFFICE
No. 6770, 1st Floor
Jalan Kampung Gajah
Butterworth 12200
Penang
Tel : 04-3239778 (Northern Region)
Tel : 04-3245175 (Northern Region Hub)
Fax : 04-3319778

### PENANG
Level 27, Menara BHL
No. 51, Jalan Sultan Ahmad Shah
10050 Penang
Tel : 04-2266055
Fax : 04-2277055

### BUKIT MERTAJAM
No. 486, Ground, 1st & 3rd Floor
Jalan Permatang Rawa
Bandar Perda
Bukit Mertajam 14000
Penang
Tel : 04-5378328/5371628
Fax : 04-5374398/5371108

### BUTTERWORTH
No. 6770 & 6771, Ground & 2nd Floor
Jalan Kampung Gajah
Butterworth 12200
Penang
Tel : 04-3333188
Fax : 04-3310572

### ALOR SETAR
No. 300 & 301, Jalan Lumpur
Alor Setar 05100
Kedah Darul Aman
Tel : 04-7328575/7334655
Fax : 04-7337868

### SUNGAI PETANI
No. 62B, 1st, 2nd & 3rd Floor
Jalan Pengkalan, Pekan Baru
Sungai Petani 08000
Kedah Darul Aman
Tel : 04-4258282/4252894
: 04-4252895
Fax : 04-4252893

## SOUTHERN REGION

### SOUTHERN REGION OFFICE
No. 84, 2nd Floor
Jalan Serampang
Taman Pelangi
Johor Bahru 80400
Johor Darul Takzim
Tel : 07-3340166
Fax : 07-3316881

### MELAKA
No. 374, Jalan Melaka Raya 6
Taman Melaka Raya
75000 Melaka
Tel : 06-2833821
Fax : 06-2844198

### JOHOR BAHRU
No. 84, Jalan Serampang
Taman Pelangi
Johor Bahru 80400
Johor Darul Takzim
Tel : 07-3340166/3340160
Fax : 07-3340167

### KLUANG
No. 5, Jalan Persiaran Yayasan
Kluang 86000
Johor Darul Takzim
Tel : 07-7723255/7732530
Fax : 07-7738097

### SEGAMAT
Lot No. 27, Ground Floor
Jalan Genuang Perdana
Segamat 85000
Johor Darul Takzim
Tel : 07-9434117/9434317
Fax : 07-9434517

### BATU PAHAT
No. 1-2, 1-2A, Ground & 1st Floor
Jalan Maju 1, Taman Maju
Batu Pahat 83000
Johor Darul Takzim
Tel : 07-4338166
Fax : 07-4332166

## EAST COAST REGION

### EAST COAST REGION OFFICE
No. 46, 2nd Floor
Jalan Gambut
Kuantan 25000
Pahang Darul Makmur
Tel: 09-5177662
Fax : 09-5177663

### TEMERLOH
No. 6, Pusat Komersil Temerloh
Jalan Dato' Bahaman 3
Temerloh 28000
Pahang Darul Makmur
Tel : 09-2969292
Fax : 09-2960254

### KUANTAN
No. 46, Jalan Gambut
Kuantan 25000
Pahang Darul Makmur
Tel : 09-5144936 / 5143276
Fax : 09-5142936

### KUALA TERENGGANU
PT 3357 P, Jalan Sultan Zainal Abidin
Kuala Terengganu 20000
Terengganu Darul Iman
Tel : 09-6223678/6223233
Fax : 09-6301233/6318516

### KOTA BHARU
Lot 1184, Jalan Kebun Sultan
Kota Bharu 15350
Kelantan Darul Naim
Tel : 09-7481196/7444566
Fax : 09-7446766

## SABAH REGION

### SABAH REGION OFFICE
Lot 30, 3rd Floor, Block E
Sedco Complex
Jalan Albert Kwok
Locked Bag 69
Kota Kinabalu 88000
Sabah
Tel : 088-236589
Fax : 088-238589

### KOTA KINABALU
Lot 30, Block E, Sedco Complex
Jalan Albert Kwok
Locked Bag 69
Kota Kinabalu 88000
Sabah
Tel : 088-221397/221606
: 088-216197
Fax : 088-224870

### LAHAD DATU
Lot 1, Ground & 2nd Floor
MDLD 6887, Block P
Bangunan SUDC
Lahad Datu 91100
Sabah
Tel : 089-880388/880488
Fax : 089-880188

### SANDAKAN
Lot 8, Ground & 1st Floor
Lot 7, 1st & 2nd Floor
Block 2, Bandar Indah,
Mile 4 North Road
W.D.T. No. 291
Sandakan 90000
Sabah
Tel : 089-211054/217197
Fax : 089-211052

### TAWAU
TB320, Ground, 1st & 2nd Floor
Block 38, Fajar Complex
Jalan St. Patrick
W.D.T. No. 33
Tawau 91009
Sabah
Tel : 089-779055/772976
Fax : 089-763015

## SARAWAK REGION

### SARAWAK REGION OFFICE
Lot 1374, 2nd Floor
Centrepoint Commercial
Centre (Phase 2)
Block 10, Miri Concession
Land District, Kubu road
Miri 98000
Sarawak
Tel : 085-417828
Fax : 085-417054

### MIRI
Lot 1374, Centrepoint
Commercial Centre (Phase 2)
Block 10, Miri Concession
Land District, Kubu Road
Miri 98000
Sarawak
Tel : 085-423829/416828
Fax : 085-419153

### SIBU
No. 12-I, Jalan Kampung Datu
Sibu 96000
Sarawak
Tel : 084-332469/343205
Fax : 084-332470

### KUCHING
Sublot 3, 1st, 2nd & 3rd Floor
Block 10, Jalan Laksamana Cheng Ho
Kuching Central Land District
Kuching 93350
Sarawak
Tel : 082-417842/413849
: 082-419950/254007
Fax : 082-424624

### SARIKEI
No. 72, 1st & 2nd Floor
Repok Road
Sarikei 96108
Sarawak
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Fax : 084-653908

## ALLIANZ LIFE INSURANCE MALAYSIA BERHAD NETWORK OF OFFICES

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50470 Kuala Lumpur
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Fax : 03-22636000
Toll-free : 1300-88-1028
www.allianz.com.my

## CENTRAL REGION

### JALAN PINANG
Lot G7, Wisma UOA II
No. 21, Jalan Pinang
50450 Kuala Lumpur
Tel : 03-21638005
Fax : 03-21648005

### PETALING JAYA
No. 15, Ground Floor
Jalan 8/1D, Section 8
Petaling Jaya 46050
Selangor Darul Ehsan
Tel : 03-79551605
Fax : 03-79551607

### DESA JAYA
Wisma Allianz Life
No. 11-14, Jalan 53
Desa Jaya Commercial Centre
Taman Desa
Kepong 52100
Selangor Darul Ehsan
Tel : 03-62758000
Fax : 03-62757100

### KLANG
No. 46, Jalan Tiara 2C
Bandar Baru Klang
Klang 41150
Selangor Darul Ehsan
Tel : 03-33453253
Fax : 03-33453288

### SEREMBAN
No. 44, Ground Floor
Jalan S2 B18, Biz Avenue
Seremban 2
Seremban 70300
Negeri Sembilan Darul Khusus
Tel : 06-6011007
Fax : 06-6011099

### MELAKA
No. 374, Ground Floor
Jalan Melaka Raya 6
Taman Melaka Raya
75000 Melaka
Tel : 06-2823377
Fax : 06-2820793

## NORTHERN REGION

### PENANG
Level 27, Menara BHL
No. 51, Jalan Sultan Ahmad Shah
10050 Penang
Tel : 04-2292868
Fax : 04-2298858

### BUKIT MERTAJAM
No. 487, Jalan Permatang Rawa
Bandar Perda
Bukit Mertajam 14000
Penang
Tel : 04-5377231
Fax : 04-5378231

### ALOR SETAR
No. 301, Ground & 2nd Floor
Jalan Lumpur
Alor Setar 05100
Kedah Darul Aman
Tel : 04-7345091
Fax : 04-7317271

### SUNGAI PETANI
No. 62B, 2nd Floor
Jalan Pengkalan, Pekan Baru
Sungai Petani 08000
Kedah Darul Aman
Tel : 04-4256863
Fax : 04-4256861

### IPOH
Unit No. A-G-1 & A-2-1
Ground & 2nd Floor
Greentown Square
Jalan Dato' Seri Ahmad Said
Ipoh 30450
Perak Darul Ridzuan
Tel : 05-2419752
Fax : 05-2416898

## SOUTHERN REGION

### JOHOR BAHRU
No. 86, Jalan Serampang
Taman Pelangi
Johor Bahru 80400
Johor Darul Takzim
Tel : 07-3325981
Fax : 07-3326462

### YONG PENG
No. 16A, 1st Floor
Jalan Bayan
Taman Sembrong Barat
Yong Peng 83700
Johor Darul Takzim
Tel : 07-4676720
Fax : 07-4679400

### KLUANG
No. 5, Ground Floor
Jalan Persiaran Yayasan
Kluang 86000
Johor Darul Takzim
Tel : 07-7715588
Fax : 07-7738097

### BATU PAHAT
No. 1-2, Ground Floor
Jalan Maju 1, Taman Maju
Batu Pahat 83000
Johor Darul Takzim
Tel : 07-4343313
Fax : 07-4332166

## EAST COAST REGION

### TEMERLOH
No. 6, Pusat Komersil Temerloh
Jalan Dato' Bahaman 3
Temerloh 28000
Pahang Darul Makmur
Tel : 09-2969292
Fax : 09-2960254

### KUANTAN
No. 46, Ground Floor
Jalan Gambut
Kuantan 25000
Pahang Darul Makmur
Tel : 09-5144936
Fax : 09-5142936

## SABAH REGION

### KOTA KINABALU
Lot 29, 2nd Floor, Block E
Sedco Complex
Jalan Albert Kwok
Kota Kinabalu 88000
Sabah
Tel : 088-224551
Fax : 088-224506

### SANDAKAN
Lot 8, Ground Floor
Block 2, Bandar Indah
Mile 4 North Road
W.D.T. No. 291
Sandakan 90000
Sabah
Tel : 089-274842
Fax : 089-274843

### TAWAU
TB320, Ground Floor
Block 38, Fajar Complex
Jalan St. Patrick
W.D.T. No. 33
Tawau 91009
Sabah
Tel : 089-765054
Fax : 089-764554

## SARAWAK REGION

### KUCHING
Sublot 3, Ground Floor
Block 10, Jalan Laksamana Cheng Ho
Kuching Central Land District
Kuching 93350
Sarawak
Tel : 082-246515
Fax : 082-246713

### MIRI
Lot 1374, Ground Floor
Centrepoint Commercial
Centre (Phase 2)
Block 10, Miri Concession
Land District, Kubu Road
Miri 98000
Sarawak
Tel : 085-410326
Fax : 085-424328

### SIBU
No. 12-H, 1st & 2nd Floor
Jalan Kampung Datu
Sibu 96000
Sarawak
Tel : 084-346515
Fax : 084-326448

# 1

Think and Decide, your Needs or Wants

**Puan Azleena Abdul Kadir**
*Finance Coach, Allianz Industrial Business Department*

**Allianz4Financial Literacy**

As a financial institution, money management is our people's strength. The My Finance Coach programme harnesses this competency to pass on our financial knowledge to young people in Malaysia.

**Delivering in moments of truth**

Allianz

# BOARD OF DIRECTORS

*from left*

ENCIK ZAKRI BIN MOHD KHIR
Y. BHG. DATO' DR. THILLAINATHAN A/L RAMASAMY
MR. FOO SAN KAN
Y. BHG. TAN SRI RAZALI ISMAIL
MR. KARL-HEINZ JUNG
Y. BHG. DATO' SERI NIK ABIDIN BIN NIK OMAR
MR. ONG ENG CHOW
MR. JENS REISCH

# Board of Directors

and their Profiles as at 11 May 2012

Y. BHG. TAN SRI RAZALI ISMAIL
Chairman – Independent Non-Executive Director

**Y. Bhg. Tan Sri Razali Ismail**, aged 73, Malaysian, was appointed to the Board of the Company on 25 September 2001. He is a member of the Audit Committee and Nominating Committee of the Company.

He obtained his Bachelor of Arts (Honours) degree from the University of Malaya in 1962. In 1993, he received an Honorary Doctorate from the National University of Malaysia and in 1998, an Honorary Doctorate in Law from the University Science Malaysia.

Y. Bhg. Tan Sri Razali was in the diplomatic service of the Government of Malaysia for 36 years (1962-1998) serving the last 10 years as Malaysia's Permanent Representative to the United Nations in New York. He was involved in the matrix of issues and activities at the United Nations, articulating positions for Malaysia and influencing development of issues such as security, development, poverty, environment and human rights. He continues to keep abreast on these issues through contacts overseas, meetings and a network of colleagues. He was the United Nations Secretary-General's Special Envoy for Myanmar for more than 5 years (2000-2005).

In Malaysia, he has built a small position on issues relating to environment and is self-styled an environmental entrepreneur. He is an on the ground environmentalist especially over the protection and replanting of mangrove and dealing with environmental degradation due to urbanisation, pushing for recovery efforts such as sanitary landfills and the promotion of renewable energy. He has been the Pro-Chancellor of University Science Malaysia, Penang for 10 years, Chairman of Yayasan Salam and manages Yayasan Chow Kit, a foundation for marginalised and neglected children in the heart of Kuala Lumpur. He was previously the President of the World Wide Fund, Malaysia.

Y. Bhg. Tan Sri Razali's other directorships in public companies are as follows:-

1. Chairman of Allianz General Insurance Company (Malaysia) Berhad;
2. Chairman of Allianz Life Insurance Malaysia Berhad;
3. Chairman of IRIS Corporation Berhad;
4. Chairman of Leader Universal Holdings Berhad; and
5. Chairman of Cypark Resources Berhad.

Y. Bhg. Tan Sri Razali is the uncle of Encik Zakri bin Mohd Khir, the Non-Independent Non-Executive Director of the Company. Save as disclosed above, Y. Bhg. Tan Sri Razali does not have any family relationship with any other director and/or major shareholder of the Company.

Y. Bhg. Tan Sri Razali does not hold any share in the Company and its subsidiaries. He also does not have any conflict of interest with the Company and has had no conviction for offences within the past 10 years other than traffic offences.

He attended all of the 6 Board Meetings held during the financial year ended 31 December 2011.

Y. BHG. DATO' SERI NIK ABIDIN BIN NIK OMAR
Independent Non-Executive Director

**Y. Bhg. Dato' Seri Nik Abidin Bin Nik Omar**, aged 68, Malaysian, was appointed to the Board of the Company on 5 January 2000. He is the Chairman of the Risk Management Committee, Nominating Committee and Remuneration Committee and a member of the Audit Committee of the Company.

He obtained his Bachelor of Arts (Honours) degree from the University of Malaya in 1968.

He was a senior official of the Malaysian Government from 1968 till his retirement in 1999 serving in various capacities. He was the State Financial Officer of the State Government of Penang from 1979 to 1982 and President of the Municipal Council of Seberang Prai from 1982 to 1984. He was the UnderSecretary of Finance Division of the Ministry of Home Affairs from 1984 to 1990 followed by the appointment as the State Secretary of Perlis from 1990 to 1994. He was appointed the Director-General of the National Registration Department of Malaysia from 1994 to 1997. Prior to his retirement with the Government, he was the Deputy Secretary General of the Ministry of Home Affairs.

Y. Bhg. Dato' Seri Nik Abidin's other directorships in public companies are as follows:-

1. Allianz General Insurance Company (Malaysia) Berhad; and
2. Allianz Life Insurance Malaysia Berhad.

Y. Bhg. Dato' Seri Nik Abidin does not hold any share in the Company and its subsidiaries. He also does not have any family relationship with any Director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for offences within the past 10 years other than traffic offences.

He attended all of the 6 Board Meetings held during the financial year ended 31 December 2011.

DATO' DR. THILLAINATHAN A/L RAMASAMY
Independent Non-Executive Director

**Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy**, aged 67, Malaysian, was appointed to the Board of the Company on 24 June 2011. He is the Chairman of the Investment Committee and a member of the Risk Management Committee and Nominating Committee of the Company.

He obtained his Class I Honours in Bachelor of Arts (Economics) Degree from the University of Malaya, Master and PhD in Economics from the London School of Economics. He is a Fellow member of the Institute of Bankers Malaysia.

Y. Bhg. Dato' Dr. Thillainathan has been with the Genting Group since 1989 and held positions as Director of Finance (1989-2002), Chief Operating Officer (2002-2006) and Executive Director (2003-2007) and was subsequently redesignated as an Independent Director in 2009. Prior to his employment with the Genting Group, he was the Chief Executive of Bank Buruh Malaysia Berhad (1984-1989), Joint Managing Director of Bank Pusat Kerjasama (1983-1984), General Manager, Treasury & Investment Services of Arab Malaysian Merchant Bank (1980-1983) and Lecturer & Associate Professor, Faculty of Economics & Administration of University of Malaya (1970-1979). He is currently the Adjunct Professor of University of Malaya.

Y. Bhg. Dato' Dr. Thillainathan has extensive years of experience in finance and banking. He is the past President of Malaysian Economic Association and past Chairman and council member of the Federation of Asean Economic Associations. He has served on the National Economic Panel, the Anti-Recession Task Force, the Task Force on Capital Market Development, the Investment Panel of Employees Provident Fund, the National Economic Consultative Council, the Tax Review Panel of the Ministry of Finance, the Economic Council and Majlis Perundingan Ekonomi Negara Kedua.

Y. Bhg. Dato' Dr. Thillainathan's other directorships in public companies are as follows:-

1. Allianz General Insurance Company (Malaysia) Berhad;
2. Allianz Life Insurance Malaysia Berhad;
3. The Bank of Nova Scotia Berhad;
4. Bursa Malaysia Berhad;
5. Genting Berhad; and
6. Petronas Dagangan Berhad.

Y. Bhg. Dato' Dr. Thillainathan does not hold any share in the Company and its subsidiaries. He also does not have any family relationship with any Director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for offences within the past 10 years other than traffic offences.

He attended all the 3 Board Meetings held after his appointment as Director of the Company during the financial year ended 31 December 2011.

MR. FOO SAN KAN
Independent Non-Executive Director

**Mr. Foo San Kan**, aged 63, Malaysian, was appointed to the Board of the Company on 25 November 2005. He is the Chairman of the Audit Committee and a member of the Risk Management Committee, Remuneration Committee and Nominating Committee of the Company.

He is a Chartered Accountant of the Malaysian Institute of Accountants and a member of the Malaysian Institute of Certified Public Accountants. He is also a Fellow of the Institute of Chartered Accountants in England & Wales and the Chartered Tax Institute of Malaysia.

He was the Country Managing Partner of Ernst & Young Malaysia from 1997 to 2002 before he retired as a practising accountant. He has 34 years of experience in the accounting profession, of which the last 30 years were spent in various positions in Ernst & Young. During the course of his career, he was involved in various industry sectors including financial services, energy, manufacturing, plantations, property, construction, leisure and entertainment and almost all aspects of the accounting profession.

Mr. Foo San Kan's other directorships in public companies are as follows:-

1. Allianz General Insurance Company (Malaysia) Berhad;
2. Allianz Life Insurance Malaysia Berhad;
3. Malaysian Trustees Berhad;
4. mTouche Technology Berhad;
5. OSK Holdings Berhad;
6. OSK Investment Bank Berhad;
7. OSK Trustees Berhad;
8. OSK Property Holdings Berhad;
9. OSK Ventures International Berhad;
10. Symphony House Berhad; and
11. Bina Goodyear Berhad.

Mr. Foo does not hold any share in the Company and its subsidiaries. He also does not have any family relationship with any Director and/or major shareholder of the Company nor any conflict of interest with the Company. He has had no convictions for offences within the past 10 years other than traffic offences.

He attended all of the 6 Board Meetings held during the financial year ended 31 December 2011.

MR. KARL-HEINZ JUNG
Non-Independent Non-Executive Director

**Mr. Karl-Heinz Jung**, aged 51, German, was appointed to the Board of the Company on 24 June 2011. He is a member of the Risk Management Committee, Nominating Committee and Remuneration Committee of the Company.

Mr. Jung obtained his Diploma in Economics of Agriculture from the University of Hohenheim, Stuttgart in 1987. In 2004, he obtained his Executive Master of Business Administration in Financial Services and Insurance from the University of St. Gallen, Vlerick Leuven-Gent Management School and University of Nyenrode.

Mr. Jung has more than 20 years experience in the insurance industry. He joined Allianz Group in 1992 as a reinsurance underwriter and subsequently held various positions in Allianz Group. In January 2009, he was appointed as the Chief Executive Officer of Allianz Insurance Company of Singapore Ltd and subsequently assumed the role of Regional General Manager of the Property and Casualty Division of Allianz SE Insurance Management Asia Pacific in August 2010. Currently, he is the Chief Executive Officer of Allianz SE Reinsurance Branch Asia Pacific.

With more than 19 years in Allianz Group, Mr. Jung has gained wide-range insurance experiences from his diverse assignments, covering the areas of reinsurance, risk management, strategic management and controlling, business development, financial, tax and legal.

Mr. Jung's other directorships in public companies are as follows:-

1. Allianz China General Insurance Company Ltd;
2. Allianz Life Insurance Lanka Ltd; and
3. Allianz Insurance Lanka Ltd.

Mr. Jung does not hold any share in the Company and its subsidiaries and does not have any family relationship with any Director and/or major shareholder of the Company, except by virtue of being a nominee Director of Allianz SE on the Board of the Company. He also does not have any conflict of interest with the Company and has had no convictions for offences within the past 10 years other than traffic offences.

He attended all the 3 Board Meetings held after his appointment as Director of the Company during the financial year ended 31 December 2011.

MR. JENS REISCH
Chief Executive Officer and Non-Independent Executive Director

**Mr. Jens Reisch**, aged 46, German, was appointed as the Chief Executive Officer and to the Board of the Company on 4 August 2010. He is a member of the Investment Committee of the Company.

Mr. Reisch entered into insurance apprenticeship training of the German Chamber of Commerce in 1985 and obtained the trainer's license to conduct apprenticeship training from the German Chamber of Commerce in 1988.

In 1989, he obtained insurance specialist certification from the German Chamber of Commerce and in 2004, he attended the finance course for non-finance managers from the London Business School.

Mr. Reisch joined Allianz Group Life Insurance in Stuttgart as an apprentice in 1983. He joined PT Asuransi Allianz Utama Indonesia, a general insurance company in Indonesia as a special trainee in 1992 and was appointed as the first Sales and Marketing Director of PT Asuransi Allianz Life Indonesia ("Allianz Life Indonesia"), a life insurance company in Indonesia, since its establishment in 1996, until 1999. He was subsequently appointed as the Branch Manager in Landshut Germany until 2003.

Prior to his appointment as Chief Executive Officer ("CEO") of Allianz Malaysia Berhad and Allianz Life Insurance Malaysia Berhad in August 2010, Mr. Reisch was the CEO of Allianz Life Indonesia since 2003 and the Country Head of Allianz in Indonesia since 2007.

With more than 20 years with Allianz Group, Mr. Reisch has wide-ranging insurance experience from diverse assignments starting from operations and training to sales and marketing covering the life insurance and general insurance.

Mr. Reisch other directorships in public companies are as follows:-

1. Allianz General Insurance Company (Malaysia) Berhad; and
2. Allianz Life Insurance Malaysia Berhad.

Mr. Reisch does not hold any share in the Company and its subsidiaries. He also does not have any family relationship with any Director and/or major shareholder of the Company, except by virtue of being a nominee Director of Allianz SE on the Boards of the Company and its subsidiaries. He also does not have any conflict of interest with the Company and has had no convictions for offences within the past 10 years other than traffic offences.

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

ENCIK ZAKRI BIN MOHD KHIR
Non-Independent Non-Executive Director

**Encik Zakri Bin Mohd Khir**, aged 48, Malaysian, was appointed to the Board of the Company on 26 April 2010. He is a member of the Investment Committee of the Company.

Encik Zakri obtained his Certificate of Insurance from the Institut Teknologi Mara in 1986. He has over 23 years of experience in the insurance industry.

He joined the Company in 2000 as the Head of Industrial Business and subsequently appointed as the Head of Technical Division in 2004. He was the Head of Operations Division of Allianz General Insurance Company (Malaysia) Berhad before he assumed his current position as the Chief Executive Officer of Allianz General Insurance Company (Malaysia) Berhad in December 2010. Prior to his employment with the Group, he was the General Manager of The American Malaysian Insurance (M) Berhad.

Encik Zakri is currently a Director of Bright Mission Berhad, a wholly-owned subsidiary of the Company.

Save as disclosed below, Encik Zakri does not have any family relationship with any other director and/or major shareholder of the Company:-

1. Encik Zakri is the nephew of Y. Bhg. Tan Sri Razali Ismail, the Chairman of the Company.
2. Encik Zakri is a nominee Director of Allianz SE on the Boards of the Company and its subsidiary.

Save for holding of 100 ordinary shares of RM1.00 each and 200 irredeemable convertible preference shares of RM1.00 each in the Company, Encik Zakri does not have any interest in the shares of the Company and its subsidiaries. He also does not have any conflict of interest with the Company and has had no conviction for offences within the past 10 years other than traffic offences.

He attended 5 out of 6 Board Meetings held during the financial year ended 31 December 2011.

MR. ONG ENG CHOW
Chief Financial Officer and Non-Independent Executive Director

**Mr. Ong Eng Chow**, aged 47, Malaysian, was appointed to the Board of the Company on 26 June 2009. He is a member of the Investment Committee of the Company.

Mr. Ong obtained his Bachelor of Commerce degree in 1988 from the University of Canterbury, New Zealand. He is also a Chartered Accountant of the Malaysian Institute of Accountants and the New Zealand Institute of Chartered Accountants.

He has more than 22 years of experience in the financial service industry, of which 17 years were in the insurance industry. He joined Allianz Life Insurance Malaysia Berhad on 1 June 1999 as Financial Controller and was redesignated as Chief Financial Officer ("CFO") in 2005. He also assumed the position as CFO of the Company in 2008. Currently, he is the CFO of the Company and Allianz Life Insurance Malaysia Berhad. Prior to his employment with the Group, he was the Financial Controller of EON CMG Life Berhad.

Save for holding of 100 ordinary shares of RM1.00 each and 100 irredeemable convertible preference shares of RM1.00 each in the Company, Mr. Ong does not have any other interest in the shares of Company and its subsidiaries. He does not have any family relationship with any Director and/or major shareholder of the Company except by virtue of being a nominee Director of Allianz SE on the Board of the Company. He also does not have any conflict of interest with the Company and has had no conviction for offences within the past 10 years other than traffic offences.

Mr. Ong attended all of the 6 Board Meetings held during the financial year ended 31 December 2011.

# Chairman's Statement

On behalf of the Board of Directors, it is my pleasure to present the Annual Report and Financial Statements of Allianz Malaysia Berhad ("Company") and its subsidiaries (collectively referred to as "Group") for the financial year ended 31 December 2011.

## Dear Shareholders,

### OVERVIEW

2011 was a year marked with volatility on both the global economic and capital market fronts. This was caused by a confluence of factors, ranging from the worsening Euro Debt crisis and the downgrade of the sovereign debts of the United States to the black swan events such as the Arab Spring and Japan earthquake tsunami.

Despite the less favourable external environment, the Malaysian economy continued to grow steadily underpinned by the expansion in domestic activity and firm regional demand. The Malaysian economy recorded a steady pace of growth of 5.1% in 2011 (2010: 7.2%). *(Source: Bank Negara Malaysia Annual Report 2011)*

The finance sector continued to sustain healthy capitalisation levels and profitability, although the insurance and takaful industry was more challenged by the volatile market conditions. *(Source: Bank Negara Malaysia Financial Stability and Payment Systems Report 2011)*

The insurance and takaful sectors experienced lower profitability due to lower investment returns as a result of the volatile market conditions, and higher claims and benefits paid. *(Source: Bank Negara Malaysia Financial Stability and Payment Systems Report 2011)*

Despite the highly challenging market conditions, we are glad to report that the Group continued to deliver another year of profitable growth in 2011. The Group simultaneously delivered growth in premium income, profits and earnings per share:

- Operating revenue grew by 9.7 percent to RM2.75 billion
- Profit before tax increased by 7.0 percent to RM204.9 million
- Net income increased by 2.1 percent to RM131.9 million
- Earnings per share increased to 85.5 sen

The strong financial results are attributed to the Group's pragmatic business practices based on the sound business model of our parent company, Allianz SE which is built on the foundations of sustainability, risk diversification and long term focus on profitable growth.

The Group maintained its strategy to pursue sustainable growth by leveraging on its diversified distribution network, service capabilities and building on customer focus initiatives.

### FINANCIAL PERFORMANCE

The Group delivered a record operating revenue of RM2.75 billion, representing an increase of 9.7 percent or RM242.8 million from RM2.51 billion recorded in 2010. Despite increasing competition and continuous pressure on margin, profit rose by 7.0 percent or RM13.3 million to RM204.9 million from RM191.6 million recorded in the previous year.

Both the life and general insurance businesses continued to see good sales momentum in 2011. The Group's consolidated gross written premium ("GWP") of its general and life insurance operations increased by 10.8 percent from RM2.35 billion in 2010 to RM2.61 billion in 2011. Net written premium increased by 13.3 percent from RM1.89 billion in 2010 to RM2.14 billion in 2011.

Total assets grew by 15.9 percent from RM6.85 billion in 2010 to RM7.93 billion in 2011. The Group's balance sheet position continued to strengthen mainly through internally generated surplus. Shareholders' equity increased by 10.6 percent from RM1.26 billion in the previous year to RM1.39 billion in 2011.

Basic earnings per ordinary share also recorded an increase of 1.9 percent from 84.0 sen in 2010 to 85.5 sen in 2011.

### REVIEW OF OPERATIONS

#### General Insurance Operations

For the financial year under review, the Group's general insurance subsidiary, Allianz General Insurance Company (Malaysia) Berhad ("AGIC") achieved a remarkable performance by recording double digit growth for the fifth consecutive year since 2007 to achieve a GWP of RM1.46 billion.

AGIC reaffirms its position as one of the leading general insurers in the industry with a market share of 10.4 percent in GWP *(Source: Statistical Bulletin Market Performance Report January – December 2011)*. AGIC's sustainable strong GWP growth was mainly attributed to a successful multi-distribution strategy and strong sales distribution capabilities. The Agency and Brokers channels contributed 72.3 percent of AGIC's overall GWP with an 11.2 percent growth compared to the previous year. The Franchise and Bancassurance channels on the other hand recorded a growth of 8.6 percent, accounting for 27.7 percent of the GWP.

The GWP of the general insurance operations grew by 10.5 percent from RM1.32 billion in 2010 to RM1.46 billion in 2011 and management expenses ratio reduced from 18.4 percent in 2010 to 17.0 percent in 2011 although management expenses had recorded an increase of 6.5 percent or RM10.4 million compared to RM160.2 million recorded In the previous year. The general insurance operations contained its claims ratio at 62.8 percent and delivered an underwriting profit of RM103.4 million in 2011 with a combined ratio of 89.7 percent despite the share of losses of RM10.0 million incurred by the Malaysian Motor Insurance Pool in the last quarter of 2011. AGIC sustained its profitable growth through portfolio and product management by maintaining a diversified and balanced portfolio mix, coupled with the implementation of prudent underwriting guidelines and various measures to increase its operational efficiency.

Motor business remains the biggest portfolio accounting for 52.2 percent of AGIC's GWP whilst non-motor segment contributed 47.8 percent. As the second largest portfolio in non-motor segment, property contributed 18.8 percent to the total GWP while the Health & Personal Accident, Marine, Liability and others contributed to the remaining 29 percent. Motor business recorded a growth of 18.5 percent while Personal Accident & Health business grew by 33.8 percent in 2011, reaffirming AGIC's strategy to achieve the retail leadership in the market.

### Life Insurance Operations

The Group's life insurance subsidiary, Allianz Life Insurance Malaysia Berhad ("ALIM") also recorded a double digit growth for the fifth consecutive year since 2007 to achieve a GWP of RM1.14 billion in 2011.

ALIM remains one of the fastest growing life insurance companies in the market. The GWP grew by 11.1 percent to RM1.14 billion in 2011. This development was driven by significant growth in Agency channel which accounted for 83.8 percent of the overall GWP and registered a robust growth of 14.5 percent to RM957.8 million from last year.

During the year under review, the Employee Benefit channel registered a growth of 22.0 percent and contributed 9.1 percent to overall GWP. The Bancassurance and Alternative Distribution channels contributed to the remaining 7.1 percent of the overall GWP.

ALIM has successfully increased the investment-linked portfolio from 37.1 percent in 2010 to 43.4 percent in 2011 through the introduction of innovative riders attached to investment-linked products. GWP from investment-linked business increased by 21.2 percent to RM274.2 million.

Approximately two third of ALIM's GWP growth was driven by the traditional life business and the remaining one third from investment-linked business.

In terms of annualised new business premium ("ANP"), ALIM's share of the total life market is currently at 6.0 percent. For the last five years from 2007 to 2011, ALIM achieved a double digit ANP growth of 15.2 percent. The investment-linked business recorded an increase of 17.3 percent over last year, reflecting ALIM's strategy to focus on profitable growth with sales of higher margin products.

For the year under review, the surplus transfer from the life fund to the shareholders' fund increased by 20.0 percent from RM15.0 million in 2010 to RM18.0 million in 2011. The higher surplus transfer for the year was attributable to favorable claims experience, lower expense ratio and the continued strengthening of capital base.

The robust growth recorded by both the general and life insurance operations bode well for the future prospects of the Group and further solidifying our commitment to continue expanding our reach as the preferred insurance provider.

### Distribution capabilities

The Group's strong relationship with our distribution partners is key to the successful and extensive network distribution for ALIM and AGIC. Both subsidiaries have proven track records in distribution capabilities that reaches out to all Malaysians, providing excellent products and services. Agency remains the core distribution channel for both ALIM and AGIC. As at 31 December 2011, ALIM's sustainable and successful agency force increased by 13.0 percent to 5,471 agents, while AGIC's 5,050 strong agency force was responsible for driving 53 percent of its business. Our resilient agency strength cements the Group's aspiration to be the insurance retail leader in Malaysia.

ALIM will continue to maintain and enhance its sustainable agency management model to produce highly productive and professional agents. Whilst the core distribution strength is in its agency force, ALIM recognises the need to have well diversified distribution capabilities to reach out and fulfill the needs of different customers. ALIM will continue to grow its Bancassurance and Alternative Distribution channels with unique product offerings and quality services.

AGIC will maintain its successful balanced distribution, namely Agency, Bancassurance, Franchise and Corporate Businesses. In 2012, AGIC will introduce and strengthen its fifth core distribution in Telemarketing.

### Innovative Products

ALIM and AGIC will strive to retain their market positions in the industry by continuously building on the brand's strength, distribution reach and wide product mix. AGIC will continue to underwrite sound businesses and quality products as the leading general insurer in Malaysia, whilst ALIM will leverage on its innovation in protection and savings products with focus on the customers' emerging lifestyle needs and trends.

With the current rising concerns in critical illnesses, ALIM introduced in 2011, riders that provides protection against gender-related specific illnesses as well as a generic rider that covers up to 3 critical illnesses. The range of products helped to address current and future medical and health concerns by providing financial security in times of need.

AGIC frequently reviews its product offering by including new benefits or perils arising from new market developments and demand. In 2011, AGIC revised the Road Warrior and Enhanced Road Warrior and launched new personal lines products including Motorcyclist PA, CIMB Auto Relief and CIMB Travel PA to ensure customers are well protected and are able to select products that best suit their individual needs.

### Service excellence and efficiency

As customers are the key success factor to the business, the Group will continue to accord top priority in developing customer focus initiatives based on customer feedback to enhance customer satisfaction.

Our customers are the focus in everything we do and we take care of their needs in all aspects of our services. We currently serve 2.2 million customers across Malaysia through our branches nationwide providing one stop insurance solutions to Malaysians.

The Company continuously improves our services by enhancing our business processes in order to simplify and speed up our interactions and deliverables with customers and intermediaries, whilst maintaining high service standards.

In 2011, ALIM introduced an electronic application platform for agents to submit customers' application forms straight through for processing. This translates to faster underwriting and processing time. Customers and agents are able to get the status of their application the next day.

AGIC has implemented its electronic application submission tool for policy applications since 2010 which enabled agents to fill up and submit electronic application forms. The electronic submission tool has proven to be very successful with improved efficiency and effectiveness of faster cover note issuance through a significantly simplified process.

ALIM and AGIC will continue to identify areas for improvements through a 'Digitization' initiative where one of the main objectives is to improve service efficiency, effectiveness and quality to both distributors and customers. Key customer touch points such as claims will be looked into to ensure that we deliver our promises to customers effectively in moments of truth.

Coupled with the support and best practice sharing amongst the Allianz companies globally and in the Asia Pacific region, we will be able to leverage on the vast knowledge pool and technical know-how to provide excellent services and innovative products to our customers and intermediaries.

## CAPITAL MANAGEMENT

The Group regularly reviews its business mix with the goals of aligning risk profile with risk tolerance as well as meeting capital management objectives.

Strategic business plan including capital management plan are drawn up annually covering a three year horizon and approved by the Board. The capital management plan ensures adequate level of capital to support development of business strategies and to comply with regulatory requirements at all times.

As at 31 December 2011 ALIM and AGIC had complied with the regulatory capital adequacy requirements.

## DIVIDEND

The Company continuously strives to protect investors' capital and provide attractive returns and dividends whilst striking a balance between dividend payout and capital requirement of its insurance subsidiaries when determining dividend proposal for shareholders' approval.

For the financial year ended 31 December 2011, the Board of Directors is pleased to recommend a first and final dividend of 5.25 sen per ordinary share less 25 percent tax (2010: 3.50 sen less 25 percent tax) and a preference share dividend of 6.30 sen per Irredeemable Convertible Preference Share under single tier system (2010: 4.20 sen).

The payment of the first and final dividend for the ordinary shares is subject to the shareholders' approval at the Annual General Meeting ("AGM") of the Company scheduled to be held on 27 June 2012.

## INTERNAL DEVELOPMENT

### Open Communication

In July 2011 the Group ventured into a new phase of communication through the launch of Allianz Malaysia Facebook. This social media tool not only serves as a new platform of communication but also plays an engagement and branding role. As at 11 May 2012, the page garnered over 5,457 fans.

Also on a technical front, the Group launched its new and integrated staff portal which is accessible to all employees. This was followed by the launching of the Group's enhanced website on 29 February 2012, which has been revamped in order to make relevant information more accessible.

### Corporate Responsibility

An increased commitment to corporate responsibility saw the birth of Allianz4Good in 2011. Allianz4Good is a strategic approach within the Allianz Group which aims to create a corporate culture in which social and environmental challenges are managed as opportunities for ensuring our sustainable success as a company.

Allianz4Good oversees the areas of Corporate Volunteering, Corporate Giving and Sustainability Reporting.

Under Corporate Volunteering, various activities were undertaken by the Group under the four corporate social responsibility pillars of Safety, Financial Literacy, Community and Environment.

In terms of Corporate Giving, the Group integrated and streamlined donation making processes and procedures to achieve a higher level of strategic orientation and transparency.

In addition, a Sustainability Report is incorporated as part of this Annual Report to provide additional information on the sustainable development of the Group.

## REGULATORY FRAMEWORK

The recent changes in regulations saw Bank Negara Malaysia giving greater focus on consumer protection and transparency in the sales process. The Treating Customers Fairly concept was first introduced in 2010 as part of the Guidelines on Introduction of New Products. Through the concerted efforts undertaken by the Life Insurance Association of Malaysia ("LIAM") and its member companies in 2011, the Treating Customers Fairly Framework ("TCF Framework") for the industry was drawn up and finally came into effect on 1 January 2012.

Customer Focus is one of the Group's core values. In light of the TCF Framework and requirements, ALIM commenced the exercise of conducting welcome calls on 5% of all policies in February 2012.

In line with the Bank Negara Malaysia's revised Guidelines on Fit and Proper for Key Responsible Persons, the Group has established a Fit and Proper Policy and Procedures ("Policy") to ensure that all key responsible persons are fit and proper to direct and manage the Group's key business activities and functions. This Policy will be periodically reviewed to ensure its relevance and alignment with material changes in the business and risk profile and strategies of the Group.

## OUTLOOK AND PROSPECTS

The global economic recovery is expected to slow down in 2012 largely due to the ongoing sovereign debt issues in the advanced economies.

Amid the more challenging external environment, Malaysia's economy is projected to experience a steady pace of growth of 4 to 5 percent in 2012. *(Source: Bank Negara Malaysia Annual Report 2011)*

Domestic demand is expected to remain resilient and will continue to be the anchor for growth. Private investment will be supported by domestic-oriented industries and the ongoing implementation of projects under the Economic Transformation Programme. *(Source: Bank Negara Malaysia Annual Report 2011)*

In the insurance segment, growth is expected to emanate from the general insurance business, following favourable motor vehicle sales and the implementation of the new motor cover framework which will enhance efficiency in the motor insurance and takaful sector. *(Source: Bank Negara Malaysia Annual Report 2011)*

The Financial Sector Blueprint, a comprehensive strategic plan that charts the future direction of the Malaysian financial system in the next 10 years, was completed and published by Bank Negara Malaysia in December 2011. The Blueprint aims to position the financial sector to assume an enhanced role in supporting Malaysia's transformation towards becoming a high value-added, high-income country. *(Source: Bank Negara Malaysia Financial Stability and Payment Systems Report 2011)*

## COMPANY OUTLOOK

The Group expects the business strategy and profit contributions to remain consistent. The general insurance operations will continue to contribute the majority of Group's earnings in the medium term. In terms of life insurance operations, the Group anticipates a continued steady surplus transfer from the life fund to the shareholders' fund.

### General Insurance Operations

AGIC is expected to sustain its growth momentum by embarking on a strategised business growth plan with sustainable profitability to enable it to maintain the dividend stream, achieve scalability and competitive advantage in the coming de-tariff environment. Motor will remain the major portfolio contributor. AGIC will continue monitoring its motor growth profitability via a comprehensive portfolio management and to expand to other non-motor products by leveraging on its motor customers base.

AGIC will also focus on its strength in quality services and multidistribution channel capabilities by establishing renewal management initiatives in supporting the various distribution channels and automating the renewal process for its retail customers.

Agency remains as the largest distribution channel of the general insurance operations. AGIC continues to invest in business development and marketing personnel to support the profitable growth in agency force by identifying and retaining agents through service differentiation and implementation of the Agency's key performance indicators monitoring system.

AGIC will continue with its strategy and strength in service and distribution and will strive to maintain its market leadership and to remain as the trusted and preferred insurer of Malaysian.

### Life Insurance Operations

The current low interest rates environment that would probably continue to prevail throughout 2012 is a concern for ALIM and will pose challenges for the life insurance operations to maintain similar levels of investment returns to meet customer expectations.

ALIM expects to sustain the momentum in premium growth and will continue to innovate its products to adapt to the evolving business environment and changing needs of customers.

As the growth is expected to be substantially generated from its Agency channel, ALIM will continue to accelerate the increase of its agency force while at the same time remain focused on developing its Bancassurance and Alternative Distribution channels. It will continue investing in its distribution infrastructure to better equip the distribution force to gain stronger foothold as well as to expand into new market segments.

At the product level, ALIM will continue to offer a broad range of life and health insurance as well as investment-linked products to cater for the various needs of its customers in all stages of their life. ALIM will continue with its strategy of focusing on growing the regular premium and protection business enabling it to deliver growth and long term sustainable profitability.

In 2012, the Group aims to continue improving the quality of customer services as a strategy to enhance customer relationship and to strengthen its position as the significant customer leader. The Group will also continue to invest in key operational areas and IT system capabilities to support future growth.

The Group is cautiously optimistic that it will maintain its profitable growth in 2012 and create long term sustainable value to its shareholders.

## DIRECTORATE

On behalf of the Board of Directors, I would like to record our utmost appreciation to Mr. Craig Anthony Ellis who had resigned as a Director of the Company on 24 June 2011, for his significant contributions to the Group.

The Board is pleased to welcome Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy and Mr. Karl-Heinz Jung, who were appointed to the Board on 24 June 2011.

We wish to inform that Mr. Karl-Heinz Jung who retires at the forthcoming Annual General Meeting has expressed his intention not to seek re-election at the forthcoming Annual General Meeting as he has been assigned to take up a new role within the Allianz Group. Mr. Karl-Heinz Jung will therefore retire at the conclusion of the 38th Annual General Meeting. On behalf of the Board, I warmly thank Mr. Karl-Heinz Jung for his significant contributions to the Group and wish him all the best in his new role.

## ACKNOWLEDGEMENT

Together with the Board, we sincerely thank the Senior Management team and all employees of the Group for their dedication and commitment throughout 2011.

We would also like to record our sincere appreciation to our valued shareholders, customers, agents, brokers, re-insurers, business partners, associates and bankers for their continuous support and confidence in the Group.

We would also extend our sincere gratitude and thanks to Bank Negara Malaysia, Bursa Malaysia Securities Berhad and all other relevant regulatory bodies and authorities for their invaluable advice, guidance and support.

**Y. BHG. TAN SRI RAZALI ISMAIL**
*Chairman*
11 May 2012

# Sustainability Report

# Contents



**Cover image**
On 17 March 2012, we kicked off Allianz' 10th Anniversary in Malaysia. The morning began with a work-out session to warm up for the day. Employees set up stalls where they sold food and other items to raise funds to support five charitable organisations.

**About this report**
This report covers the operations of Allianz Malaysia Berhad and its subsidiaries ("Allianz"). It gives a broad overview of our sustainability performance in 2011.

All contents are accurate as at 30 April 2012.

allianz4good@allianz.com.my

# Strategy and Management

## Dear Stakeholders,

## Welcome to our first Sustainability Report. The release of this report coincides with our 10th Anniversary, which we have started to celebrate on 17 March 2012 and will continue celebrating with events throughout the year in our regional offices and branches all over the country.

**KEY FIGURE**

**94%**

**of our employees are proud to say: I work for Allianz**

Some people may say that the mere fact that Allianz is in the country for 10 years is proof of its sustainable development as a company. Yet this does not give the whole picture. A proven business model alone is no guarantee for growth. Instead, sustainable development at Allianz means combining long-term economic value creation with a holistic approach to environmental stewardship, social responsibility and corporate governance. But how does Allianz score in these dimensions?

Creating transparency by reporting on Allianz' non-financial performance is the aim of this Sustainability Report. It is part of our commitment to be a reliable partner for customers, agents, business partners, employees and the general public. To sustain this trust, Allianz set up a dedicated corporate responsibility ("CR") department called Allianz4Good in 2011.

Rather than integrating CR in one of the existing company functions, it was decided to create a new department with a direct reporting line to the CEO. This underscores our conviction that CR is a topic that concerns the whole company and not only a few professionals. In fact, Allianz4Good is more than a name. It is a strategic approach to integrate sustainability into our corporate culture.

As this Sustainability Report shows, we have started to raise awareness for economic, environmental, social and governance topics in many engaging ways. Internally, our employees, agents and business partners are participating eagerly in our volunteering programmes and their feedback is mainly positive. Externally, Allianz is reaching out to the communities we work and live in, to engage in long-lasting partnerships. Keeping this high momentum and engagement throughout the years will be crucial for our future activities. Alongside, our reporting efforts will be enhanced to satisfy increasing demand for transparency from all our stakeholders. Their interest and feedback is highly welcome.

Transforming a corporate culture is a long-term goal. Global issues such as Access to Finance, Climate Change or Demographic Change may sometimes seem distant from a local perspective but will become increasingly important to Allianz' business in Malaysia over time. Together with Allianz Group companies around the world we will do our best to manage these issues responsibly and as opportunities to ensure our sustainable and profitable growth in all our lines of business.

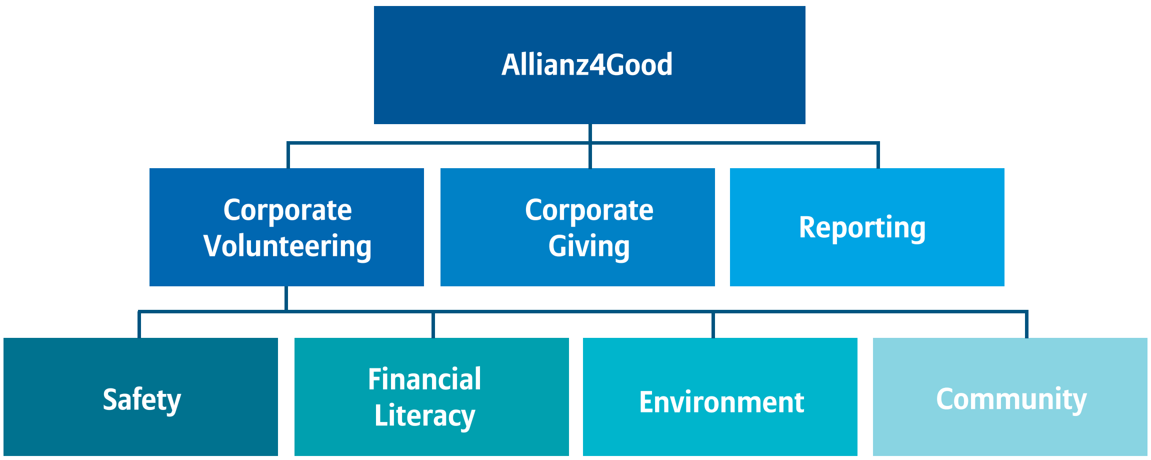
**Jens Reisch**
*Chief Executive Officer*

### Allianz4Good Setup

Allianz4Good is our new CR brand which outlines and positions Allianz' engagement as a responsible corporate citizen. This engagement encompasses our corporate volunteering activities, our philanthropic support via corporate giving and our commitment to transparency and accountability through responsible reporting.

Allianz4Good identified four pillars where we want to advance social, economic and environmental well-being and raise awareness: Safety, Financial Literacy, Environment and Community. To facilitate this agenda, Allianz focuses strongly on employee engagement via Corporate Volunteering activities. Since 2011, our employees have the chance to volunteer as Road Safety Ambassadors under our 3-year cooperation with the Road Safety Department of Malaysia, followed by the roll-out of the My Finance Coach programme in 2012.

In addition, CR liaison persons have been selected in all Allianz branches to coordinate these initiatives on-site as well as drive local projects and align them with the Allianz4Good approach.



# Economic

**Our sustainable and profitable growth is based on our commitment to be the most reliable financial services provider. This commitment encompasses the thorough care of our customers as well as continuous engagement for financial inclusion.**

**KEY FIGURES**

**92%**
**of our employees would recommend Allianz' products to a friend or colleague**

**1,203**
**customers surveyed for feedback**

### Customer Focus

A strong customer focus is at the heart of the overall Allianz strategy. We recognise that to position ourselves as the most reliable partner, customer feedback is vital for us to monitor customer satisfaction and to ensure ongoing improvement in our products to meet customer expectations, reduce the number of complaints and cancellation rates. Satisfied customers are more likely to renew their policies and refer friends and family members to us.

In 2010, the Market Management department was formed to ensure that Allianz is continuously improving its customer and market orientation in a sustainable way.

We are embarking on Customer Focus initiatives to assess and improve products and services. The Net Promoter Score ("NPS"), a regular measurement of a customer's willingness to recommend Allianz, has been established within the Allianz SE Group ("Allianz Group") as the key metrics to measure customer loyalty. NPS is applied on two segments: Top-Down and Bottom-Up.

Top-Down NPS is measured on an annual basis and benchmarks Allianz against relevant local peers while Bottom-Up NPS is used to measure customer satisfaction at various touch-points, such as claims management and sales processes. Bottom-Up NPS enables us to gain valuable insight into the experience of our customers and to better understand their expectations.

The Allianz Arena, our flagship customer service centre, located near our head office in KL Sentral.

### Service Transformation

At Allianz, we integrate Customer Focus behaviour in the DNA of our employees by embarking on service transformation initiatives. These include:

- Customer focused training for all levels of staff in 2012. A series of post training evaluation and follow-up via mystery calls will be carried out to assess the effectiveness of the training.
- Mystery shopping will be conducted by our Senior Management team to experience the level of customer service provided by employees at sales and services touch points, with the aim of improving the quality of information and advice provided to customers.
- Service calls are made to our customers and agents to assess their level of satisfaction with our products and services and to gather feedback to drive organisational change.

- In line with the requirements of the Treating Customers Fairly Framework of the Life Insurance Association of Malaysia, welcome calls are made to new life insurance policy holders, to confirm their understanding on the policy benefits and satisfaction of the services received.

- The Customer Service Charter setting out the standard of our service delivery and the response timeline is published on our website.

- A well defined and documented complaint management process is in place to ensure all complaints are monitored, managed, escalated and reported within the stipulated turnaround time. Complaints and resolutions are further presented to Senior Management to drive service improvement.

Allianz customers are now able to communicate directly with us via the Allianz Facebook page.

The Retirement Calculator was launched to help Malaysians with their financial planning and is available at www.allianz.com.my.

### Digitization

Allianz is constantly reviewing its customer service infrastructure to offer a high standard of service delivery and to reflect consumer trends and behaviours.

With the increasing trend of internet-based and mobile-based services, customers expect information and services to be made available at any point in time. In order to provide adequate and fast response, we have embarked on various digitization projects that focus on increasing our service quality and modernising our communication channels. This includes the implementation of more automated processes or web-based applications at different customer touch-points; e-submissions and e-claims, for example.

In 2011, we launched the local Allianz Facebook page which acts as a new social media platform to communicate with our customers and stakeholders in a more engaging and interactive manner. Our corporate website has also been revamped in order to make relevant information more accessible.

To ensure the viability of our future digitization activities, we are proactively engaging our customers to ensure that their personal contact details are updated.

KEY FIGURES

**170,000**
**new entry-level customers**

**100,000**
**households under 1AZAM insurance scheme**

## Access to Finance

Allianz Group identified Access to Finance as a key global issue for its sustainable development. From a local context, this could be achieved via developing products and providing services that are both affordable and beneficial for people at the lower end of the income pyramid.

Accordingly, 2011 saw the launch of the Allianz Motorcyclist Personal Accident cover which has been a great success, especially in rural areas of Malaysia where insurance penetration is still low but the accident rate is high. Via our wide-reaching distribution channels, insurance protection is made possible at a lower cost to an underserved and hitherto unprotected target group.

Allianz was able to grow its total customer base to 2.2 million by 31 December 2011.


In 2011 alone, 176,756 customers purchased the Motorcycle Personal Accident policy, ensuring that they receive affordable insurance cover whenever they are on the road.


**Building a strong financial community**

The insurance industry in Malaysia is expanding at a fast pace, with consistent market growth over the past years. However, millions remain either uninsured or underinsured.

With a comprehensive range of Life and General insurance solutions, Allianz aims to make insurance accessible and inclusive for all Malaysians at every stage of life.

Find out more:
www.allianz.com.my

## Financial Literacy

Having a solid grasp of financial knowledge enables people to make sound financial decisions and reduce risks. At Allianz, we believe in knowledge sharing and since financial expertise is our core competency, we leverage on this to roll out our financial literacy initiatives.

We regard educating underserved communities on their financial options and teaching young people basic financial management skills as part of our corporate responsibility.

### 1AZAM Financial Literacy

A Memorandum of Understanding was signed between the National Welfare Foundation and Allianz on 14 March 2011. Through the Memorandum of Understanding, Allianz covered 100,000 low income households registered under the e-Kasih database for one year, paying out claims in the case of natural or accidental death or permanent disability of up to 6 members per household. Spearheaded by the Ministry of Women, Family and Community Development, the scheme benefited more than 500,000 low income people with 1,048 claims processed as at 30 April 2012.

Realising that this was a unique opportunity to engage with an underserved community, Allianz not only served as the insurance provider but also developed a multimedia presentation that was shown to beneficiaries of the policy to share basic money management advice.

This multimedia presentation is currently in use by Bank Negara Malaysia to share with the audience under its LINK Programme.

### My Finance Coach

My Finance Coach is a financial literacy programme which aims to improve financial understanding among young people (11-18 years). Familiarizing this age group with financial issues will help them to make sound financial decisions now and in future. While established in Germany, the programme is new in Malaysia. It relies on the strength of employee volunteers trained as Finance Coaches who teach students and young people from schools and non-profit organisations.

The My Finance Coach syllabus is developed by the non-profit My Finance Coach Foundation based in Germany with the guidance of a leading schoolbook publisher and the advice of a board consisting of economics and education experts. Moreover, the German UNESCO Committee has declared My Finance Coach to be an official project of the UN Decade of Education for Sustainable Development.

In the 4 months since launching the programme in Malaysia, we have trained 37 employee volunteers as Finance Coaches and reached 70 students.


Pak Ali and Mak Minah are the friendly characters in the 3-minute long animation who advise viewers to "Plan and use your money wisely".

Our employees' children were invited to participate in the pilot class of My Finance Coach in Malaysia. Members of the Senior Management such as our CEO Jens Reisch (pictured), actively engage in the programme as Finance Coaches too.

# Environment

**Climate change is a serious risk faced by the insurance industry, with disaster-related claims increasing in recent years. Allianz Group contributes to a low-carbon economy by developing relevant products and services, financing investments and reducing its carbon footprint.**

**KEY FIGURES**

**-40%**
**$CO_2$ emissions per employee since 2006**

**-49%**
**less energy consumed**

**-44%**
**reduction in paper use**

The Climate Change Strategy of Allianz Group deals with the impact of climate change on both customers and its own business.

Locally, we support this strategy, avoiding or reducing emissions and substituting resources with lower-carbon alternatives. Guidelines have been set in place to encourage a more sustainable attitude to the environment; for example, the Global Print Policy aims to reduce paper consumption; the Global Travel Regulation aims to avoid unnecessary business travel and promotes the use of lower-carbon alternatives and the Global IT Sourcing and Procurement Policy advocates the purchase of energy-efficient IT hardware.

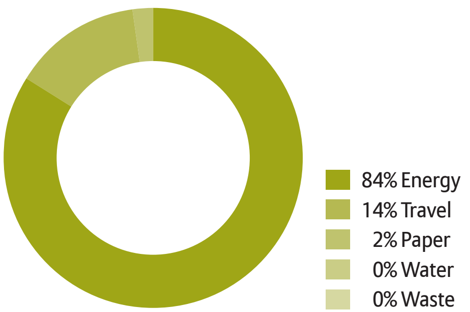
### Local Carbon Reduction Strategy

Allianz is escalating its national efforts to "go green". In 2011, we have embarked on the following initiatives:

- Reduction of paper consumption through the digitization of processes. For example, only soft copies of meeting papers are disseminated to our Board and Senior Management team for their reference during meetings. In addition, we have increased the use of email and web-based correspondence with our customers, agents and other stakeholders.

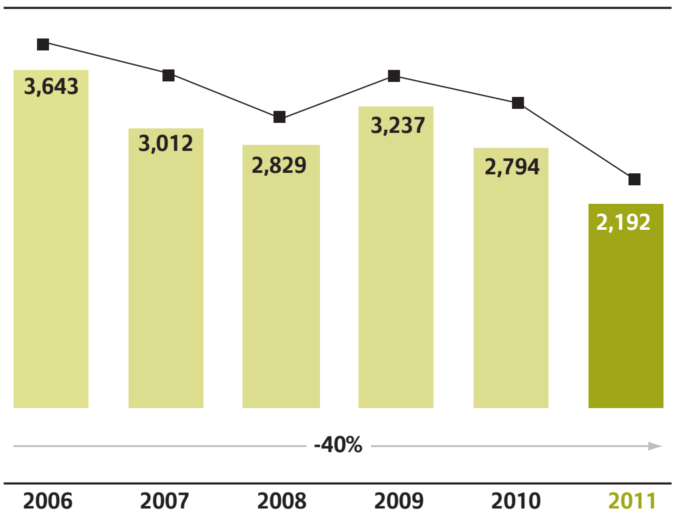
- Using "climate-friendly" alternatives for necessary business activities, for example, energy-efficient refitting at our branches which includes switching to energy-saving light-bulbs and eco-friendly air-conditioning systems.

### Allocation of $CO_2$ emissions in 2011




The allocations of our $CO_2$ emissions in 2011 show that energy consumption and business travel are the main levers for reducing Allianz carbon footprint further.

**Relative $CO_2$ emissions (kg per employee) 2006-2011**




## New Allianz Group Target

In 2008, Allianz Group set the target of reducing its carbon footprint by 20% of 2006 levels by 2012. This target was achieved two years ahead of schedule. In response to this, Allianz Group set itself a new carbon reduction target to be achieved by 2015: a further 10% reduction on its remaining 2010 footprint, which translates into an overall target of approximately 35% reduction compared to its 2006 base year. Additionally, Allianz Group will compensate for all remaining emissions stemming from our local business operations through direct investments in carbon projects and will be carbon neutral from 2012.

In Malaysia, since 2006, we have monitored and reported our energy, paper and water consumption as well as our business travel via the Group-wide Environmental Management System ("EMS"), a system introduced by Allianz Group to ensure transparency in environmental performance and support systematic environmental data collection and control. This helps us to track our carbon emission levels and in 2011, we have recorded our 5th year of carbon reduction with a 40% reduction in carbon emissions per employee as compared to 2006 levels.

### Low Carbon Economy

Renewable energy projects have represented an important part of the global Allianz Group investment strategy since 2005.

In 2011, Allianz Group's total direct investments in renewables topped the € 1.3 billion mark, and the portfolio now includes some 38 wind and solar parks in Germany, France and Italy.

Find out more:
www.allianz.com/responsibility

# Social

## Our People

**Our sustainable success as a company depends on the commitment and skills of our staff. Talent attraction and retention as well as continuous learning and development play a crucial role when it comes to growing together as a company.**

**KEY FIGURES**

**92%**
**of our employees are satisfied with the actions Allianz is taking to be socially responsible**

**92%**
**of our employees attended at least one training session**

**64%**
**share of women in overall workforce**

### Allianz Engagement Survey

A key talent retention factor is strong employee engagement. Through the annual Allianz Engagement Survey, employees are encouraged to provide open and honest feedback on factors that affect their level of engagement with the company. These factors include various dimensions such as leadership behaviour, employer attractiveness, performance and compensation and customer focus.

A local participation rate of 99% in the 2011 Allianz Engagement Survey shows that our employees are increasingly interested in providing feedback to the management on its managerial quality and areas for improvement. To make sure that voices get heard and issues are taken seriously, all Heads of Department and Branch Managers are required to develop action plans to address the findings of the survey. Overall, 82% of our employees responded favourably to the leadership culture at Allianz.

### Career Development

The introduction of the Career Development Manual ("CDM") in 2011 reaffirmed our commitment to building a culture of high performance. The CDM provides our employees with a better understanding of the expectations and requirements for each job and function at Allianz. It is designed to show career growth opportunities within the same or across different job families as well as the technical and behavioural competencies required for career development at each stage. The aim of the CDM is to establish a more transparent and structured process for managing career development.

In 2011, 72 employees successfully graduated from the Business Development Managers training programme.

### Training

Allianz aims to equip employees with the relevant knowledge, skills and competencies required for their roles through structured training and personal development programs. These include a combination of classroom training, on-the-job attachments and project assignments. In addition, for employees who decide to pursue further education or seek professional accreditation, reimbursement on the examination fees will be provided upon their successful graduation. In 2011, 92% of our employees attended at least one training session.

### Talent Management

To support a holistic approach towards talent development and management, Allianz has deployed various HR tools which enable us to identify talent and provide the relevant development actions; for example, the standardising of a global definition of potential and common understanding of high performance.

In addition, the talent management framework supports a systematic approach of succession planning for key positions.

## A great place to work

At Allianz, it is our responsibility to provide a healthy and safe work environment for our employees. In 2011, we embarked on various initiatives with the aim of promoting employees' health and well being.

We successfully created a running community in Allianz last year which aims to promote a healthy lifestyle amongst our employees. In 2011, over 750 of our employees and agents participated in the Allianz Penang Bridge International Marathon and the Standard Chartered KL Marathon. As an additional incentive for our employees and agents, all entrance fees for the said marathons were borne by Allianz.

The Safety and Health Committee was set up in head office and at branches to ensure employee safety at the workplace. Since 2010, the Allianz Medical Card was introduced, offering free health screens at panel clinics and hospitals to our employees as well as Inpatient and Outpatient coverage to our employees and their dependants in need of medical treatment.

To further strengthen the work-life balance of our employees, we introduced a new Flexi-Hour work arrangement in 2011. The initiative aims to provide flexibility to our employees in managing rush hour traffic as well as their personal or family needs.

Allianz does not tolerate discrimination or harassment in the workplace based on criteria such as age, disability, ethnic origin, gender, race, political attitude or workers' representative activities, religion or sexual orientation.

Furthermore, we offer equal opportunities for both men and women. Over half of our workforce is female, with 14.8% of management positions being filled with women. A lower staff turnover rate (8%) as compared to previous years (12% in 2010 and 13% in 2009), indicates that we are increasingly successful in offering a good workplace environment and also in retaining our skilled staff.

The Allianz Penang Bridge International Marathon 2011 saw the participation of 27,500 runners from all over the world; among them, 763 Allianz employees and agents.


Allianz employees undergoing free health tests provided by Columbia Asia Hospital Setapak at our 10th Anniversary celebration for Klang Valley.

# Allianz as a responsible Corporate Citizen

## We take our responsibility to society seriously and strive to engage with the communities that we live and work in. Our support entails financial contributions, transfer of knowledge and sharing of expertise.

**KEY FIGURES**

**248**
**Road Safety Ambassadors trained**

**19**
**Road Safety Campaigns held nationwide**

**930**
**Motorcycle helmets distributed**

### CORPORATE VOLUNTEERING

The engagement of our employees, agents and business partners in social projects is a key component of our corporate responsibility. Corporate volunteering provides an opportunity for us to give back to society and at the same time help to create awareness for societal issues among our employees. Thus, they are strongly encouraged to participate in social projects embarked by Allianz.

Staff members are encouraged to become Road Safety Ambassadors to practise safe driving behaviour and advocate this at our nationwide campaigns.


#### Road Safety

Safety is at the heart of our business as an insurance company. Being one of the top motor insurers in the local market, we believe it is important for us to educate the public on road safety and play a role in creating safety awareness.

Allianz signed a 3-year Memorandum of Understanding with the Road Safety Department of Malaysia ("JKJR") in 2011 to jointly advocate road safety among Malaysians. We support JKJR's Zero Fatality Vision to reduce the national road accident fatality rate, which currently stands at 3.21 people per 10,000 registered vehicles.

As part of this cooperation, Allianz employees are trained as Road Safety Ambassadors by JKJR, a total of 248 so far. In the training, they are taught about the most common causes of road accidents and are given advice on safe driving behaviour and how can they play a role by reporting bad road conditions as well as how to respond to road accidents. They are expected to lead by example and be safe on the road as well as contribute actively to our Road Safety Advocacy Campaigns.

Road Safety Advocacy Campaigns are held jointly by JKJR and Allianz throughout the country with a focus on motorcyclists, who record the highest road fatality rate. At these campaigns, our volunteers and relevant road safety authorities engage with passing motorists by advising them on proper road safety behaviour.


Specially designed reflective stickers are stuck on to motorcycles as research has shown that these stickers can increase the night visibility of motorcyclists up to a distance of 300 metres. Additionally, buckle-up reminder stickers are given out to stress the importance of using securely fastened helmets. Unsafe helmets that are too old or do not conform to safety standards are exchanged with new ones for free during the course of the advocacy campaign.

By the end of April 2012, over 30,000 reflective stickers and 930 helmets were distributed at 19 Road Safety Advocacy Campaigns across Malaysia.

In 2012, to promote child safety while travelling in a vehicle, child safety booster seats were distributed to our employees and to the public during Road Safety Advocacy Campaigns. The seat will boost the child's sitting height so that the safety belt does not restrain the neck of the child. The booster seat will thus help secure a child while travelling in a vehicle seat equipped with a 3-point seat belt.

The child safety booster seats were distributed to the public for the first time at our Road Safety Advocacy Campaign in Klang.

## Social OPEX

Social OPEX is an Allianz Group leadership development and employee volunteering program which combines Allianz Group's internal quality approach – namely OPEX (OPerational EXcellence) – with employee engagement in the social sector. It aims to share our know-how and business skills with socially committed organisations.

In 2011, Allianz carried out a Social OPEX project in Persatuan Mobiliti Selangor & Kuala Lumpur ("MOBILITI"). Under the said project, the Allianz Social OPEX team worked together with MOBILITI to identify their specific organisational and operational challenges and provide practical solutions to address challenges identified.

In 2012, the first Social OPEX training solely for participants from Allianz companies in Asia will be held in Malaysia, going one step further in expanding the programme and introducing Social OPEX to social entrepreneurs in the region.

The Social OPEX team worked together with MOBILITI to formalise their fund management processes.

## KEY FIGURES

**RM428,739**
**donated in Disaster Response**

**RM243,987**
**raised at 10th Anniversary celebrations**

## CORPORATE GIVING

Corporate Giving plays an important part in community development and our role in civil society. We are guided by Allianz Group's Global Donation Guideline and Principles of Social Engagement when considering Corporate Giving activities to ensure that such activities are carried out in a transparent manner and are able to generate long term sustainable value to the society and our stakeholders.

### Integrity Check for Non-Profits and Donation Guideline

In 2011, we streamlined our corporate giving processes to strengthen our profile as a responsible Corporate Citizen.

Similar to the Vendor Integrity Screening (*refer* 'Governance'), the Allianz4Good Department applies an "Integrity Check for Non-Profit/Non-Governmental Organisations" to all potential partners from the social sector. The overall aim is to ensure that Allianz' social commitments are on par with the high ethical and legal standards of our business dealings.

### Disaster Response

A disaster is an unforeseen and often sudden event that causes great damage, destruction and human suffering. As an insurance company we are not only well aware of the economic implications of such events but also the social repercussions arising from them.

In 2011, Allianz responded to two major disasters by initiating donation drives among our directors, staff, agents and business partners, to raise funds for the survivors of the tsunami catastrophe in Japan and the floods in neighbouring Thailand. We then either matched or topped up the funds collected. A total of RM428,739 was channelled via the Malaysian Red Crescent Society, Allianz Group's global partner in disaster response, to fund relief and reconstruction efforts.



### An exemplary partnership – MOBILITI

MOBILITI is a charitable organisation that was set up to provide door-to-door transport for wheelchair users within the Klang Valley and has been sponsored by Allianz since 2006. In 2011, Allianz increased the sponsorship from 3 vans to 4 vans and continues to sponsor MOBILITI in 2012.

More than 1,000 passengers are registered with MOBILITI. In 2011, MOBILITI helped Malaysians make about 4,000 trips to visit family and friends, hospitals and clinics or shopping centres around the Klang Valley. Currently there are 4 vans on the road and demand from the community remains high.

MOBILITI is also one of the charitable organisations benefiting from our 10th Anniversary Fundraiser.


Selangor Cheshire Home provides residential care for residents of all races and religious backgrounds who are permanently disabled and without means or resources. It also provides rehabilitation and training, and advocates for the integration of its residents into the community.

The Community Service Centre for the Deaf was set up to address the need for education amongst Deaf/Hard of Hearing children and youths as a means of gaining self-sufficiency. As part of their Teenage Entrepreneur Development programme, they established the Silent Teddies Bakery.

### 10th Anniversary Fundraiser

In 2012, we celebrate a big milestone in our modest history – Allianz' 10th anniversary in Malaysia.

To commemorate our decade in Malaysia, a series of charity fund raising events are organised nationwide throughout 2012. The spirit of the event is that as Allianz has been in Malaysia for 10 years, we would like to give back to the society that we are living and working in. At the same time, we formally introduced Allianz4Good, our new CR brand, which strongly encourages employee engagement in corporate responsibility activities.

As at 30 April 2012, a total of RM243,987 was collected via a series of fund raising events, organised by the head office and various branches located at Central Region, Northern Region, East Coast Region, and Southern Region. The funds raised have been channelled to charitable organisations, some of which are featured on this page.

Similar events will subsequently be held in other branches of Allianz throughout 2012.

The Malaysian Association for the Blind was set up to help visually impaired persons gain independence through vocational training, rehabilitation services and public awareness. For example, MAB trains their members in foot reflexology, thus enabling them to generate their own income.

Yayasan Chow Kit aims to protect the rights of all at-risk children and youth and provide them opportunities to reach their full potential. As part of Allianz' support, the children are invited to participate in the My Finance Coach programme.

# Governance

## We believe that corporate governance is essential for sustainable business performance. Various corporate governance practices have been implemented in Allianz to ensure that our business is conducted in a transparent manner with full accountability and integrity.

**KEY FIGURES**

**1,594**
**employees who completed Compliance and Anti-Corruption training**

**25**
**suppliers actively screened for Integrity**

**3**
**years Memorandum of Understanding with JKJR**

We comply with all the prescriptive requirements of, and adopt management practices that are consistent with the best practices prescribed under, the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia as well as the Malaysian Code on Corporate Governance.

For detailed information in relation to our compliance with the above requirements, please refer to the Statement on Corporate Governance on page 75 to 88.

### Internal Control System

We recognise the importance of sound internal controls in safeguarding our assets and shareholders' investments. We have accordingly established various internal controls in the areas of risk management, finance, operations and compliance.

For further information in relation to our internal control system, please refer to our Statement on Internal Controls on page 89.

### Business Ethics

Integrity is one of our core values and we are committed to practising the highest ethical standards in the conduct of our business.

Our employees are required to adhere to Allianz Group's Code of Conduct for Business Ethics and Compliance which sets the standards for business conduct covering the topics, inter alia, non-discrimination and harassment, dealing with confidential information, insider trading, external communication, conflicts of interest, anti-corruption and bribery, gifts and entertainment and protection of our property and natural resources.


The new Anti-Fraud Policy provides a joint governance structure and a holistic view on both internal and external (claims and underwriting) fraud.

In addition, a Code of Ethics for Senior Financial Professionals is also made compulsory for our Senior Management and certain departments, primarily in the area of finance. It governs ethical and proper conduct in both the private and professional spheres, particularly relating to the handling of conflicts of interest and corporate disclosure.

Employees of our insurance subsidiaries are also required to adhere to the respective Codes of Ethics issued by the Life Insurance Association of Malaysia and the General Insurance Association of Malaysia.

But ethical practices are not just applicable to our employees; we also made it compulsory for our agents to comply with the Sales Policy and Sales Agent Code of Conduct to ensure fair dealing with our customers.

In March 2012, we established Fit and Proper Policy and Procedures to ensure that all key responsible persons are fit and proper to direct and manage our key business activities and functions. This policy will be periodically reviewed to ensure its relevance and alignment with material changes in our business and risk profile and strategies.

## Compliance Management System

The compliance management system forms part of our internal control system to ensure compliance with local and internationally recognised laws, rules and regulations to promote a culture of integrity and safeguard our reputation.

As part of the compliance management system, we participated in Allianz Group's Anti-Corruption Program which aims to further enhance internal anti-corruption controls. The following initiatives are implemented locally:

- The introduction of the Anti-Corruption Policy. This policy outlines the 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;
- The introduction of the Vendor Integrity Screening process which aims to ensure a proper integrity due diligence before any vendor is engaged. The screening contains a self-assessment section for the potential vendor and a risk evaluation to be completed by the Allianz staff. If the screening does not reveal any negative or adverse findings on the vendor, a contract may be concluded with the said vendor which includes amongst others, an anti-corruption clause;
- The introduction of a Gifts and Entertainment Policy which sets out the minimum standards for gift/entertainment handling to and from clients or business partners. It aims to avoid any issue of conflict of interest or threat to our professional independence; and
- Roll out of an on-line anti-corruption training for all staff.

In addition, the revised Anti-Fraud Policy was introduced in March 2012 to ensure a holistic view on internal and external fraud and to leverage further synergies between the functions of Underwriting, Compliance and Claims. It sets out the minimum standard for all employees, divisions, subsidiaries, branches and departments of Allianz, relating to fraud prevention, detection and response.

## Whistleblowing

Our compliance management system provides an avenue for whistleblowing. The whistleblowing system was implemented to enable our employees to confidentially alert the Compliance Department about any irregularities. Having such a system in place promotes transparency and accountability throughout Allianz.

Our road safety partnership with JKJR was formalised with the signing of a 3-year Memorandum of Understanding on 18 July 2011.

## Public Partnerships

At Allianz, we are working closely with all our stakeholders as we believe that ongoing dialogue is a key element to good corporate governance. We constantly seek consultation, input from and collaboration with the industry bodies and regulatory authorities as well as members of the media, academia and local communities.

In 2011, Allianz collaborated with the National Welfare Foundation, the Ministry of Women, Family and Community Development, and partnered with JKJR.

The 1AZAM programme was introduced by the Ministry of Women, Family and Community Development to increase the income generation capabilities of the poor through financial assistance and the provision of facilities for starting a business, skills training and motivational courses. Under the 1AZAM insurance scheme, 500,000 low-income people received insurance coverage for natural and accidental death. Allianz also took the opportunity to engage with this underserved community through a financial literacy programme (*refer* 'Economic').

As part of our road safety initiatives, we have signed a 3-year Memorandum of Understanding with JKJR. Under this partnership, Allianz and JKJR have jointly carried out Road Safety Advocacy Campaigns nationwide. Furthermore, this partnership allows for knowledge sharing and dialogues which help us to develop more effective road safety strategies (*refer* 'Social').

# 1

From this small sapling grows a forest. Let's plant trees for our future

**Encik Wan Nafizul**
*Nature Guide, Forest Research Institute Malaysia*

**Allianz4Environment**

Since 2006, Allianz has committed to reducing its carbon emissions and employs an Environmental Management System to track this. Internal policies have been adopted to help us achieve a consistent reduction every year.

**Delivering in moments of truth**

# Audit Committee Report

## COMPOSITION OF AUDIT COMMITTEE ("AC")

| Composition of AC | Status of Directorship |
|---|---|
| Foo San Kan (Chairman) | Independent Non–Executive Director |
| Tan Sri Razali Ismail (Member) | Independent Non–Executive Director |
| Dato' Seri Nik Abidin Bin Nik Omar (Member) | Independent Non–Executive Director |

## TERMS OF REFERENCE

### 1. Composition

1.1 The AC should consist of a minimum of 3 members appointed from the Board of Allianz Malaysia Berhad ("Company") and shall act as the AC for the Company and its subsidiaries (collectively referred to as "Group").

1.2 The members of the AC should be appointed by the Board, after taking into consideration the recommendations of the Nominating Committee. In determining the appropriate size and composition of the AC, the Board should in particular, take into consideration the necessary mix of skills and experience required for the AC to effectively discharge its responsibilities. The term of office and performance of the AC and each of its members must be reviewed by the Board at least once every 3 years to determine whether the AC and members have carried out their duties in accordance with the terms of reference.

1.3 If for any reason the number of AC members at any point in time is reduced to below 3, notification should be provided to Bank Negara Malaysia ("BNM") within 2 weeks. The notification should be addressed to Pengarah, Jabatan Penyeliaan Insurans dan Takaful ("JP3"). The Board should fill the vacancy/vacancies within 3 months.

1.4 Notification should also be provided to JP3 where any director ceases to be a member of the AC within 2 weeks of the cessation. Such notifications should include reasons for the cessation.

### 2. Independence of AC Members

2.1 No AC member should be employed in an executive position in the Company or its related corporations (as defined under section 6 of the Companies Act, 1965), or otherwise have a relationship which in the opinion of the Board will interfere with the exercise of independent judgement in carrying out the functions of the AC. In addition, members of the AC should not be directly responsible for, or part of any committee involved in, the management functions of the Group.

2.2 As best practice, all AC members should be independent. Where this cannot be achieved, the majority of the AC members, including the Chairman, should be independent.

2.3 An independent director shall comply with the criteria for independent director as prescribed by BNM and Bursa Malaysia Securities Berhad ("Bursa Securities").

### 3. Qualification, Experience, Knowledge and Skills

3.1 Candidates for the AC should have sound judgement, objectivity, an independent attitude, management experience and adequate knowledge of the industry. They should be committed to the task and demonstrate a keen perception of the internal control environment within the Group and an ability to make probing inquiries.

3.2 Collectively, the AC should have a wide range of necessary skills to undertake its duties and responsibilities. Ideally, all AC members should be able to understand the financial reporting process and be financially literate. At least one member of the AC:-

(a) must be a member of the Malaysian Institute of Accountants; or

(b) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years' working experience and:-
  (i) he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act 1967; or
  (ii) he must be a member of one of the associations of accountants specified in Part II of the First Schedule of the Accountants Act 1967; or

(c) fulfils any of the following requirements or the requirements as prescribed by Bursa Securities including any amendment that may be made from time to time by Bursa Securities:-
  (i) a degree/master/doctorate in accounting or finance and at least 3 years' post qualification experience in accounting or finance; or
  (ii) a member of any professional accountancy organisation which has been admitted as a full member of the International Federation of Accountants and at least 3 years' post qualification experience in accounting or finance; or
  (iii) at least 7 years' experience being a chief financial officer of a corporation or having the function of being primarily responsible for the management of the financial affairs of a corporation.

3.3 No alternate Director shall be appointed as a member of the AC.

3.4 In addition, in view of the important role of the AC in ensuring that there are adequate checks and balances within the operations of the Group, all AC members, either individually or collectively, are also expected to be familiar with areas included in the scope of internal insurance audits, including risk management, underwriting, investment and claims management.

**4. Authority**

4.1 The AC should have the authority to investigate any matter within its terms of reference and should have unlimited access to all information and documents relevant to its activities, to the internal and external auditors, and to employees and agents of the Group.

4.2 The AC should be kept regularly updated on audit matters and be notified immediately of any fraud and significant irregularities or internal control deficiencies discovered by Management or the internal audit function. Fraud and irregularities discovered by Management should be referred to the Anti-Fraud Committee or internal audit function, where applicable, for investigation.

4.3 The AC should have access to copies of audit reports (including interim financial audits) on a timely basis and should be kept regularly informed of corrective actions arising from internal and external audit findings.

4.4 The AC should have adequate resources to perform its duties and discharge its responsibilities and should be authorised to obtain independent professional advice as considered necessary.

4.5 The AC should have direct communication channels with the external auditors and person(s) carrying out the internal audit function and activity.

4.6 The AC must be able to convene meeting with the external auditors, the internal auditors or both, excluding the attendance of other directors and the employees of the Group, whenever deemed necessary.

4.7 The Chairman of the AC should engage on a continuous basis with senior management, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

**5. Meetings**

5.1 The AC should hold regular meetings in order to effectively fulfil its duties.

5.2 In addition, the Chairman of the AC should call a meeting of the AC if requested to do so by any AC member, the Management or the internal or external auditors.

5.3 The quorum of AC meetings should be at least two thirds of the members with independent directors forming the majority.

5.4 While the AC may invite any person to be in attendance to assist it in its deliberations (e.g. relevant officers concerned in the management of the Group, the external auditor and the internal auditor), the AC should ensure that it meets exclusively when necessary.

5.5 The company secretary should act as secretary of the AC and should be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to AC members within a reasonable timeframe prior to each meeting.

5.6 The company secretary should also be responsible for keeping the minutes of meetings of the AC, their timely circulation to AC members and other members of the Board, and following up on outstanding matters in relation to the meetings.

5.7 The Chairman of the AC should report to the Board on the deliberations of the AC on a regular basis. In addition, the Chairman should also present a summary of all significant matters (highlighting the risks and implications) and resolutions made by the AC at Board meetings.

**6. Duties and responsibilities**

The AC's duties and responsibilities in relation to the internal audit and external audit functions should include the following:-

**6.1 Internal Audit**

6.1.1 Governance

6.1.1.1 The AC should:-

(a) ensure that the internal audit function is distinct and has the appropriate status and the necessary authority within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives;

(b) ensure the effectiveness of the internal audit function;

(c) ensure the effective organisation of the internal audit function, with due regard to the professionalism, capacity and competence of the internal audit personnel;

(d) review and approve the audit plan and budget required under Part B of BNM/RH/GL 013-4: Guidelines on Internal Audit Function of Licensed Institutions ("Guidelines on Internal Audit Function");

(e) review the audit charter prior to the same being presented to the Board for approval;

(f) ensure that reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, internal audit reports should not be subject to the clearance of the chief executive officer or any executive director;

(g) ensure that the internal audit function is independent of the activities it audits and that the internal audit function reports directly to the AC; and

(h) establish an appropriate mechanism to address and managing situations where there is a threat to the objectivity of the internal audit function.

6.1.1.2 The AC should also review the scope of internal audit procedures, in particular:-

(a) any restrictions placed on access by the internal auditors to any of the Group's records, assets, personnel or processes which are relevant to the conduct of audits;

(b) appropriateness of the risk assessment methodology employed pursuant to Part B of the Guidelines on Internal Audit Function to determine the frequency and scope of audits, having regard to the nature, size and complexity of the Group's operations;

(c) compliance with internal auditing standards; and

(d) coordination between internal and external auditors.

6.1.1.3 AC members should ensure that they are adequately informed of, and understand, the risks and implications of internal audit findings and recommendations. The AC should pay particular attention to internal audit assessments of:-

- compliance with the Group's policies, relevant laws and regulatory requirements;
- effectiveness of internal controls in critical areas of operations (e.g. accounting, underwriting, claims, investment, derivatives and information technology management); and
- Management's responsiveness to, and corrective actions taken in respect of, internal audit findings and recommendations.

6.1.1.4 The AC should ensure that all findings and recommendations are resolved effectively and in a timely manner.

6.1.1.5 The AC should note any significant disagreements between the internal auditor and Management irrespective of whether they have been resolved in order to identify any impact that this may have on the audit process or findings.

6.1.2 Resources and staffing

6.1.2.1 The AC should ensure on an on-going basis that the internal audit function has adequate and competent resources, given the size and complexity of the Group's operations. In this respect, the AC should:-

(a) Approve the appointment, remuneration, performance evaluation, transfer, dismissal and redeployment of the Chief Internal Auditor and senior officers of the internal audit function;

(b) Be informed of any resignation of the internal audit staff and reasons therefore, and provide resigning staff with an opportunity to submit reasons for their resignations; and

(c) Ensure that the compensation scheme of the internal audit function is consistent with the objectives and demands of the internal audit function.

6.1.2.2 The AC should ensure that internal audit staff receives necessary training to perform audit work. In this respect, there should be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

**6.2 External Auditor**

6.2.1 Appointment of external auditor

6.2.1.1 The AC is responsible for the appointment of the external auditor, having particular regard to the external auditor's objectivity, performance and independence.

6.2.1.2 The AC should:-

(a) review and assess various relationships between the external auditor and the Group or any other entity that may impair or appear to impair the external auditors' judgement or independence in respect of the Group. This may include affiliations resulting from the Group's employment of former employees of the external auditor in senior positions within the Group;

(b) review and assess fees paid to the external auditor, considering:-

- the economic importance of the Group (in terms of total fees paid) to the external auditor;
- fees paid for non-audit services as a proportion of total fees;
- whether an effective, comprehensive and complete audit could be reasonably conducted for the audit fees paid.

The fees paid should not impair or appear to impair the external auditor's judgement or independence in respect to the Group;

(c) investigate reasons for any request made by Management to dismiss the external auditor, or any resignation by the external auditor. The results of the investigation should be disclosed to the full Board together with the AC's recommendations on proposed actions to be taken. The decisions of the Board in relation to the recommendations made by the AC should be documented in the Board minutes, with a copy of the relevant minutes extended to JP3 within 2 weeks of the Board's decision;

(d) Review and report to the Board, any letter of resignation from the external auditors of the Group;

(e) Review and report to the Board, whether there is reason (supported by grounds) to believe that the external auditor of the Group is not suitable for re-appointment; and

(f) Recommend the nomination of a person or persons as external auditors.

6.2.2 Provision of non-audit services by the external auditor

6.2.2.1 Any provision of non-audit services by the Group's external auditor should be approved by the AC before the commencement of the service, or whenever there is a significant change in the level of services provided.

6.2.2.2 In considering the provision of non-audit services by the external auditor, the AC should have regard to restrictions on outsourcing to external auditors set out in BNM/RH/GL/003-4: Guidelines on Outsourcing for Insurers.

6.2.2.3 The AC's decisions with respect to the provision of non-audit services should be documented in a statement which outlines whether or not it believes the level of provision of non-audit services by the external auditor is compatible with maintaining auditor independence (together with supporting reasons).

6.2.3 Audit plan, findings and recommendations

6.2.3.1 The AC should review with the external auditors, the:-

(a) audit plan prior to the commencement of the annual audit;

(b) financial statements (before the audited financial statements are presented to the Board), including:-

- whether the auditor's report contained any qualifications which must be properly discussed and acted upon to remove the cause of the auditors' concerns;
- significant changes and adjustment in the presentation of financial statements;
- major changes in accounting policies and principles;
- alternative accounting treatments discussed with Management and the ramifications of the alternatives;
- compliance with relevant laws and accounting standards;
- material fluctuations in the statements;
- significant variations in audit scope;
- significant commitments or contingent liabilities; and
- the validity of going concern assumptions.

(c) audit reports, including obligatory reports to the BNM on matters covered under Section 82 of the Insurance Act 1996 ("Act");

(d) external auditor's evaluation of the Group's system of internal controls;

(e) any significant disagreements between the external auditor and Management irrespective of whether they have been resolved; and

(f) any other findings, issues or reservations faced by the external auditor arising from interim and financial audits.

6.2.3.2 The AC should review and monitor Management's responsiveness to, and actions taken on, external audit findings and recommendations. In this regard, the AC should ensure that all findings and recommendations are resolved effectively and in a timely manner.

6.2.3.3 In order to allow external auditors to express concerns, problems and reservations arising from financial audits effectively, the AC should meet at least twice a year with the external auditor without the presence of Management.

### 6.3 Other responsibilities

6.3.1 The AC should also:-

(a) review:-

- the Chairman's statement and preliminary announcements;
- interim financial reports including quarterly results and year-end financial statements, focusing particularly on:-
  - (i) changes in or implementation of major accounting policy changes;
  - (ii) significant and unusual events; and
  - (iii) compliance with accounting standards and other legal requirements;
- the corporate governance disclosure made pursuant to the requirements of BNM and Bursa Securities and be satisfied that any departure from such requirements and the circumstances justifying such departure are sufficiently explained;
- all representation letters signed by Management, and be satisfied that the information provided is complete and appropriate;

(b) review internal control issues identified by auditors and regulatory authorities on Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") and evaluate the adequacy and effectiveness of the internal controls for the Group's AML/CFT measures. At the minimum, the AC should:-

- ensure the roles and responsibilities of the internal auditor on AML/CFT are clearly defined and documented;
- ensure that independent audits are conducted to check and test the effectiveness of the policies, procedures and controls for AML/CFT measures;
- ensure the effectiveness of the internal audit function in assessing and evaluating the AML/CFT controls;
- ensure the AML/CFT measures are in compliance with the Anti-Money Laundering and Anti-Terrorism Financing Act 2001, its regulations and the relevant guidelines on AML/CFT; and
- assess whether current AML/CFT measures which have been put in place are in line with the latest developments and changes of the relevant AML/CFT requirements.

(c) submit a written report on the audit findings on AML/CFT to the Board on a regular basis. The report should be used to highlight inadequacies of any AML/CFT measures and control systems within the Group;

(d) review audit findings from internal and external auditors on risk management related issues, Management responses and ensure actions are taken based on the recommendations;

(e) review findings and reports from the Whistleblowing Committee and Anti-Fraud Committee;

(f) review any related-party transactions and conflicts of interest situations that may arise within the Group including any transaction, procedure or conduct that raises questions of management integrity;

(g) ensure that the insurance subsidiaries comply with Section 95 of the Act which requires an insurer to publish its accounts within 14 days of the laying of its accounts at its annual general meeting;

(h) ensure that the accounts of the Company and its subsidiaries are prepared in a timely and accurate manner for regulatory, management and general reporting purposes, with regular reviews carried out on the adequacy of provisions made;

(i) ensure that supervisory issues raised by the BNM are resolved in a timely manner; and

(j) ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established, if external experts are appointed to perform audit of specialised areas.

6.3.2 The AC shall also be responsible for any other functions as may be determined by the Board and reflected in its terms of reference.

**7. Reporting to the BNM/Bursa Securities**

7.1 The AC shall submit to the BNM, a summary of material concerns/weaknesses in the internal control environment of the respective companies within the Group noted during the year and the corresponding measures taken to address these weaknesses. This should be submitted together with the annual report on the AC and its activities which is submitted to the BNM pursuant to principle 18 of BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers.

7.2 Where the AC is of the view that a matter reported by it to the Board had not been satisfactorily resolved resulting in a breach of the Main Market Listing Requirements of Bursa Securities, the AC must promptly report such matter to the Bursa Securities.

## AC MEETINGS

The AC meets at least 5 times a year to coincide with the review of the quarterly and annual financial statements prior to its presentation to the Board for approval. Special AC Meeting may be convened as and when required.

There were 5 AC Meetings held during the financial year ended 31 December 2011. The detailed attendance of the AC members during the financial year ended 31 December 2011 are as follows:-

| Name of AC Members | Number of AC Meetings | | Percentage of Attendance |
|---|---|---|---|
| | Held | Attended | |
| Foo San Kan | 5 | 5 | 100 |
| Tan Sri Razali Ismail | 5 | 5 | 100 |
| Dato' Seri Nik Abidin Bin Nik Omar | 5 | 5 | 100 |

## SUMMARY OF ACTIVITIES

During the financial year ended 31 December 2011, the following activities were carried out by the AC:-

1. Reviewed the unaudited consolidated quarterly reports of the Group and the respective unaudited quarterly reports of the subsidiaries for the financial quarters ended 31 December 2010, 31 March 2011, 30 June 2011 and 30 September 2011 and recommended the respective unaudited consolidated quarterly reports of the Group for the Board's approval.

2. Reviewed and recommended for the approvals of the Boards of the insurance subsidiaries, the unaudited interim financial statements of the insurance subsidiaries for the half-year period ended 30 June 2011.

3. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries/Company, the audited financial statements and Directors' Reports of the subsidiaries/Company for the financial year ended 31 December 2010.

4. Reviewed and recommended for the approval of the Board of the life insurance subsidiary, the audited financial statements and the performance report to fund holders for investment-linked funds for the financial year ended 31 December 2010.

5. Reviewed and recommended for the Board's approval, the announcements in relation to outstanding related party receivables prepared pursuant to the directives issued by Bursa Securities to the Company on 18 May 2010.

6. Discussed the BNM's letters dated 28 January 2011 to the AC Chairman in respect of the review of business practices in the appointment of panel firms of the insurance subsidiaries and reviewed the audit findings and the corrective measures as recommended by the Internal Auditors in respect thereto.

7. Discussed the BNM's letters dated 25 July 2011 to the AC Chairman in respect of the review of business practices in the appointment of panel firms of the insurance subsidiaries and reviewed the status of the progress of the proposed remedial actions ("Progress Report") and authorised the Chief Internal Auditor to submit the Progress Report and compliance template in respect thereto to BNM.

8. Reviewed the letter dated 1 July 2011 issued by BNM to the life insurance subsidiary in respect of the mis-selling of Life/Family Takaful Products, existing mitigation actions and recommended additional mitigation actions ("Mitigation Actions") and recommended the Mitigation Actions for the approval of the Board of the life insurance subsidiary.

9. Reviewed the letter dated 29 March 2011 and 30 March 2011 issued by BNM to the general insurance subsidiary and life insurance subsidiary respectively in respect of the 2010 supervisory review by BNM on the insurance subsidiaries and recommended the respective Management's responses in respect thereto for the approvals of the respective Boards of the insurance subsidiaries.

10. Reviewed the updates on the follow up actions in respect of the 2010 supervisory review by BNM on the insurance subsidiaries and recommended the same for the respective Boards' approval.

11. Reviewed and recommended for the approvals of the Boards of the subsidiaries/Company, the revised audit fees for the financial year ended 31 December 2010.

12 Reviewed and recommended for the approvals of the Boards of the subsidiaries/Company, the audit fees for the financial year ended 31 December 2011.

13. Prepared and submitted to BNM, the annual AC Reports in respect of the internal control environment of the insurance subsidiaries for the financial year ended 31 December 2010.

14. Reviewed the annual audit results of the Group and the Management Letter issued by the external auditors in respect of the annual audit of the insurance subsidiaries for the financial year ended 31 December 2010 and recommended for the approvals of the Boards concerned, the Management's responses in respect thereto.

15. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries/Company, the respective management representation letters to the external auditors in respect of the annual audits for the financial year ended 31 December 2010.

16. Reviewed the audit plan of the external auditors for the Group for the financial year ended 31 December 2011.

17. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries/Company, the re-appointment of the external auditors for the financial year ended 31 December 2011 and the re-appointment of the external auditors to review the Statement on Internal Control of the Group for the financial year ended 31 December 2011.

18. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries/Company, the engagement letters for KPMG's re-appointment as external auditors for the financial year ended 31 December 2011 and the engagement letter for KPMG to review the Statement on Internal Control of the Group for the financial year ended 31 December 2011.

19. Held two private discussions with the external auditors.

20. Reviewed and recommended for the approvals of the Boards of the insurance subsidiaries, the Audited Reporting Forms and Actuarial Report in relation to Risk-Based Capital Framework for the financial year ended 31 December 2010.

21. Reviewed the Statement on Internal Control for the financial year ended 31 December 2010 and the report from the external auditors in respect thereto and recommended the Statement on Internal Control for the Board's approval.

22. Reviewed and recommended for the approval of the Board, the Chairman's Statement, AC Report and the Statement on Corporate Governance for inclusion in the 2011 Annual Report of the Company.

23. Reviewed the various Internal Audit Reports of the Company/insurance subsidiaries.

24. Discussed the progress reports on various outstanding internal audit findings of the Company/insurance subsidiaries.

25. Reviewed the progress reports of the Internal Audit Plan 2011 and approved the respective 5-year (2012-2016) Internal Audit Plans for the Company/insurance subsidiaries.

26. Evaluated the performance of the Chief Internal Auditor.

27. Reviewed the resources, staffing and succession planning of the Internal Audit Department.

28. Held two private discussions with the Chief Internal Auditor.

29. Discussed the findings and recommendations by the Anti-Fraud Committee on the reported fraud cases and new fraud cases discovered by the insurance subsidiaries and reviewed the mitigating measures undertaken by the Management of the insurance subsidiaries.

30. Reviewed the activities updates of the Whistleblowing Committees of the subsidiaries/Company.

31. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries, the new related party transactions to be entered into by the subsidiaries.

32. Reviewed and recommended for the approvals of the respective Boards of the subsidiaries/Company, the new/existing recurrent related party transactions to be included in the 2011 Shareholders' Mandate for recurrent related party transactions and amendments made to the agreement in respect of the recurrent related party transaction.

33. Reviewed the review procedures for recurrent related party transactions.

34. Reviewed the compliance status report of the life insurance subsidiary on Guidelines issued by Life Insurance Association of Malaysia.

35. Noted the updates on Inland Revenue Board's treatment in relation to the utilisation of unabsorbed losses of shareholders' Fund for the life insurance subsidiary.

36. Noted the revised Guidelines on Financial Reporting for Insurers issued by BNM.

## INTERNAL AUDIT FUNCTION

The primary objective of the Internal Audit Department is to assist the Management, AC and the Boards of the Group in the effective discharge of their responsibilities. This is done through the independent assessment and appraisal of the internal controls and the evaluation of the effectiveness of risk management system and corporate governance process of the Group to ensure that organisational controls or management controls in the form of policies and standard operating procedures are adequate and effective, in line with the Group's goals. It includes promoting and recommending cost effective controls for safeguarding of assets of the Group and minimising the opportunities for error and fraud.

During the financial year ended 31 December 2011, the Internal Audit Department carried out its duties in accordance with its Audit Charter. All internal audit reports which had incorporated the Management's responses and action plans were tabled for discussion at the AC Meetings.

The Internal Audit Department also established a follow-up audit review to monitor and ensure that audit recommendations have been effectively implemented. The progress reports on remedial measures taken by the Management of the respective companies on audit observations are tabled at the AC Meetings for the AC's review.

The total cost incurred for the internal audit function of the Group for the financial year 2011 amounted to RM2.0 million.

# Statement on Corporate Governance

The Board of Directors is committed to ensuring that the highest standards of corporate governance are practised throughout Allianz Malaysia Berhad ("Company") and its subsidiaries (collectively referred to as "Group") as a fundamental obligation of discharging their duties and responsibilities to protect the interests of the Group's shareholders and all other stakeholders.

The Group has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the best practices prescribed under, the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities"), the Prudential Framework of Corporate Governance for Insurers issued by Bank Negara Malaysia ("BNM") as well as the Malaysian Code on Corporate Governance ("Code").

The Board is pleased to set out below the manner by which the Group has applied the principles of good governance and the extent to which it has complied with the best practices described above:-

## 1. BOARD OF DIRECTORS

### 1.1 The Board

The Board has the overall responsibilities for reviewing and adopting strategic plans for the Group, overseeing the conduct of business of the Group, implementing an appropriate system of risk management and ensuring the adequacy and the integrity of the Group's internal control systems.

### 1.2 Board Balance

The Board comprises 6 Non-Executive Directors and 2 Executive Directors. There are 4 Independent Non-Executive Directors on the Board.

Membership of the Board is drawn from various fields with a balance of skills and experiences appropriate to the business of the Company.

The Board is chaired by an Independent Non-Executive Director who does not represent the interest of the controlling shareholder. The Chairman and the Non-Executive Directors do not engage in the day-to-day management of the Company and there is no duplication of roles between the Chairman and the Chief Executive Officer of the Company.

The Independent Directors complied with the requirements of Independent Director as prescribed by BNM and Bursa Securities. By virtue of their roles and responsibilities as prescribed by BNM and Bursa Securities, they are in effect, representing the interest of the minority shareholders of the Company. The Independent Directors play a significant role in bringing impartiality and scrutiny to Board deliberations and decision-making, so that no single party can dominate such decision-making in the Company. The Board has determined the maximum tenure of services for Independent Director in the Group.

The Nominating Committee has conducted an annual review of the composition of the Board for year 2011 and opined that the Board is made up of Directors from diverse backgrounds and qualifications with experiences from different fields and skills appropriate for the business of the Company.

All Directors have complied with the requirements on restriction of directorships imposed by Bursa Securities and BNM. All Directors also fulfilled the criteria of "a fit and proper person" for their appointment as Directors as prescribed under the Insurance Act 1996, the Insurance Regulations 1996 and the BNM Guidelines on Fit and Proper for Key Responsible Persons. In addition, the Group implemented the Fit and Proper Policy and Procedure for Key Responsible Persons to assess the fitness and propriety of the Directors.

The profiles of the Board of Directors are set out on pages 22 to 37 of this Annual Report.

### 1.3 Board Meetings and Supply of Information

Board Meetings for each year are scheduled in advance prior to the end of the year and circulated to Directors and Senior Management before the beginning of each year. The Board meets regularly at least 5 times in a year. Additional Board Meetings are held as and when required.

A total of 6 Board Meetings were held during the financial year ended 31 December 2011 and the attendance of each Director is as follows:-

| Directors | Designation | No. of Board Meetings Held | No. of Board Meetings Attended |
|---|---|---|---|
| Tan Sri Razali Ismail | Chairman<br>Independent Non-Executive Director | 6 | 6 |
| Dato' Seri Nik Abidin Bin Nik Omar | Independent Non-Executive Director | 6 | 6 |
| Dato' Dr. Thillainathan A/L Ramasamy | Independent Non-Executive Director | 6 | 3 out of 3 meetings held after his appointment as a member of the Board on 24 June 2011 |
| Foo San Kan | Independent Non-Executive Director | 6 | 6 |
| Karl-Heinz Jung | Non-Independent Non-Executive Director | 6 | 3 out of 3 meetings held after his appointment as a member of the Board on 24 June 2011 |
| Jens Reisch | Chief Executive Officer/ Non-Independent Executive Director | 6 | 6 |
| Zakri Bin Mohd Khir | Non-Independent Non-Executive Director | 6 | 5 |
| Ong Eng Chow | Chief Financial Officer/ Non-Independent Executive Director | 6 | 6 |

All Directors complied with the minimum requirements on attendance at Board Meetings as stipulated in the MMLR of Bursa Securities.

The Board Meetings are conducted in accordance with the agenda approved by the Chairman. All Directors are given sufficient time to review the meeting papers prior to Board Meetings. The meeting papers are circulated to the Board in advance of each Board Meeting to accord sufficient time for the Directors to review and consider issues to be discussed at the Board Meetings. Urgent matters may be tabled for the Board's deliberation under a supplemental agenda. A Director who has a direct or deemed interest in a subject matter presented at the Board Meeting shall abstain from deliberation and voting on the said subject matter.

In addition to matters which require the Board's approval, the Board is consistently being informed and updated on matters in relation to business operations, financial and business reviews and development, group strategy, information on business proposition including market share, industry development, corporate proposals, risk management review, regulation updates, compliance, customer focus initiatives and other operational efficiency projects. The Board is also being informed of the decision and significant issues deliberated by the Board Committees via the reporting of the Chairman of the respective Board Committees and the minutes of the Board Committees tabled at the Board Meetings.

The Board has unlimited access to all information and documents relevant to the business and affairs of the Company. The Board may invite any person to be in attendance to assist it in its deliberations.

In between Board Meetings, the Board is also being informed or updated, on important issues and/or major development of matters discussed in the Board Meetings, by the Management and/or the Company Secretary.

All Directors have direct access to the advice and services of the Company Secretary and may seek independent advice should the need arise.

### 1.4 Appointment to the Board

The appointments of all Directors were approved by BNM. All appointments of Board members are subject to the evaluation by the Nominating Committee and approved by the Board before the applications are submitted to BNM for approval.

The Group has put in place an evaluation process and procedures for assessing the nominee for directorship. The Nominating Committee reviews the evaluation results of the nominee and submits its recommendation to the Board for consideration.

### 1.5 Re-election and Re-appointment of Directors

In accordance with the Articles of Association of the Company, one third of the Directors shall retire by rotation at each Annual General Meeting and that a Director who is appointed during the year shall be retired at the next following Annual General Meeting. The Articles of Association further provide that all Directors shall retire from office at least once in every 3 years in compliance with the MMLR of Bursa Securities.

In addition, any Director who attains the age of 70 is required to submit himself for re-appointment annually pursuant to Section 129(2) of the Companies Act, 1965.

The Nominating Committee reviews and assesses the performance of the Directors who are subject to re-election/re-appointment at the Annual General Meeting and submit its recommendation to the Board for consideration prior to the proposed re-election/re-appointment being presented for the shareholders' approval.

### 1.6 Directors' Training

In order to ensure that the Directors are well equipped to discharge their responsibilities, all new Non-Executive Directors are required to attend the orientation programme for newly appointed Directors to familiarise them with the insurance industry and the Group.

Any Director appointed to the Board is required to complete the Mandatory Accreditation Programme ("MAP") as prescribed under the MMLR of Bursa Securities within four months from the date of appointment. All Directors have attended and completed the MAP.

The Directors of AMB who are also sitting on the Boards of the insurance subsidiaries have also attended the high level Financial Institutions Directors' Education ("FIDE") Programme developed by BNM and Perbadanan Insurans Deposit Malaysia in collaboration with the International Centre for Leadership in Finance ("ICLIF").

In order to keep the Directors abreast with the current developments as well as new statutory and regulatory requirements, the Board has approved the following areas of training for the Directors:-

- Laws and regulations imposed by the relevant authorities and any updates in respect thereto
- Risk Management and compliance controls
- Finance, accounting and insurance related requirements
- Corporate Governance

The training programmes/seminars/conferences attended by the Directors during the financial year ended 31 December 2011 are as follows:-

| Directors | Programmes/Seminars/Conferences Attended | Organiser |
|---|---|---|
| Tan Sri Razali Ismail | FIDE Programme – Module 2 | ICLIF |
| | FIDE Programme – Module A | ICLIF |
| | FIDE Programme – Module B | ICLIF |
| | Derivatives Training by OSK Investment Bank Berhad – Equity Derivatives and Portfolio Hedging, Treasury Products for Hedging Interest Rate, Foreign Exchange and Credit Risk ("Derivatives Training") | Company |
| Dato' Seri Nik Abidin Bin Nik Omar | The Board's Responsibility for Corporate Culture-Selected Governance Concerns and Tools for Addressing Corporate Culture and Board Performance | Bursa Securities |
| | Corporate Governance Programme: Building Audit Committees for Tomorrow | ICLIF |
| | Derivatives Training | Company |
| Dato' Dr. Thillainathan A/L Ramasamy | Corporate Governance and Boardroom Issues in Challenging Times | ICLIF |
| | Governance Practices for the Financial Markets in the 21st Century | ICLIF |
| | Risk Management | ICLIF |
| | Governance Framework in Financial Institutions, Enterprise Risk Management and Oversight and Financial Reporting Problems | ICLIF |
| | Insurance Insights: Management, Governance and Supervision of Insurance Companies | ICLIF |
| | "Malaysian Health Care and Financing Issues" at Malaysia's Private Pension and Healthcare: Opportunities and Collaborative Strategies Conference 2011 (as speaker) | Smartinvestor |
| | Derivatives Training | Company |
| | Malaysia's Experience with the "Asian and Global Financial Crisis: The Lessons to be Drawn" at the 36th Federation of ASEAN Economic Associations Conference (as speaker) | Malaysian Economics Association |
| | Participated as a member of Group of Experts at the 2011 ASEAN Capital Market Forum Group of Experts Meeting | Monetary Authority of Singapore |
| | Seminar on "Where is the World Economy Heading?" and "Economic Outlook Asia" by Allianz Chief Economist Professor Dr Michael Heise | Company |

| Directors | Programmes/Seminars/Conferences Attended | Organiser |
| --- | --- | --- |
| Foo San Kan | Sustainability Session for Directors – Plantation, Construction, Property and Hotel Industry Sector | Bursa Securities |
| | High Performance Leadership for 21st Century | Leaderonomics |
| | Banking Insights | ICLIF |
| | Sustainability Session for Directors – Consumer Products, Finance, Technology and Closed End Funds Industry Sector | Bursa Securities |
| | Living, Learning and Current Trends in Universities | SEGI University College |
| | Anti-Money Laundering and Counter Financing of Terrorism | OSK Investment Bank Berhad |
| | Corporate Governance Programme: Building Audit Committees for Tomorrow | ICLIF |
| | Insurance Insights: Management, Governance and Supervision of Insurance Companies | ICLIF |
| | Seminar on "Where is the World Economy Heading?" and "Economic Outlook Asia" by Allianz Chief Economist Professor Dr Michael Heise | Company |
| | IT Governance and Risk Management Programme | ICLIF |
| | Derivatives Training | Company |
| Karl-Heinz Jung | McKinsey Workshop on Strategy | McKinsey & Company |
| | Boston Consulting Group Workshop on Agency Development in Asia | Boston Consulting Group |
| | Allianz Motor Workshop | Allianz SE Insurance Management Asia Pacific |
| | Allianz Non-Life Reinsurance Workshop | Allianz SE Insurance Management Asia Pacific |
| | Allianz Regional Strategy Workshop | Allianz SE Insurance Management Asia Pacific |
| | MAP | Bursatra Sdn Bhd |
| | International Reinsurance Workshop | Allianz SE Insurance Management Asia Pacific |
| | China Insurance Regulatory Commission Training | China Insurance Regulatory Commission |
| | Munich Re NatCatSERVICE Seminar | Munich Reinsurance |
| Jens Reisch | FIDE Programme – Module 1 | ICLIF |
| | FIDE Programme – Module 2 | ICLIF |
| | FIDE Programme – Module 3 | ICLIF |
| | FIDE Programme – Module B | ICLIF |
| | Seminar on "Where is the World Economy Heading?" and "Economic Outlook Asia" by Allianz Chief Economist Professor Dr Michael Heise | Company |
| | 7th Asian Conference on Pensions & Retirement Planning (as speaker) | Asia Insurance Review |

| Directors | Programmes/Seminars/Conferences Attended | Organiser |
|---|---|---|
| | Allianz Regional Strategy Workshop | Allianz SE Insurance Management Asia Pacific |
| | Derivatives Training | Company |
| Zakri Bin Mohd Khir | Allianz Non-Life Reinsurance Workshop | Allianz SE Insurance Management Asia Pacific |
| | Seminar on "Where is the World Economy Heading?" and "Economic Outlook Asia" by Allianz Chief Economist Professor Dr Michael Heise | Company |
| | Allianz Regional Strategy Workshop | Allianz SE Insurance Management Asia Pacific |
| | Derivatives Training | Company |
| Ong Eng Chow | Seminar on "Where is the World Economy Heading?" and "Economic Outlook Asia" by Allianz Chief Economist Professor Dr Michael Heise | Company |
| | International Financial Reporting Standards Training | Allianz SE Insurance Management Asia Pacific |
| | Derivatives Training | Company |
| | The 36th Federation of Asean Economic Association Conference on Asean after the Global Crisis : Management and Change | Malaysia Economic Association |

### 1.7 Board Committees

The Board in the course of carrying out its duties, may set up Board Committees delegated with specific authority and operating on the terms of reference as approved by the Board, to assist the Board in the execution of its responsibilities. These Board Committees shall have the authority 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.

The Nominating Committee has reviewed the composition of the Board Committees for year 2011 and opined that the composition for the Board Committees are in order.

The Board Committees of the Company set up to assist the Board on specific areas of responsibilities are set out below. The insurance subsidiaries have formally used the services of the Board Committees of the Company since 1 January 2008.

#### 1.7.1 Audit Committee

The memberships and terms of reference of the Audit Committee are determined in accordance with the BNM's guidelines, MMLR of Bursa Securities and the Code. The composition and the terms of reference of the Audit Committee are detailed in the Audit Committee Report set out on pages 64 to 74 of this Annual Report.

**1.7.2 Risk Management Committee**

The members of the Risk Management Committee are as follows:-

| Members | Designation |
|---|---|
| Dato' Seri Nik Abidin Bin Nik Omar (Chairman) | Independent Non-Executive Director |
| Dato' Dr. Thillainathan A/L Ramasamy (Member) | Independent Non-Executive Director |
| Foo San Kan (Member) | Independent Non-Executive Director |
| Karl-Heinz Jung (Member) | Non-Independent Non-Executive Director |

There were 4 Risk Management Committee Meetings held during the financial year ended 31 December 2011. The attendance of the Risk Management Committee members are as follows:-

| Members | No. of Risk Management Committee Meetings Held | No. of Risk Management Committee Meetings Attended |
|---|---|---|
| Dato' Seri Nik Abidin Bin Nik Omar | 4 | 4 |
| Dato' Dr. Thillainathan A/L Ramasamy | 4 | 2 out of 2 meetings held after his appointment as a member of the Risk Management Committee on 24 June 2011 |
| Foo San Kan | 4 | 4 |
| Karl-Heinz Jung | 4 | 2 out of 2 meetings held after his appointment as a member of the Risk Management Committee on 24 June 2011 |

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

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

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

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

(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 crisis, 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.

**1.7.3 Nominating Committee**

The members of the Nominating Committee are as follows:-

| Members | Designation |
|---|---|
| Dato' Seri Nik Abidin Bin Nik Omar (Chairman) | Independent Non-Executive Director |
| Tan Sri Razali Ismail (Member) | Independent Non-Executive Director |
| Dato' Dr. Thillainathan A/L Ramasamy (Member) | Independent Non-Executive Director |
| Foo San Kan (Member) | Independent Non-Executive Director |
| Karl-Heinz Jung (Member) | Non-Independent Non-Executive Director |

There were 2 Nominating Committee Meetings held during the financial year ended 31 December 2011. The attendance of the Nominating Committee members are as follows:-

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

Note:

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

The responsibilities of the Nominating Committee are stated below:-

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

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

   (i) skill, knowledge, expertise and experience;
   (ii) professionalism;
   (iii) integrity; and
   (iv) in the case of candidate for the position of Independent Non-Executive Directors, the Nominating Committee should also evaluate the candidates' ability to discharge such responsibilities/functions as expected from Independent Non-Executive 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 Group has put in place a performance evaluation process and procedure to assess the performance of the individual Directors and the effectiveness of the Board. The Nominating Committee has reviewed the assessment results of individual Directors and the Board for year 2011 and is satisfied with the assessment results of the individual Directors and the Board.

### 1.7.4 Remuneration Committee

The composition of the Remuneration Committee is as follows:-

| Members | Designation |
|---|---|
| Dato' Seri Nik Abidin Bin Nik Omar (Chairman) | Independent Non-Executive Director |
| Foo San Kan (Member) | Independent Non-Executive Director |
| Karl-Heinz Jung (Member) | Non-Independent Non-Executive Director |

There were 3 Remuneration Committee Meetings held during the financial year ended 31 December 2011. The attendance of the Remuneration Committee members are as follows:-

| Members | No. of Remuneration Committee Meetings Held | No. of Remuneration Committee Meetings Attended |
|---|---|---|
| Dato' Seri Nik Abidin Bin Nik Omar | 3 | 3 |
| Foo San Kan | 3 | 3 |
| Karl-Heinz Jung | 3 | 1 out of 1 meeting held after his appointment as a member of the Remuneration Committee on 24 June 2011 |

The primary objective of the Remuneration Committee is to provide a formal and transparent procedure for developing a remuneration policy for Directors, Chief Executive Officer 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 are stated below:-

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

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

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

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

### 1.7.5 Investment Committee

The composition of the Investment Committee is as follows:-

| Members | Designation |
| --- | --- |
| Dato' Dr. Thillainathan A/L Ramasamy (Chairman) | Independent Non-Executive Director |
| Jens Reisch (Member) | Non-Independent Executive Director |
| Zakri Bin Mohd Khir (Member) | Non-Independent Non-Executive Director |
| Ong Eng Chow (Member) | Non-Independent Executive Director |

There were 4 Investment Committee Meetings held during the financial year ended 31 December 2011. The attendance of the Investment Committee members are as follows:-

| Members | No. of Investment Committee Meetings Held | No. of Investment Committee Meetings Attended |
| --- | --- | --- |
| Dato' Dr. Thillainathan A/L Ramasamy | 4 | 2 out of 2 meetings held after his appointment as a member/Chairman of the Investment Committee on 24 June 2011 |
| Jens Reisch | 4 | 4 |
| Zakri Bin Mohd Khir | 4 | 4 |
| Ong Eng Chow | 4 | 4 |

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

## 2. DIRECTORS' REMUNERATION

### 2.1 The Level and Make-up of Remuneration

The Board has adopted a remuneration policy for Directors of the Company which sets out that Directors' remuneration shall be determined based on the following criteria:-

(a) overall performance of the Group;
(b) level of responsibility; and
(c) attendance at meetings.

Individual Directors shall abstain from discussion of their own remuneration.

### 2.2 Procedure

The Remuneration Committee recommends to the Board the remuneration to be paid to each Director based on the remuneration policy as approved by the Board. It is, nevertheless the ultimate responsibility of the entire Board to decide the quantum for each Director.

### 2.3 Disclosure

The Non-Executive Directors who are not representing the interest of the major shareholder are paid an annual fee and meeting allowance of RM1,200 per meeting for the financial year ended 31 December 2011. The Executive Directors received only the remuneration paid to them for their respective designated position held in AMB.

The existing Directors' remuneration (including benefits-in-kind) for the financial year ended 31 December 2011 are detailed below:-

(a) The aggregate remuneration of Directors, distinguishing between Executive and Non-Executive Directors, according to their respective categories.

| Categories of Remuneration | Executive Director RM'000 | Non-Executive Director RM'000 |
|---|---|---|
| Salary and other | 239.7 | – |
| Fees and allowance | – | 375.2 |
| Benefits (including estimated monetary value of benefits-in-kind) | 31.3 | – |
| Contribution to Employees Provident Fund | 37.2 | 5.7 |
| Total | 308.2 | 380.9 |

(b) The number of Directors whose total remuneration falls into each successive band of RM50,000.

| Band | No. of Executive Director | No. of Non-Executive Director |
|---|---|---|
| RM0 – RM50,000 | – | 3 |
| RM50,001 – RM100,000 | – | 1 |
| RM100,001 – RM150,000 | 1 | 2 |
| RM150,001 – RM200,000 | 1 | – |

## 3. SHAREHOLDERS AND INVESTORS RELATIONSHIP

### 3.1 Dialogue with Shareholders/Investors

The Board acknowledges the need for shareholders to be informed of all material information affecting the Group. As such, information in respect of the Group's performance, corporate exercises and matters affecting shareholders' interests are disseminated to shareholders and investing public through annual reports, quarterly reports, shareholder circulars and specific announcements released to the Bursa Securities on a timely manner, in accordance with the provisions of the MMLR of Bursa Securities.

In addition to the above, the Group also issues press releases and conducts media/analysts/investors briefings to provide the stakeholders of the Group with the up-to-date information in respect of the Group's business and/or corporate initiatives.

Shareholders are able to obtain up-to-date information on the Group's various activities including quarterly results and announcements released to Bursa Securities, the audited financial statements of the Group, the unaudited interim financial statements of its insurance subsidiaries and presentations made by the Group during the analyst briefings, by accessing to the Group's website at www.allianz.com.my.

The Corporate Communications Department of the Company addresses inquiries from shareholders, investors and the public on all corporate matters relating to the Group.

The personnel to be contacted in relation to investor relations matters is as follows:-

| | |
|---|---|
| **Ms. Joannica Dass** | Tel : 03-22640780 |
| Group Head of Corporate Communications | E-mail : joannica.dass@allianz.com.my |

### 3.2 Annual General Meeting

The Annual General Meeting is the forum to communicate with the shareholders. Shareholders are encouraged to raise questions or seek clarification pertaining to the operations and the financial status of the Group. Members of the Board, the Management and the Auditors are present at the Annual General Meeting to respond to various questions raised by the shareholders.

## 4. ACCOUNTABILITY AND AUDIT

### 4.1 Financial Reporting

In presenting the annual financial statements, quarterly reports and the annual report to the shareholders, the Board takes appropriate steps to present a clear and balanced assessment of the Group's position and prospects. This also applies to other price-sensitive public announcements and reports to regulators.

The financial statements of the Group before presenting to the Board for approval will be reviewed by the Audit Committee. The Audit Committee assists the Board by reviewing the information to be disclosed in the financial statements to ensure that the information disclosed is accurate, adequate and in compliance with the various disclosure requirements imposed by the relevant authorities. The Board discusses and reviews the recommendations proposed by the Audit Committee prior to adoption of the financial statements of the Group.

### 4.2 Internal Control

The Statement on Internal Control, which provides an overview of the state of internal controls within the Group, is set out on pages 89 to 91 of this Annual Report.

### 4.3 Related Party Transactions

The Group complied with the requirements of BNM's Guidelines on Related Party Transactions (BNM/RH/GL/003-3) and the MMLR of Bursa Securities 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 MMLR on recurrent related party transactions of a revenue or trading nature with related parties ("Recurrent Transactions"), the Company 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 the Company.

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

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

Under the RPT Review Procedure, a due diligence working group was formed to review the related party transactions/Recurrent Transactions prior to the same are submitted to the Audit Committee for consideration. The Audit Committee will subsequently review the related party transactions/Recurrent Transactions prior to the same being submitted to the Board for approval.

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

### 4.4 Relationship with Auditors

Through the Audit Committee, the Board has established a formal and appropriate relationship with the external auditors. The Audit Committee held two private discussions with the external auditors in 2011 without the presence of the Management, to exchange views and opinions.

Details of the role of the Audit Committee in relation to the external auditors are described in the Audit Committee Report set out on pages 64 to 74 of this Annual Report.

The appointment and re-appointment of the external auditors will be reviewed by the Audit Committee and the recommendation from the Audit Committee will be presented to the Board for consideration prior to the said proposal being presented to the shareholders for approval. The terms of engagement of the external auditors for services rendered and their audit and non-audit fees are reviewed by the Audit Committee and approved by the Board.

The audit fees for the financial year ended 31 December 2011 are detailed below:-

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Auditors' remuneration: | | |
| – statutory audits | 615 | 125 |
| – other services | 10 | 10 |

## STATEMENT OF DIRECTORS' RESPONSIBILITY IN RELATION TO FINANCIAL STATEMENTS

The Board, in preparing the financial statements, has adopted appropriate accounting policies, consistently applied and supported by reasonable and prudent judgment and estimates. All applicable accounting standards have been followed and the financial statements have been prepared on a going concern basis.

The Board is responsible for ensuring that the Company maintains accounting records that disclose reasonable accuracy of the financial position of the Company and the Group.

The Board has overall responsibilities for taking such steps, as are reasonably available to them, to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The statement by Directors pursuant to Section 169(15) of the Companies Act, 1965 in respect of the preparation of the Company's financial statements for the financial year ended 31 December 2011 is set out on page 116 of this Annual Report.

This Statement on Corporate Governance is made in accordance with the resolution of the Board of Directors dated 11 May 2012.

# Statement on Internal Control

## BOARD RESPONSIBILITY

The Board recognises the importance of sound internal controls that cover risk management, financial, operational and compliance controls. The Board affirms its overall responsibilities for the Group's internal control and risk management system ("System"). Such a system, designed to safeguard shareholders' investments and the Group's assets, however, can only mitigate rather than eliminate the risk of failure to achieve the business objectives of the Group. The System, by its nature, can only provide reasonable but not absolute assurance against material misstatement or loss.

## RISK MANAGEMENT FRAMEWORK

The Board recognises the importance of having in place a risk management system to identify principal risks and implement appropriate controls to manage such risks as an integral part of the Group's operations. The Group has in place a Risk Management Framework Manual ("RMFM") for all companies within the Group ("OEs"). 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 Group. It is designed to formalise the risk management functions and practices across the Group and to increase awareness of the Company's employees to risk identification, measurement, control, ongoing monitoring and reporting.

## OTHER INTERNAL CONTROL PROCESSES

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

- All OEs have in place a documented organisational structure with defined lines of reporting responsibility for all levels of staff. The reporting lines are structured, taking into consideration that management control is maintained at all levels throughout the organisation and that there is no gap in the reporting lines.

- Defined delegation of responsibilities to Committees of the Board and the Management of OEs, including authorisation levels for all aspects of the businesses of the Group to ensure proper identification of accountabilities and segregation of duties.

- The Group has in place an ongoing process to ensure that all staff fulfilled the minimum criteria of "A Fit and Proper Person" as prescribed in Part XII of the Insurance Regulations 1996. In addition, all staff are also required to attest that they understand and comply with the requirements of the following internal guidelines and policies:-

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

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

- The internal policies and procedures of the insurance OEs, which incorporate the relevant requirements of Bank Negara Malaysia, Persatuan Insurans Am Malaysia/Persatuan Insurans Hayat Malaysia, Insurance Act 1996 and Insurance Regulations 1996 as well as internal guidelines, are documented in procedural workflow of departments and branch operations. These workflows are subject to review and improvement to reflect changing risks and process enhancement, as and when required.

- Operational authority limits covering underwriting of risks, claims settlement and capital expenditures are reviewed and updated regularly. In addition, the insurance OEs also exercise control over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually.

- Financial control procedures are put in place and are documented in the procedural workflows of all OEs. These workflows are subject to review and improvement to reflect changing risks and process enhancement, as and when required.

- Reinsurance arrangements of the insurance OEs are executed in accordance with the requirements as promulgated in the Insurance Act, 1996 and Insurance Regulations 1996. Review on reinsurers is conducted on an annual basis to ensure that reinsurers have secured ratings from accredited rating agencies and complied with the Allianz SE Group's reinsurers security listing.

- The Investment Committee is responsible for setting investment policies, objectives, guidelines and controls for the Investment Department. The Group has implemented a Group Master Investment Manual for all OEs. The Group Master Investment Manual sets out the detailed procedures and controls, including an Investment Code of Ethics to ensure that the Group's interests prevail over the personal interests of the employees.

- The Information Technology ("IT") Steering Committee of the insurance OEs are responsible for the overall strategic deployment of IT in tandem to the business objectives of the respective insurance OEs, establishing effective IT plans, recommending to respective Senior Management Committees for approval on IT-related expenditure and monitoring the progress of approved IT projects.

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

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

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

- Business Continuity Plans for all OEs have been formulated to ascertain that the Group will recover and restore any interrupted critical function within a predetermined time upon the occurrence of any disastrous events. The testing for Business Continuity Plan for all business functions and Disaster Recovery Plan test for all main application systems have been conducted during the financial year ended 31 December 2011 and submitted for the respective Boards' endorsement.

- The Internal Audit function undertakes reviews or assessments of the Group's operations and its system of internal controls and 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 reviews all internal audit findings and management responses.

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

- The Ethics and Compliance Committees for the insurance OEs have been set up to meet the expectations of the Sales Policy and the Sales Agent Code and Conduct of the insurance OEs. Guidelines and procedures of the Ethics and Compliance Committees are in place to handle, review, assess and take appropriate actions to address complaints against or concerns involving agents. This will help promote the professionalism of the sales force throughout the insurance OEs.

- The Anti Fraud Committees have been set up by the respective OEs 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 Committees. The Anti-Fraud Committees are also responsible for all fraud investigations and ensuring that necessary remedial actions are taken to mitigate the recurrence of fraud. In line with Allianz SE Group's Anti-Corruption Program, the Group has adopted the Allianz SE Group's Anti-Corruption Policy ("Policy"). The Policy serves to outline Allianz SE Group's existing controls and behavioural guidelines on the risk areas of dealing with government officials, business courtesies, hiring of representatives, political contributions, joint ventures and outsourcing agreements as well as facilitation payments.

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

- The insurance OEs have each in place a Product Development Management Framework ("Framework") which sets out the policies and procedures on product development. The Framework aims to promote 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 insurance OEs are appropriate to the needs and resources of the targeted consumer segments.

Through the Audit Committee, the Board has established a formal and appropriate relationship with the External Auditors. Details of the role of the Audit Committee in relation to the External Auditors are set out in the Audit Committee Report.

# Additional Compliance Information

## 1. UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSALS

During the financial year ended 31 December 2011, there were no proceeds raised from corporate proposals.

## 2. SHARE BUY-BACKS

During the financial year ended 31 December 2011, there were no share buy-backs by the Company.

## 3. OPTIONS OR CONVERTIBLE SECURITIES

During the financial year ended 31 December 2011, the Company has not issued any option or convertible securities.

During the financial year ended 31 December 2011, the Company increased its issued and fully paid-up share capital from RM153,869,238 to RM156,428,263 by way of the issuance of 2,559,025 ordinary shares of RM1.00 each pursuant to the conversion of 2,559,025 Irredeemable Convertible Preference Shares ("ICPS") of RM1.00 each to ordinary shares of RM1.00 of the Company. Accordingly, the amount of ICPS in the share capital of the Company was reduced from RM192,336,547 to RM189,777,522 at the end of the financial year ended 31 December 2011.

## 4. DEPOSITORY RECEIPT PROGRAMME

During the financial year ended 31 December 2011, the Company did not sponsor any depository receipt programme.

## 5. SANCTIONS AND/OR PENALTIES

Save for the tax penalty of RM421,266 imposed by the Inland Revenue Board on the Company and its subsidiary for additional tax assessment for year 2005 and 2010, there were no other sanctions and/or penalties imposed on the Company and/or its subsidiaries, Directors or Management by any regulatory bodies during the financial year ended 31 December 2011.

## 6. NON-AUDIT FEES

Save for the non-audit fee of RM10,000 for services rendered by the external auditor Messrs. KPMG to the Company, there were no other non-audit fees paid by the Group to Messrs. KPMG during the financial year ended 31 December 2011.

## 7. VARIATION IN RESULTS

There was no deviation between the audited results for the financial year ended 31 December 2011 and the unaudited results of the financial year ended 31 December 2011 of the Group.

## 8. PROFIT GUARANTEE

During the financial year ended 31 December 2011, there was no profit guarantee given by the Company.

## 9. MATERIAL CONTRACTS

The Company and its subsidiaries have not entered into any material contracts involving the interest of the Directors and major shareholders, which either still subsisting at the end of the financial year ended 31 December 2011 or, had been entered into since the end of the previous financial year.

## 10. ANALYSIS OF SHAREHOLDINGS AS AT 25 APRIL 2012

### 10.1 ORDINARY SHARE OF RM1.00 EACH

| | | |
|---|---|---|
| Authorised Share Capital | : | RM600,000,000 |
| Issued and Paid-up Share Capital | : | RM156,475,863 |
| Class of Shares | : | Ordinary shares of RM1 each |
| Voting Rights | : | One vote per ordinary share |

#### DISTRIBUTION OF SHAREHOLDINGS

| Size of Holdings | No. of Shareholders | % of Shareholders | No. of Shares Held | % of Shares |
|---|---|---|---|---|
| Less than 100 | 21 | 0.90 | 402 | 0.00 |
| 100 to 1,000 | 1,317 | 56.65 | 457,006 | 0.29 |
| 1,001 to 10,000 | 759 | 32.65 | 3,089,647 | 1.97 |
| 10,001 to 100,00 | 184 | 7.91 | 5,662,366 | 3.62 |
| 100,001 to less than 5% of issued shares | 43 | 1.85 | 31,904,147 | 20.39 |
| 5% and above of issued shares | 1 | 0.04 | 115,362,295 | 73.73 |
| Total | 2,325 | 100.00 | 156,475,863 | 100.00 |

#### SUBSTANTIAL SHAREHOLDER

| Name of Substantial Shareholder | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| | No. of Shares Held | % of Shares | No. of Shares Held | % of Shares |
| Allianz SE | 115,362,295 | 73.73 | – | – |

#### DIRECTORS' SHAREHOLDINGS

| Name of Directors | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| | No. of Shares Held | % of Shares | No. of Shares Held | % of Shares |
| Zakri Bin Mohd Khir | 100 | ^ | – | – |
| Ong Eng Chow | 100 | ^ | – | – |

^ Negligible

## THIRTY LARGEST SHAREHOLDERS AS IN THE RECORD OF DEPOSITORS

| | Name of Shareholders | No. of Shares Held | % of Shares |
|---|---|---|---|
| 1. | Citigroup Nominees (Asing) Sdn Bhd<br>Allianz SE | 115,362,295 | 73.73 |
| 2. | Maybank Nominees (Tempatan) Sdn Bhd<br>Mayban Trustees Berhad for Public Regular Savings Fund (N14011940100) | 4,624,800 | 2.96 |
| 3. | Pertubuhan Keselamatan Sosial | 4,308,922 | 2.75 |
| 4. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan) (Aberdeen) | 3,200,000 | 2.05 |
| 5. | Amanahraya Trustees Berhad<br>Public Smallcap Fund | 2,677,500 | 1.71 |
| 6. | HSBC Nominees (Asing) Sdn Bhd<br>CACEIS BK FR for HMG Globetrotter | 2,013,300 | 1.29 |
| 7. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (Aberdeen) | 2,000,000 | 1.28 |
| 8. | AMSEC Nominees (Tempatan) Sdn Bhd<br>Aberdeen Asset Management Sdn Bhd for Tenaga National Berhad Retirement Benefit Trust Fund (FM-Aberdeen) | 1,050,000 | 0.67 |
| 9. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 842,100 | 0.54 |
| 10. | Lim Su Tong & Lim Chee Tong | 802,000 | 0.51 |
| 11. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (PHEIM) | 704,500 | 0.45 |
| 12. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (HDBS) | 664,200 | 0.42 |
| 13. | HSBC Nominees (Asing) Sdn Bhd<br>Exempt an for BNP Paribas Securities Services (Singapore – SGD) | 664,000 | 0.42 |
| 14. | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Choong Foong Ming (CEB) | 589,700 | 0.38 |
| 15. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (Hwang 6939-403) | 572,900 | 0.37 |
| 16. | AMSEC Nominees (Tempatan) Sdn Bhd<br>Lim Su Tong @ Lim Chee Tong (8335-1101) | 500,000 | 0.32 |
| 17. | INSAS Plaza Sdn Bhd | 494,700 | 0.32 |
| 18. | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>Hwang Investment Management Berhad for Malaysian Timber Council | 437,400 | 0.28 |
| 19. | HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Oh Kim Sun | 415,000 | 0.27 |
| 20. | Thong Kok Yoon | 400,000 | 0.26 |
| 21. | Neoh Choo Ee & Company Sdn Berhad | 378,000 | 0.24 |
| 22. | Chua Saw Yean | 345,400 | 0.22 |

| Name of Shareholders | | No. of Shares Held | % of Shares |
|---|---|---|---|
| 23. | CIMSEC Nominees (Tempatan) Sdn Bhd<br>CIMB for Noble Sound Sdn Bhd (PB) | 325,000 | 0.21 |
| 24. | HSBC Nominees (Asing) Sdn Bhd<br>Exempt an for Credit Suisse (SG BR-TST-Asing) | 321,300 | 0.21 |
| 25. | Thong Kok Khee | 304,100 | 0.19 |
| 26. | Jaya Kumar a/l Ganason @ Kanajan | 300,000 | 0.19 |
| 27. | Maybank Nominees (Tempatan) Sdn Bhd<br>Aberdeen Asset Management Sdn Bhd for Malaysian Timber Council (Endowment Fund) | 280,000 | 0.18 |
| 28. | Goh Beng Choo | 264,500 | 0.17 |
| 29. | Citigroup Nominees (Asing) Sdn Bhd<br>UBS AG for Swiss-Asia Marco Polo Master Fund LTD | 225,900 | 0.14 |
| 30. | Golden Fresh Sdn Bhd | 201,000 | 0.13 |

## 10.2 IRREDEEMABLE CONVERTIBLE PREFERENCE SHARES OF RM1.00 EACH ("ICPS")

Authorised Share Capital : RM400,000,000
Issued and Paid-up Share Capital : RM189,729,922
Class of Shares : Preference shares of RM1 each
Voting Rights : The ICPS holders shall carry no right to vote at any general meeting of the Company except for the following circumstances:-

(a) when the dividend or part of the dividend on the ICPS is in arrears for more than 6 months;
(b) on a proposal to wind-up the Company;
(c) during the winding-up of the Company;
(d) on a proposal that affect the rights attached to the ICPS;
(e) on a proposal to reduce the Company's share capital; or
(f) on a proposal for the disposal of the whole of the Company's property, business and undertaking

In any such cases, the ICPS holders shall be entitled to vote together with the holders of ordinary shares and exercise 1 vote for each ICPS held.

### DISTRIBUTION OF ICPS HOLDINGS

| Size of Holdings | No. of ICPS Holders | % of ICPS Holders | No. of ICPS Held | % of ICPS |
|---|---|---|---|---|
| Less than 100 | 17 | 1.73 | 594 | 0.00 |
| 100 to 1,000 | 434 | 44.15 | 109,845 | 0.06 |
| 1,001 to 10,000 | 311 | 31.64 | 1,249,615 | 0.66 |
| 10,001 to 100,000 | 167 | 16.99 | 5,671,850 | 2.99 |
| 100,001 to less than 5% of issued ICPS | 53 | 5.39 | 38,495,150 | 20.29 |
| 5% and above of issued ICPS | 1 | 0.10 | 144,202,868 | 76.00 |
| Total | 983 | 100.00 | 189,729,922 | 100.00 |

## DIRECTORS' HOLDINGS IN ICPS

| Name of Directors | Direct Interest | | Indirect Interest | |
|---|---|---|---|---|
| | No. of ICPS Held | % of ICPS | No. of ICPS Held | % of ICPS |
| Zakri Bin Mohd Khir | 200 | ^ | – | – |
| Ong Eng Chow | 100 | ^ | – | – |

^ Negligible

## THIRTY LARGEST ICPS HOLDERS AS IN THE RECORD OF DEPOSITORS

| | Name of ICPS Holders | No. of ICPS Held | % of ICPS |
|---|---|---|---|
| 1. | Citigroup Nominees (Asing) Sdn Bhd<br>Allianz SE | 144,202,868 | 76.00 |
| 2. | Maybank Nominees (Tempatan) Sdn Bhd<br>Mayban Trustees Berhad for Public Regular Savings Fund (N14011940100) | 5,935,900 | 3.13 |
| 3. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board (HDBS) | 4,487,425 | 2.37 |
| 4. | Pertubuhan Keselamatan Sosial | 4,433,000 | 2.34 |
| 5. | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 3,123,875 | 1.65 |
| 6. | Amanahraya Trustees Berhad<br>Public Smallcap Fund | 3,047,500 | 1.61 |
| 7. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Hwang Select Opportunity Fund (3969) | 1,883,600 | 0.99 |
| 8. | HSBC Nominees (Asing) Sdn Bhd<br>CACEIS BK FR for HMG Globetrotter | 1,329,200 | 0.70 |
| 9. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Hwang Select Income Fund (4850) | 969,375 | 0.51 |
| 10. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (Hwang 6939-403) | 816,125 | 0.43 |
| 11. | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Choong Foong Ming (CEB) | 742,300 | 0.39 |
| 12. | CIMB Group Nominees (Tempatan) Sdn Bhd<br>CIMB Islamic Trustee Berhad for Hwang Select Dividend Fund | 698,600 | 0.37 |
| 13. | Sai Yee @ Sia Say Yee | 678,000 | 0.36 |
| 14. | Neoh Choo Ee & Company Sdn Berhad | 627,500 | 0.33 |
| 15. | Maybank Nominees (Tempatan) Sdn Bhd<br>Mayban Trustees Berhad for Saham Amanah Sabah (Acc 2-940410) | 615,825 | 0.32 |
| 16. | HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Oh Kim Sun | 570,000 | 0.30 |

| | Name of ICPS Holders | No. of ICPS Held | % of ICPS |
|---|---|---|---|
| 17. | DB (Malaysia) Nominee (Tempatan) Sendirian Berhad<br>Hwang Investment Management Berhad for Malaysian Timber Council | 546,750 | 0.29 |
| 18. | HSBC Nominees (Asing) Sdn Bhd<br>Exempt an for Credit Suisse (SG BR-TST-Asing) | 523,600 | 0.28 |
| 19. | Au Yong Mun Yue | 506,000 | 0.27 |
| 20. | Olive Lim Swee Lian | 505,000 | 0.27 |
| 21. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Hwang Select Balanced Fund (4405) | 460,800 | 0.24 |
| 22. | Nahoorammah a/p Sithamparam Pillay | 381,000 | 0.20 |
| 23. | Employees Provident Fund Board | 334,625 | 0.18 |
| 24. | Lim Tean Kau | 300,000 | 0.16 |
| 25. | AMSEC Nominees (Tempatan) Sdn Bhd<br>Aberdeen Asset Management Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund (FM-Aberdeen) | 285,700 | 0.15 |
| 26. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Hwang Asia Quantum Fund (4579) | 270,250 | 0.14 |
| 27. | Maybank Nominees (Tempatan) Sdn Bhd<br>Hwang Investment Management Berhad for Benta Wawasan Sdn Bhd (230129) | 250,000 | 0.13 |
| 28. | HSBC Nominees (Tempatan) Sdn Bhd<br>HSBC (M) Trustee Bhd for Hwang Global Opportunities Fund (5410) | 246,000 | 0.13 |
| 29. | Dynaquest Sdn. Berhad | 232,000 | 0.12 |
| 30. | RHB Capital Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Su Ming Yaw | 220,000 | 0.12 |

## 11. LIST OF TOP TEN PROPERTIES AS AT 31 DECEMBER 2011 OWNED BY THE GROUP

| Location | Existing Use | Tenure | Land Area (Sq. meters) | Type of Building | Age of Building | Latest Date of revaluation | Net Book Value RM'000 |
|---|---|---|---|---|---|---|---|
| Level 10, 12, 13, 13A & 15<br>Block 3A, Plaza Sentral<br>Jalan Stesen Sentral 5<br>Kuala Lumpur Sentral<br>50470 Kuala Lumpur | Head office | Freehold | 3,745 | Corporate office | 10 years | 21/9/2007 | 21,736 |
| Wisma Allianz<br>33, Jalan Gereja<br>50100 Kuala Lumpur | Branch office | Lot PT1-Leasehold Expiring 9/6/2072 | 525 | Office building | 28 years | 27/4/2011 | 4,817 |
| | | Lot 263-Freehold | | | 30 years | 27/4/2011 | 6,371 |
| Wisma Allianz Life<br>No. 11, 12, 13 and 14<br>Jalan 53 Desa Jaya Commercial Centre<br>Taman Desa<br>Kepong 52100, Selangor | Branch office | Leasehold Expiring 8/3/2081 | 637 | Terrace shop / office | 26 years | 21/10/2011 | 4,843 |
| No. 46, Jalan Tiara 2C<br>Bandar Baru Klang<br>Klang 41150, Selangor | Branch office | Leasehold Expiring 8/5/2093 | 551 | Terrace shop / office | 9 years | 20/10/2011 | 3,995 |
| Unit Nos. A-G-1, A-1-1, A-2-1<br>Block A, Greentown Square<br>Jalan Dato' Seri Ahmad Said<br>Ipoh 30450, Perak | Branch office | Leasehold Expiring 8/5/2093 | 595 | Commercial building | 6 years | 20/10/2011 | 1,940 |
| No.15, Jalan 8/1D<br>Section 8, Petaling Jaya<br>46050 Selangor | Branch office | Leasehold Expiring 7/8/2066 | 174 | Terrace shop / office | 45 years | 25/4/2011 | 1,911 |
| Lot 30, Block E<br>Sedco Complex, Jalan Albert Kwok<br>Locked Bag 69<br>Kota Kinabalu 88000, Sabah | Branch office | Leasehold Expiring 3/12/2073 | 114 | 4-storey office building | 29 years | 21/4/2011 | 1,842 |
| No.300 & 301, Jalan Lumpur<br>Alor Setar 05100, Kedah | Branch office | Freehold | 386 | Terrace shop / office | 8 years | 03/5/2011 | 1,570 |
| No. 1, Phase 4A, Jalan Prima 9<br>Metro Prima Business Centre<br>Kepong 52100, Kuala Lumpur | Branch office | Leasehold Expiring 2/4/2096 | 239 | Terrace shop / office | 14 years | 21/09/2007 | 1,503 |
| No. 487, Jalan Permatang Rawa<br>Bandar Perda<br>Bukit Mertajam 14000, Penang | Branch office | Freehold | 212 | 4-storey shop office | 13 years | 6/10/2011 | 1,449 |

## 12. RECURRENT RELATED PARTY TRANSACTIONS

The recurrent related party transactions of a revenue or trading nature entered into by the Group during the financial year ended 31 December 2011 were as follows:-

| Nature of Recurrent Related Party Transactions | Name of Related Parties | Income/ (Expenses) RM'000 |
|---|---|---|
| Reinsurance arrangements between the Company's insurance subsidiaries and Allianz SE Group where the risk and premium are shared between the parties in accordance with the reinsurance arrangements entered into between the parties* | **Allianz SE Group | (168,289) |
| The Group's sharing of marketing measures undertaken by Allianz SE | **Allianz SE | (420) |
| Payment of fund management fees by the Company's life insurance subsidiary in relation to its funds managed by Allianz Global Investors Singapore Limited | **Allianz Global Investors Singapore Limited | (110) |
| The Group's sharing of Allianz Worldwide Intranet Network access | **Allianz SE Group | (304) |
| Payment of investment advisory services fees by the Group to Allianz Investment Management Singapore Pte Ltd | **Allianz Investment Management Singapore Pte Ltd | (1,241) |
| Payment of annual maintenance and support fees for software system by the Company's life insurance subsidiary to Allianz SE | **Allianz SE | (135) |
| Payment of telemarketing fee by the Company's life insurance subsidiary to Symphony BPO Solutions Sdn Bhd | ***Symphony BPO Solutions Sdn Bhd | (464) |
| The Group's sharing of Human Resource database platform of Allianz SE | **Allianz SE | (13) |
| Payment of service fees by the Company's general insurance subsidiary to Mondial Assistance (Asia) Pte Ltd ("Mondial") for road assistance services provided by Mondial to the policyholders of the Company's general insurance subsidiary | **Mondial | (4,548) |
| Payment of fees by the Company's life insurance subsidiary to IDS GmbH for conducting performance attribution analysis | **IDS GmbH | (10) |
| Payment of annual membership fees by the Company's insurance subsidiaries to All Net GmbH for participating in the Allianz International Employee Benefits Network | **All Net GmbH | (13) |

Note:-

* As the Group is in the insurance business, the figures do not include payment obligations arising from claims duly made pursuant to any insurance policies issued.

** Deemed to be related parties to the Company via Allianz SE's direct interest as the major shareholder of the Company.

*** Symphony BPO Solutions Sdn Bhd is a subsidiary of Symphony House Berhad of which Mr Foo San Kan, an Independent Director of the Company, is a Director and shareholder.


# 1

*With your support, I can travel again*

**Mr Foo Gwee Leong**
*Retiree, MOBILITI user since 2008*

**Allianz4Community**

We sponsor MOBILITI, a non-profit charitable organisation providing door-to-door transport services for wheelchair users. Our Principles for Social Engagement guide the decision-making process in choosing lasting relationships with social organisations.

**Delivering in moments of truth**

Allianz

# Calendar of Moments

## JANUARY 2011

**AGIC and CIMB's Festive Season Insurance Cover**

AGIC together with CIMB launched a festive season insurance cover in conjunction with the Chinese New Year celebrations. The insurance package which was promoted via CIMB's website CIMB clicks provided cover against home content damage or loss as well as Personal Accident ("PA") from 3 to 30 January 2011.

**ALIM Head Office Relocated**

The doors were closed one final time to mark the completion of ALIM's relocation from Wisma UOAII to Plaza Sentral on 24 January 2011.

## FEBRUARY 2011

**Third Management Associate Program ('MAP') Launched**

Allianz' MAP is an 18 to 24 months fast-track management development programme designed to nurture high potentials for key positions. The third MAP which began on 16 March 2011 involved 15 candidates who were selected after having gone through various assessments.

**Allianz Heads to the Movies**

Allianz hosted more than 130 employees to an evening at the movies on 28 February 2011. The tickets were given out on a first come first serve basis and handed out during the 2011 townhall. The theatre was a sea of blue as the employees wore the Allianz Aspiration 333 T-shirt and watched the musical film, *Burlesque*. The event turned out to be an excellent treat.

## MARCH 2011

**AGIC Sponsored Student PA and Bags**

AGIC provided assistance to underprivileged students as part of its Allianz Student PA Policies programme. The students were identified by the schools that purchased the policy from Allianz. Under the programme, students in secondary schools were given backpacks while primary school children were given trolley bags.

**Beach Clean-up on the East Coast**

In an effort to keep the beaches clean, the Kuantan and the Kota Bharu branches organised a beach clean-up on a selected beach along their respective coastlines on 26 March and 2 April 2011 respectively.

## MARCH 2011

**Lunch with the Media**

Allianz hosted a luncheon for media representatives on 23 March 2011. 15 media representatives from various media channels joined AMB CEO, Jens Reisch; AGIC CEO, Zakri Khir and AMB CFO, Charles Ong for the first media luncheon for the year.

## APRIL 2011

**Strategic Dialogue ("SD") for 2012**

The 2012 SD Workshop was held at the Holiday Inn Kuala Lumpur, Glenmarie from 21 to 22 April 2011. This annual event brought together the Allianz management team as well as their colleagues from the Regional Office to discuss strategies and direction for 2012.

**AGIC Continued Sponsorship for Muniandy**

AGIC continued its sponsorship for former Malaysian international runner and Allianz employee, Muniandy Ramadass as an Allianz runner for 2011 to facilitate his participation in marathon meets across the country. In addition to financial incentive, the sponsorship also covered his running attire emblazoned with the Allianz logo.

**1AZAM with the Women, Family and Community Development Ministry**

A Memorandum of Understanding ("MoU") between the National Welfare Foundation and Allianz was signed on 14 March 2011. Through the MoU, Allianz provided two insurance plans, the "Group Term Life Policy" and the "Group Personal Accident Policy" for 100,000 poor breadwinners registered under the eKasih system for one year beginning 1 January 2011. The 1AZAM insurance scheme is an initiative under the National Key Results Area to increase the living standards of low income families. Spearheaded by the Women, Family and Community Development Ministry, it is set to benefit more than 500,000 poor people.

**Allianz Donated to the National Book Development Foundation**

On 19 April 2011, Allianz donated RM40,000 to the National Book Development Foundation to support the foundation's initiatives in fostering a better reading culture amongst Malaysians. The foundation also aims to increase the number of books written by Malaysian authors from various genres and languages through the funding and publication of books deemed vital to nation building.

**Top Asia Pacific Allianz Life Agents in Penang**

Allianz Asia Pacific celebrated its top life insurance agents in the Asia Pacific region at the Allianz Asia Pacific Recognition and Education Conference 2011 gala dinner on 20 April 2011 in Penang, Malaysia. Malaysian agents Dato' Sueann Tan Siew Len was named Allianz Asia Pacific's Iron Man Champion, while Winnie Chye Siae Mei won the Allianz Asia Pacifics' Centurion Champion title.

## MAY 2011


**Newly Appointed Head of HR**

Wong Woon Man who has been with Allianz since 2002 was appointed as the Group Head of Human Resources effective 1 May 2011.


**Allianz Donated to Japan Earthquake and Tsunami Victims**

Allianz donated RM372,498.96 to the Malaysian Red Crescent Society ("MRCS") in aid of victims of the massive earthquake and tsunami that struck Japan on 11 March 2011. The amount was collected through the generous contributions from Allianz employees, Directors, agents and business partners in just three weeks.

**AGIC's National Underwriters Seminar 2011**

The AGIC National Underwriters' Seminar 2011 held at the Prince Hotel in Kuala Lumpur from 12 to 13 May 2011 was participated by some 130 underwriters from across Malaysia. The seminar provided participants with a platform to share their views, values and methods with the objective to build better rapport among the team in line with the company's business strategy and aspirations.


**CEO Jens Live on Radio**

Jens Reisch, CEO of AMB and ALIM was interviewed live on the Breakfast Grill slot of the renowned Business radio station BFM 89.9 on 28 April 2011. Among others, Jens shared his views on why minority shareholders should buy into Allianz, the challenges faced by the company and how to overcome them, the company's outlook on the Malaysian insurance sector and its products and services.

**Collaboration with FC Bayern Munich**

Allianz collaborated with premium partner FC Bayern Munich and challenged Malaysian fans to double their presence on the FC Bayern Facebook page within 14 days beginning 10 May 2011. They were enticed with the prospect of asking FC Bayern Munich's player Thomas Muller a question should they win the challenge. Through this challenge, Malaysian fans managed to increase their presence by 46 percent and had drawn the interest of fans across the country.

**Health Awareness Campaign in Seremban**

AGIC's Seremban branch launched a Health Awareness Campaign for its corporate clients with the objective of creating better health awareness among their employees. The first two sessions were held on 9 and 14 May 2011.

## MAY 2011


### Muniandy Coached Students in Sungai Petani

Allianz runner, Muniandy Ramadass conducted a running coaching clinic for students of Sekolah Menengah Kebangsaan Dato Bijaya Setia in Sungai Petani, Kedah on 20 May 2011 on behalf of Allianz. During the clinic, the children were given tips on becoming better runners, taught new running and warming up techniques.


### Annual General Meeting ("AGM") 2011

The 37th AGM was held on 23 June 2011 at the Junior Ballroom of Hotel Intercontinental, Kuala Lumpur. The AGM was attended by shareholders, analysts and several members of the media.

## JULY 2011

### AGIC Signed MOU with BMAM

AGIC signed a MoU with The Building Management Association of Malaysia ("BMAM") at One World Hotel in Petaling Jaya on 11 July 2011. AGIC will provide a comprehensive Professional Building Management Liability Insurance for its members and Registered Building Managers.

## JUNE 2011

### A2Z Portal

Allianz launched its new and integrated staff portal on 13 June 2011. By adapting the new Allianz global branding guideline, the portal provides employees with access to news updates, vital information on the company, important forms and more.

### Allianz Board of Directors Change

Dato' Dr Thillainathan A/L Ramasamy and Karl-Heinz Jung were appointed to the Board in June 2011.

### Allianz Malaysia Launched its Facebook Page

The Allianz Facebook Page was launched on 13 July 2011 as another platform of communication between Allianz and its customers and the general public.

## JULY 2011

**Prof Dr. Michael Heise Presented at University Malaya**

Prof Dr. Michael Heise, Allianz Group Chief Economist addressed students of University Malaya, members of the Malaysian Economic Association, invited guests and the media at the Seminar on "Global Economic and Financial Market Outlook and Implications for Malaysia and The Region" on 25 July 2011.

**Allianz at the Kuala Lumpur Marathon**

Allianz was the largest team to participate in the Standard Chartered Kuala Lumpur Marathon held on 26 June 2011 at Dataran Merdeka in Kuala Lumpur. 238 participants were sponsored by the Allianz Sports Club to take part in the race. Allianz Runner, Muniandy Ramadass finished second in the Malaysian Citizen category for the full marathon run.

**Allianz Partnered with JKJR in Road Safety Awareness Campaigns**

AGIC entered into a MoU with the Road Safety Department ("JKJR") on 18 July 2011 to jointly advocate road safety amongst Malaysians. As part of the co-operation, Allianz and JKJR jointly held nationwide Road Safety Advocacy Campaigns to exchange unsafe helmets for SIRIM-approved ones as well as distribute reflective stickers to motorcyclists. In 2011, 11 Road Safety Advocacy Campaigns were held.

**Allianz Sponsored Ah Beng the Movie: 3 Wishes**

ALIM is one of the main sponsors for the sequel of a locally-produced Chinese movie, Ah Beng the Movie: 3 Wishes. Together with representatives from Proton and Mee Sedap, the ALIM CEO joined the cast and crew at the press conference to launch the film on 13 July 2011 at the JW Marriot Hotel.

**Allianz Named one of the Top Five Best Performing Stocks in Malaysia**

Allianz Malaysia Berhad was named one of the top five Best Performing Stocks under the Finance Sector in Malaysia at the Edge Billion Ringgit Club's Annual Gala Night on 13 July 2011. The Club was launched by The Edge Malaysia and honours the country's biggest and best public listed companies with a market capitalisation or turnover of at least RM1 billion. The winners are selected in a transparent manner based on their annual performance.

## AUGUST 2011


**Allianz was the Title Sponsor for the Penang Bridge International Marathon**

On 18 August 2011, Allianz announced its participation as the Title Sponsor for the Penang Bridge International Marathon. The MOU was signed between YB Danny Law Heng Kiang, Chairman of the Penang Bridge International Marathon and Penang State Exco for Tourism Development and Culture, Jens Reisch and Zakri Khir.

## SEPTEMBER 2011

**Allianz Toastmasters Club Officers' Installation**

The 2011/2012 Allianz Toastmasters Club Officers' Installation was held on 14 September 2011 at Wisma Allianz in Kuala Lumpur. Jens Reisch and Zakri Khir attended the evening ceremony together with Toastmasters Area Governor, Geoff Andrew who also officiated at the Club Officers' oath-taking ceremony.

**Allianz Launched its 19th Synergy Branch in Johor Bahru**

On 13 October 2011, Allianz launched its 19th synergised branch in Johor Bahru which combined both its General and Life Insurance services under one roof. After the launch, a road safety advocacy campaign together with JKJR was also organised.


**Allianz Launched CAR with CIMB**

AGIC collaborated with CIMB in launching the first insurance-in-a-box protection plan, the CIMB Auto Relief ("CAR"). The plan provides customers with comprehensive coverage against car burglary, car replacement and vehicle damage due to floods.

## OCTOBER 2011


**Don't Duck It**

Allianz sponsored the Go Kart Mania race by professional go-kart drivers during the "Passionately You" event at Jaya One, Petaling Jaya on 22 October 2011. "Passionately You" is a Cervical and Breast Cancer Awareness Campaign to support and advocate the importance of cervical and breast cancer awareness and early detection.

## NOVEMBER 2011


**Allianz Participated in the First EduGerMa**

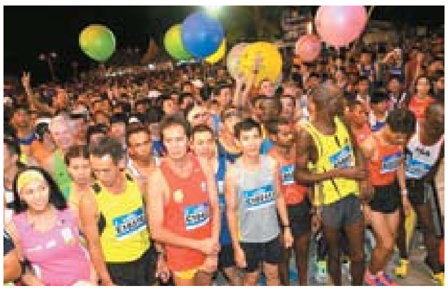
Allianz participated in the first Malaysian-German Conference for Education and Training ('EduGerMa') 2011 organised by the Malaysian-German Chamber of Commerce and Industry on 3 November 2011. The conference aimed to provide an insight into Human Resource Development through German education and training in Malaysia. Allianz had also set up a booth to provide information on Allianz Career Development in Malaysia.

**Regional Market Management Workshop 2011**

The third regional Market Management Workshop was held from 21 to 22 November 2011 in Penang, Malaysia. 39 delegates from 11 countries attended the two day workshop organised by the Allianz Asia Pacific Market Management team. The delegates shared their experiences, best practices and key topics related to market management.

**Allianz Social OPEX Project with MOBILITI**

Allianz carried out a Social OPEX project in Persatuan Mobiliti Selangor and Kuala Lumpur (MOBILITI). Under the project, the Allianz Social OPEX team worked together with MOBILITI to improve their sponsorship management processes.



**Allianz Penang Bridge International Marathon**

The Allianz Penang Bridge International Marathon was held on 20 November 2011 with more than 27,500 people taking part in the run. Allianz aimed to promote the importance of a balanced and healthy lifestyle amongst Malaysians through this marathon.

**Kuala Terengganu Branch Cleaned up Pantai Tok Jembal**

AGIC's Kuala Terengganu Branch joined hands with the Kuala Terengganu City Council to clean up the Pantai Tok Jembal beach on 12 November 2011. Two representatives from MBKT joined 20 employees and their families to help collect debris found along the beach.

**Premier Brand ICON Leadership Award 2011**

Chairman of Allianz Malaysia Berhad, Y. Bhg. Tan Sri Razali Ismail was awarded with the 'Premier Brand ICON Leadership Award 2011'. The award honours top individuals who are influential business leaders. The award ceremony was held at Mandarin Oriental Hotel, Kuala Lumpur on 9 November 2011.

## DECEMBER 2011

**Thailand Flood Fundraiser**

Allianz raised funds nationwide for the flood victims in Thailand from 17 November to 13 December 2011. A grand total of RM56,240.00 was donated by employees, agents and business partners from both AGIC and ALIM. The fund was channelled via the MRCS to provide relief and support to the affected population of Thailand.

## JANUARY 2012

**My Finance Coach Started in Malaysia**

My Finance Coach is a UNESCO-endorsed financial literacy programme. The syllabus is developed by the MFC Foundation which was set up by partner companies Allianz Group, Grey and McKinsey in Munich. The programme aims to teach young people about finance and economics in an engaging way. Allianz employee volunteers are trained as Finance Coaches to conduct these lessons.

## FEBRUARY 2012

**First Townhall for 2012**

Allianz welcomed the leap year by holding its first townhall of the year on 29 February 2012. Accommodating about 700 staff at Wisma MCA, the townhall this saw more speakers making presentation. The townhall played its role as a platform to launch several projects, like the brand new website, announcement of the 10th Anniversary celebrations as well as the new branding campaign, the 'ONE CAMPAIGN'.

**Talent Management and Development Workshop**

Team leaders from the Human Resources Division conducted the Talent Management and Development Workshop for all managerial employees from 10 November to 2 December 2011. The workshop introduced the renewed talent management and development processes such as career paths, career development manual, setting smart targets, target evaluation and promotions exercise and the performance/potential matrix.

**Allianz Entered into Partnership with Themed Attractions**

AGIC and ALIM were amongst seven other corporations that signed a MOU partnership with Themed Attractions for KidZania Malaysia. KidZania is an indoor educational and entertainment theme park scaled down to child's size with its own economy. As partner of KidZania, Allianz has an establishment in this little makeshift city for children to 'work' in or 'buy' policies, etc. With this venture, Allianz hopes to play a role in exposing and teaching children on the importance of insurance in an interactive way.

## MARCH 2012

**Allianz Celebrated 10th Anniversary**

Allianz marked its significant presence in Malaysia for 10 years, since it first began operations here in 2002. Allianz celebrates its anniversary by organising a series of charity fund-raising cum family day events nationwide throughout 2012.

# Financial Statements

# Contents

# Directors' Report

for the financial year ended 31 December 2011

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

## PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding whilst the principal activities of the subsidiaries are as stated in Note 7 to the financial statements. There has been no significant change in the nature of these activities during the financial year.

## RESULTS

| | Group RM'000 | Company RM'000 |
|---|---|---|
| Profit attributable to the owners of the Company | 131,927 | 9,450 |

## 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.

## DIVIDENDS

Since the end of the previous financial year, the Company paid:

(i) a final preference dividend of 4.20 sen per Irredeemable Convertible Preference Share ("ICPS") totalling RM8,078,000 (4.20 sen net per preference share) in respect of the financial year ended 31 December 2010 on 8 August 2011; and

(ii) a final ordinary dividend of 3.50 sen per ordinary share less tax at 25% totalling RM4,036,000 (2.63 sen net per ordinary share) in respect of the financial year ended 31 December 2010 on 8 August 2011.

The final preference and ordinary dividends recommended by the Directors in respect of the financial year ended 31 December 2011 is 6.30 sen per ICPS (2010: 4.20 sen) and 5.25 sen per ordinary share less 25% tax (2010: 3.50 sen less 25% tax) respectively.

## DIRECTORS OF THE COMPANY

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

Tan Sri Razali Ismail (Chairman)
Dato' Seri Nik Abidin Bin Nik Omar
Foo San Kan
Jens Reisch
Zakri Bin Mohd Khir
Ong Eng Chow
Dato' Dr. Thillainathan A/L Ramasamy (appointed on 24 June 2011)
Karl-Heinz Jung (appointed on 24 June 2011)
Craig Anthony Ellis (resigned on 24 June 2011)

## DIRECTORS' INTERESTS IN SHARES

The interests and deemed interests in the shares of RM1.00 each of the Company and of its related corporations (other than wholly-owned subsidiaries) of those who were Directors at financial year end (including the interests of the spouses or children of the Directors who themselves are not Directors of the Company) as recorded in the Register of Directors' Shareholdings are as follows:

| | Number of ordinary shares at RM1.00 each | | | |
|---|---|---|---|---|
| **Interests in the Company** | At 1.1.2011 | Bought | Sold | At 31.12.2011 |
| Zakri Bin Mohd Khir | 100 | – | – | 100 |
| Ong Eng Chow | 100 | – | – | 100 |

| | Number of ICPS of RM1.00 each | | | |
|---|---|---|---|---|
| **Interests in the Company** | At 1.1.2011 | Bought | Sold | At 31.12.2011 |
| Zakri Bin Mohd Khir | 200 | – | – | 200 |
| Ong Eng Chow | 100 | – | – | 100 |

| | Number of registered shares* | | | |
|---|---|---|---|---|
| **Interests in the ultimate holding company, Allianz SE** | At 1.1.2011 | Bought | Sold | At 31.12.2011 |
| Jens Reisch | 536 | 222** | – | 758 |
| Karl-Heinz Jung | 115*** | 222** | – | 337 |

* The shares have no par value.
** Subscription of Allianz SE shares offered under the Employees Stock Purchase Plan 2011.
*** As at appointment date as Director on 24 June 2011.

None of the other Directors holding office at 31 December 2011 had any interest in the ordinary shares and ICPS of the Company and of its related corporations during the financial year.

## 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.

## ISSUE OF SHARES

During the financial year, the Company increased its issued and fully paid-up share capital from RM153,869,000 to RM156,428,000 by way of the issuance of 2,559,000 ordinary shares of RM1 each pursuant to the conversion of 2,559,000 ICPS of RM1 each to ordinary shares of RM1 of the Company. Accordingly, the amount of ICPS in the share capital of the Company was reduced from RM192,337,000 to RM189,778,000.

All the new ordinary shares issued rank *pari passu* in all respects with the existing ordinary shares of the Company except that the new shares shall not be entitled to any dividends, rights, allotments and/or other distributions where the entitlement date is prior to the allotment date of the new ordinary shares.

Save as disclosed above, there were no changes in the authorised, issued and paid-up capital of the Company during the financial year.

## OPTIONS GRANTED OVER UNISSUED SHARES

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

## OTHER STATUTORY INFORMATION

Before the statements of financial position, income statements and statements of comprehensive income of the Group and of the Company were made out, the Directors took reasonable steps to ascertain that:

(i) all known bad debts have been written off and adequate provision made for doubtful debts;

(ii) any current assets which were unlikely to be realised in the ordinary course of business have been written down to an amount which they might be expected so to realise; and

(iii) there was adequate provision for insurance contract liabilities in the Group in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework issued by Bank Negara Malaysia ("BNM").

## OTHER STATUTORY INFORMATION (CONTINUED)

At the date of this report, the Directors are not aware of any circumstances:

(i) that would render the amount written off for bad debts, or the amount of the provision for doubtful debts in the Group and in the Company inadequate to any substantial extent, or

(ii) that would render the value attributed to the current assets in the financial statements of the Group and of the Company misleading, or

(iii) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate, or

(iv) not otherwise dealt with in this report or the financial statements, that would render any amount stated in the financial statements of the Group and of the Company misleading.

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

(i) any charge on the assets of the Group or 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 liability in respect of the Group or of the Company that has arisen since the end of the financial year.

No contingent liability or other liability of any company in the Group 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 Group and of the Company to meet their 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 Group.

In the opinion of the Directors, except for those disclosed in the financial statements, the financial performance of the Group and of the Company for the financial year ended 31 December 2011 have not been substantially affected by any item, transaction or event of a material and unusual nature nor has any such item, transaction or event occurred in the interval between the end of the financial year and the date of this report.

## HOLDING COMPANY

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

## AUDITORS

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

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

**Tan Sri Razali Ismail** **Jens Reisch**

Kuala Lumpur,
Date: 22 March 2012

# 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 120 to 233 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 Group and of the Company as at 31 December 2011 and of their financial performance and cash flows for the financial year then ended.

In the opinion of the Directors, the information set out in Note 41 on page 233 to the financial statements has been compiled in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

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

**Tan Sri Razali Ismail** **Jens Reisch**

Kuala Lumpur,
Date: 22 March 2012

# Statutory Declaration

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

I, **Ong Eng Chow**, the Director primarily responsible for the financial management of Allianz Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 120 to 233 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named in Kuala Lumpur in the Wilayah Persekutuan on 22 March 2012.

**Ong Eng Chow**

Before me:

**Rejinder Singh**
W390
Commissioner of Oaths
Kuala Lumpur

# Independent Auditors' Report

to the members of Allianz Malaysia Berhad and its subsidiaries

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Allianz Malaysia Berhad, which comprise the statements of financial position as of 31 December 2011 of the Group and of the Company, and the income statements, statements of comprehensive income, changes in equity and cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 120 to 233.

### 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 about whether the financial statements are free from material misstatement.

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

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

### 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 Group and of the Company as of 31 December 2011 and of their 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 the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

(b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

## OTHER REPORTING RESPONSIBILITIES

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information set out in Note 41 on page 233 to the financial statements has been compiled by the Company as required by the Bursa Malaysia Securities Berhad Listing Requirements and is not required by Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines. We have extended our audit procedures to report on the process of compilation of such information. In our opinion, the information has been properly compiled, in all material respects, in accordance with the Guidance of Special Matter No.1, *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements,* issued by the Malaysian Institute of Accountants, and presented based on the format prescribed by Bursa Malaysia Securities Berhad.

## OTHER MATTER

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

**KPMG**
Firm Number: AF 0758
Chartered Accountants

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

Petaling Jaya,
Date: 22 March 2012

# Statements of Financial Position

as at 31 December 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 3 | 91,808 | 87,423 | 672 | 819 |
| Intangible assets | 4 | 299,014 | 309,629 | – | – |
| Investment properties | 6 | 3,732 | 3,392 | – | – |
| Investments in subsidiaries | 7 | – | – | 1,084,521 | 1,084,521 |
| Subordinated loans | 16 | – | – | – | 28,171 |
| Deferred tax assets | 17 | – | 2,074 | – | – |
| Reinsurance assets | 12 | 544,946 | 502,384 | – | – |
| Investments | 8 | 973,262 | 871,064 | – | – |
| Other receivables, deposits and prepayments | 10 | 13,026 | 13,864 | 862 | 1,242 |
| **Total non-current assets** | | 1,925,788 | 1,789,830 | 1,086,055 | 1,114,753 |
| **Current assets** | | | | | |
| Investments | 8 | 4,618,635 | 3,762,277 | – | – |
| Subordinated loans | 16 | – | – | 29,396 | – |
| Reinsurance assets | 12 | 609,205 | 546,430 | – | – |
| Deferred acquisition costs | 5 | 49,667 | 42,598 | – | – |
| Insurance receivables | 9 | 116,933 | 100,164 | – | – |
| Other receivables, deposits and prepayments | 10 | 97,406 | 106,733 | 2,578 | 2,718 |
| Current tax assets | | 3,138 | 1,890 | 383 | 1,880 |
| Assets classified as held for sale | 11 | – | 2,440 | – | – |
| Cash and cash equivalents | | 511,892 | 494,755 | 5,871 | 7,631 |
| **Total current assets** | | 6,006,876 | 5,057,287 | 38,228 | 12,229 |
| **Total assets** | | 7,932,664 | 6,847,117 | 1,124,283 | 1,126,982 |
| **Equity** | | | | | |
| Share capital | 19 | 156,428 | 153,869 | 156,428 | 153,869 |
| Irredeemable Convertible Preference Shares | 19 | 189,778 | 192,337 | 189,778 | 192,337 |
| Reserves | 20 | 1,046,711 | 913,395 | 643,374 | 646,038 |
| **Total equity attributable to owners of the Company** | | 1,392,917 | 1,259,601 | 989,580 | 992,244 |

| | Note | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Insurance contract liabilities | 18 | 3,472,397 | 2,033,555 | – | – |
| Other financial liabilities | | 1,463 | 1,582 | – | – |
| Insurance payables | 14 | 13,351 | 16,589 | – | – |
| Other payables and accruals | 15 | 56,964 | 49,921 | – | – |
| Deferred tax liabilities | 17 | 13,224 | 10,427 | 29 | 10 |
| **Total non-current liabilities** | | 3,557,399 | 2,112,074 | 29 | 10 |
| | | | | | |
| **Current liabilities** | | | | | |
| Insurance contract liabilities | 18 | 2,482,332 | 2,985,726 | – | – |
| Other financial liabilities | | 2,789 | 2,013 | – | – |
| Insurance payables | 14 | 269,831 | 275,151 | – | – |
| Other payables and accruals | 15 | 156,702 | 146,906 | 134,674 | 134,728 |
| Benefits and claims liabilities | 13 | 68,573 | 59,545 | – | – |
| Current tax liabilities | | 2,121 | 6,101 | – | – |
| **Total current liabilities** | | 2,982,348 | 3,475,442 | 134,674 | 134,728 |
| **Total liabilities** | | 6,539,747 | 5,587,516 | 134,703 | 134,738 |
| **Total equity and liabilities** | | 7,932,664 | 6,847,117 | 1,124,283 | 1,126,982 |

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

# Income Statements

for the year ended 31 December 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Operating revenue | 21 | 2,751,805 | 2,509,037 | 14,845 | 2,265 |
| Gross earned premiums | 22(a) | 2,519,233 | 2,324,869 | – | – |
| Premiums ceded to reinsurers | 22(b) | (437,000) | (488,136) | – | – |
| **Net earned premiums** | | 2,082,233 | 1,836,733 | – | – |
| Investment income | 23 | 232,572 | 184,168 | 14,845 | 2,265 |
| Realised gains and losses | 24 | 34,267 | 41,611 | – | – |
| Fair value gains and losses | 25 | 509 | 1,150 | – | – |
| Fee and commission income | 26 | 70,853 | 84,709 | – | – |
| Other operating income | | 6,547 | 25,004 | 185 | 44 |
| **Other income** | | 344,748 | 336,642 | 15,030 | 2,309 |
| Gross benefits and claims paid | 27(a) | (990,686) | (971,830) | – | – |
| Claims ceded to reinsurers | 27(b) | 254,870 | 277,389 | – | – |
| Gross change in contract liabilities | 27(c) | (834,050) | (689,111) | – | – |
| Change in contract liabilities ceded to reinsurers | 27(d) | 74,745 | 72,606 | – | – |
| **Net benefits and claims** | | (1,495,121) | (1,310,946) | – | – |
| Fee and commission expense | | (436,620) | (409,604) | – | – |
| Management expenses | 28 | (270,627) | (241,547) | (3,136) | (2,151) |
| Other operating expenses | | (19,730) | (19,728) | (176) | (207) |
| **Other expenses** | | (726,977) | (670,879) | (3,312) | (2,358) |
| **Profit/(Loss) before tax** | | 204,883 | 191,550 | 11,718 | (49) |
| Tax expense | 29 | (72,956) | (62,350) | (2,268) | (206) |
| **Net profit/(loss) for the year** | | 131,927 | 129,200 | 9,450 | (255) |

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

# Statements of Comprehensive Income

for the year ended 31 December 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2010<br>RM'000 |
| **Net profit/(loss) for the year** | | 131,927 | 129,200 | 9,450 | (255) |
| **Other comprehensive income** | | | | | |
| Fair value of available-for-sale financial assets | 8 | 12,164 | 2,386 | – | – |
| Revaluation of property, plant and equipment | | 5,425 | (42) | – | (514) |
| Tax effects thereon | | (4,086) | (619) | – | 102 |
| **Total other comprehensive income/(loss) for the year, net of tax** | | 13,503 | 1,725 | – | (412) |
| **Total comprehensive income/(loss) for the year** | | 145,430 | 130,925 | 9,450 | (667) |
| Profit/(Loss) attributable to: | | | | | |
| Owners of the Company | | 131,927 | 129,200 | 9,450 | (255) |
| Total comprehensive income/(loss) for the year attributable to: | | | | | |
| Owners of the Company | | 145,430 | 130,925 | 9,450 | (667) |
| **Basic earnings per ordinary share (sen)** | 30(a) | 85.53 | 83.97 | – | – |
| **Diluted earnings per ordinary share (sen)** | 30(b) | 35.26 | 50.33 | – | – |

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

# Statements of Changes in Equity
for the year ended 31 December 2011

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | *Non-distributable* | | | | | *Distributable* | |
| **Group** | Note | Share capital RM'000 | Preference shares RM'000 | Share premium RM'000 | Asset revaluation reserve RM'000 | Fair value reserve RM'000 | Retained earnings RM'000 | Total equity RM'000 |
| **At 1 January 2010** | | 153,869 | – | 5,529 | 5,397 | 9,669 | 344,889 | 519,353 |
| Fair value of available-for-sale financial assets | | – | – | – | – | 1,767 | – | 1,767 |
| Revaluation of property, plant and equipment | | – | – | – | (42) | – | – | (42) |
| Total other comprehensive income for the year | | – | – | – | (42) | 1,767 | – | 1,725 |
| Profit for the year | | – | – | – | – | – | 129,200 | 129,200 |
| Total comprehensive income for the year | | – | – | – | (42) | 1,767 | 129,200 | 130,925 |
| Issuance of Irredeemable Convertible Preference Shares ("ICPS") | | – | 192,337 | 419,294 | – | – | – | 611,631 |
| Dividends to owners of the Company | 31 | – | – | – | – | – | (2,308) | (2,308) |
| **At 31 December 2010/At 1 January 2011** | | 153,869 | 192,337 | 424,823 | 5,355 | 11,436 | 471,781 | 1,259,601 |
| Fair value of available-for-sale financial assets | | – | – | – | – | 9,123 | – | 9,123 |
| Revaluation of property, plant and equipment | | – | – | – | 4,380 | – | – | 4,380 |
| Total other comprehensive income for the year | | – | – | – | 4,380 | 9,123 | – | 13,503 |
| Profit for the year | | – | – | – | – | – | 131,927 | 131,927 |
| Total comprehensive income for the year | | – | – | – | 4,380 | 9,123 | 131,927 | 145,430 |
| Conversion of Irredeemable Convertible Preference Shares to Ordinary Shares | | 2,559 | (2,559) | – | – | – | – | – |
| Dividends to owners of the Company | 31 | – | – | – | – | – | (12,114) | (12,114) |
| **At 31 December 2011** | | 156,428 | 189,778 | 424,823 | 9,735 | 20,559 | 591,594 | 1,392,917 |
| | | Note 19 | Note 19 | Note 20.1 | Note 20.2 | Note 20.3 | Note 20 | |

| Company | Note | Share capital RM'000 | Preference shares RM'000 | Share premium RM'000 | Asset revaluation reserve RM'000 | Retained earnings RM'000 | Total equity RM'000 |
|---|---|---|---|---|---|---|---|
| | | ← Attributable to owners of the Company → | | | | | |
| | | ← *Non-distributable* → | | | | *Distributable* | |
| **At 1 January 2010** | | 153,869 | – | 5,529 | 412 | 223,264 | 383,074 |
| Revaluation of property, plant and equipment | | – | – | – | (412) | – | (412) |
| Total other comprehensive income for the year | | – | – | – | (412) | – | (412) |
| Profit for the year | | – | – | – | – | (255) | (255) |
| Total comprehensive income for the year | | – | – | – | (412) | (255) | (667) |
| Issuance of Irredeemable Convertible Preference Shares ("ICPS") | | – | 192,337 | 419,294 | – | – | 611,631 |
| Disposal of land and buildings | | – | – | – | – | 514 | 514 |
| Dividends to owners of the Company | 31 | – | – | – | – | (2,308) | (2,308) |
| **At 31 December 2010/1 January 2011** | | 153,869 | 192,337 | 424,823 | – | 221,215 | 992,244 |
| Profit for the year | | – | – | – | – | 9,450 | 9,450 |
| Total comprehensive income for the year | | – | – | – | – | 9,450 | 9,450 |
| Conversion of Irredeemable Convertible Preference Shares to Ordinary Shares | | 2,559 | (2,559) | – | – | – | – |
| Dividends to owners of the Company | 31 | – | – | – | – | (12,114) | (12,114) |
| **At 31 December 2011** | | 156,428 | 189,778 | 424,823 | – | 218,551 | 989,580 |
| | | Note 19 | Note 19 | Note 20.1 | | Note 20 | |

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

# Statements of Cash Flow

for the year ended 31 December 2011

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2010<br>RM'000 |
| **Cash flows from operating activities** | | | | |
| Profit/(Loss) before tax | 204,883 | 191,550 | 11,718 | (49) |
| Investment income | (232,572) | (184,168) | (14,845) | (2,265) |
| Realised gains recorded in income statement | (34,559) | (41,480) | – | – |
| Fair value gains on investments recorded in income statement | (169) | (1,370) | – | – |
| Purchase of held-to-maturity ("HTM") financial investments | (196,304) | (188,136) | – | – |
| Maturity of HTM financial investments | 10,000 | 40,000 | – | – |
| Purchase of available-for-sale ("AFS") financial investments | (1,679,886) | (2,096,576) | – | – |
| Maturity of AFS financial investments | 472,246 | 462,356 | – | – |
| Proceeds from sale of AFS financial investments | 563,045 | 1,051,126 | – | – |
| Purchase of held-for-trading ("HFT") financial investments | (364,649) | (2,955,839) | – | – |
| Maturity of HFT financial investments | 13,999 | 2,491,372 | – | – |
| Proceeds from sale of HFT financial investments | 273,993 | 431,430 | – | – |
| Change in loans and receivables | 7,739 | (161,248) | – | 20,801 |
| **Non-cash items:** | | | | |
| Change in fair value of investment properties | (340) | 220 | – | – |
| Increase in fair value changes recorded in insurance contract liabilities | (12,224) | (60,370) | – | – |
| Unrealised foreign exchange gains | (726) | – | – | – |
| Depreciation of property, plant and equipment | 11,400 | 10,210 | 273 | 261 |
| Amortisation of intangible assets | 11,349 | 11,202 | – | – |
| Loss/(Gain) on disposal of property, plant and equipment | 60 | (131) | (137) | – |
| Impairment loss on property, plant and equipment | – | 1,041 | – | – |
| Impairment loss on properties held for sale | – | 538 | – | – |
| Interest expense | 1,369 | 1,343 | – | – |
| Property, plant and equipment written off | 862 | 49 | 2 | – |
| Loss on disposal of properties previously classified as held for sale | 232 | – | – | – |
| Insurance and other receivables: | | | | |
| – Impairment loss written off | 6,675 | 2,951 | – | – |
| – Reversal of allowance for impairment loss | (11,113) | (1,063) | – | – |
| – Impairment loss recovered | (233) | (122) | – | – |

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Changes in working capital:** | | | | |
| Change in reinsurance assets | (105,337) | (50,048) | – | – |
| Change in insurance receivables | (11,974) | 47,382 | – | – |
| Change in other receivables, deposits and prepayments | 10,074 | (33,342) | 453 | (594) |
| Change in insurance contract liabilities | 933,835 | 778,353 | – | – |
| Change in deferred acquisition costs | (7,069) | (3,198) | – | – |
| Change in other financial liabilities | 657 | (201) | – | – |
| Change in insurance payables | (9,927) | 14,334 | – | – |
| Change in other payables | 17,528 | (4,709) | (54) | (22,094) |
| Change in benefits and claims liabilities | 9,028 | 22,386 | – | – |
| **Cash used in operating activities** | (118,108) | (224,158) | (2,590) | (3,940) |
| Tax (paid)/refunded | (78,521) | (62,015) | (752) | 99 |
| Dividend received | 14,663 | 10,467 | 13,500 | – |
| Coupon interest received | 219,985 | 172,658 | 187 | 2,265 |
| Others | – | (2,925) | – | – |
| **Net cash generated from/(used in) operating activities** | 38,019 | (105,973) | 10,345 | (1,576) |
| **Investing activities** | | | | |
| Proceeds from disposal of property, plant and equipment | 682 | 1,203 | 150 | – |
| Proceeds from disposal of properties previously classified as held for sale | 2,208 | – | – | – |
| Acquisition of property, plant and equipment | (10,820) | (7,438) | (141) | (893) |
| Acquisition of intangible assets | (149) | (1,519) | – | – |
| Increase of investment in subsidiaries | – | – | – | (157,908) |
| **Net cash (used in)/generated from investing activities** | (8,079) | (7,754) | 9 | (158,801) |
| **Financing activities** | | | | |
| Issuance of preference shares | – | 611,631 | – | 611,631 |
| Dividends paid | (12,114) | (2,308) | (12,114) | (2,308) |
| Repayment of finance lease liabilities | (689) | (1,106) | – | – |
| Repayment of subordinated loans | – | (490,000) | – | (449,268) |
| **Net cash (used in)/generated from financing activities** | (12,803) | 118,217 | (12,114) | 160,055 |
| Net increase/(decrease) in cash and cash equivalents | 17,137 | 4,490 | (1,760) | (322) |
| Cash and cash equivalents at 1 January | 494,755 | 490,265 | 7,631 | 7,953 |
| **Cash and cash equivalents at 31 December** | 511,892 | 494,755 | 5,871 | 7,631 |
| **Cash and cash equivalents comprise:** | | | | |
| Fixed and call deposits with licensed financial institutions (with maturity of less than three months) | 488,592 | 488,121 | 5,615 | 7,223 |
| Cash and bank balances | 23,300 | 6,634 | 256 | 408 |
| | 511,892 | 494,755 | 5,871 | 7,631 |

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

# Notes to the Financial Statements

## PRINCIPAL ACTIVITIES AND GENERAL INFORMATION

Allianz Malaysia Berhad is a public limited liability company, incorporated and domiciled in Malaysia and is listed on the Main Market of Bursa Malaysia Securities Berhad. The address of the principal place of business and registered office of the Company is as follows:

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

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group" and individually referred to as "Group entities"). The financial statements of the Company as at and for the year ended 31 December 2011 do not include other entities.

The Company is principally engaged in investment holding activities while the principal activities of the subsidiaries are as stated in Note 7.

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

The financial statements were approved by the Board of Directors on 22 March 2012.

## 1. BASIS OF PREPARATION

### 1.1 Statement of compliance

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

The Company has been granted relief by the Companies Commission of Malaysia to prepare its consolidated financial statements on the basis consistent with the basis of preparation of the Group's insurance subsidiary company. Accordingly, the consolidated financial statements of the Company have been prepared in accordance with the Financial Reporting Standards ("FRSs") in Malaysia, as modified by Guidelines/Circulars ("Modified FRSs") issued by Bank Negara Malaysia ("BNM"), provisions of the Companies Act, 1965 and the Insurance Act and Regulations, 1996.

The following are accounting standards, amendments and interpretations of the FRS framework that have been issued by the Malaysian Accounting Standards Board ("MASB") but have not been adopted by the Group and the Company:

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

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

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

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

## 1. BASIS OF PREPARATION (CONTINUED)

### 1.1 Statement of compliance (continued)

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

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

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

- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits (2011)*
- FRS 127, *Separate Financial Statements (2011)*
- FRS 128, *Investments in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Mandatory Date of FRS 9 and Transition Disclosures*

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

- Amendments to FRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*

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

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

The Group's and the Company's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by the MASB and International Financial Reporting Standards ("IFRSs"). As a result, the Group and the Company will not be adopting the above FRSs, Interpretations and amendments.

### 1.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for those assets and financial instruments that have been measured at their fair value as disclosed in the financial statements.

### 1.3 Functional and presentation currency

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

### 1.4 Use of estimates and judgements

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

## 1. BASIS OF PREPARATION (CONTINUED)

### 1.4 Use of estimates and judgements (continued)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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 2.3.1 – revaluation of owner occupied properties
Note 2.6 – fair value of financial instruments
Note 2.8 – valuation of investment properties
Note 2.25.1 – valuation of general insurance claims liabilities
Note 2.25.2 – valuation of life insurance contract liabilities
Notes 4 – determination of the recoverable amounts of cash-generating units

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the Group entities, unless otherwise stated.

### 2.1 Basis of consolidation

#### 2.1.1 Subsidiaries

Subsidiaries are entities, including unincorporated entities, controlled by the Group. Control exists when the Group has the ability to exercise its power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are measured in the Company's statement of financial position at cost less any impairment losses. The cost of investments includes transaction costs.

The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group.

#### 2.1.2 Accounting for business combinations

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

The Group has changed its accounting policy with respect to accounting for business combinations.

From 1 January 2011, the Group has applied FRS 3, *Business Combinations* (revised) in accounting for business combinations. The change in accounting policy has been applied prospectively in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of consolidation (continued)

#### 2.1.2 Accounting for business combinations (continued)

**Acquisitions on or after 1 January 2011**

For acquisition on or after 1 January 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in income statements.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in income statements.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in income statements.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

**Acquisitions between 1 January 2006 to 1 January 2011**

For acquisition between 1 January 2006 to 1 January 2011, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in income statements.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

**Acquisitions prior to 1 January 2006**

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of consolidation (continued)

#### 2.1.3 Accounting for acquisition of non-controlling interests

The Group treats all changes in its ownership interest in a subsidiary that do not result in a loss of control as equity transactions between the Group and its non-controlling interest holders. Any difference between the Group's share of net assets before and after the change, and any consideration received or paid, is adjusted to or against Group reserves.

#### 2.1.4 Loss of control

The Group also applied FRS 127, *Consolidated and Separate Financial Statements* (revised) since the beginning of the reporting period in accordance with the transitional provisions provided by the standard and does not have impact on earnings per share. Upon the loss of control of a subsidiary, the Group will derecognise the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus of deficit arising on the loss of control is recognised in income statements. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

In the previous financial years, if the Group retained any interest in the previous subsidiary, such interest was measured at the carrying amount at the date that control was lost and this carrying amount would be regarded as cost on initial measurement of the investment.

#### 2.1.5 Non-controlling interests

Non-controlling interests at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Company, are presented in the consolidated statement of financial position and statement of changes in equity within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group is presented in the consolidated statement of comprehensive income for the year segregated between non-controlling interests and the owners of the Company.

Since the beginning of the reporting period, the Group has applied FRS 127, *Consolidated and Separate Financial Statements* (revised) where losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interest even if doing so causes the non-controlling interests to have a deficit balance. This change in accounting policy is applied prospectively in accordance with the transitional provisions of the standard and does not have impact on earnings per share.

In the previous financial years, where losses applicable to the non-controlling interests exceed their interests in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling interests, were charged against the Group's interest except to the extent that the non-controlling interests had a binding obligation to, and was able to, make additional investment to cover the losses. If the subsidiary subsequently reported profits, the Group's interest was allocated with all such profits until the non-controlling interests' share of losses previously absorbed by the Group had been recovered.

#### 2.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

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

Non-monetary assets and liabilities denominated in foreign currencies are not retranslated at the end of the reporting date except for those that are measured at fair value 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 statements, except for differences arising on the retranslation of available-for-sale equity instruments or a financial instrument designated as a hedge of currency risk, which are recognised in other comprehensive income.

### 2.3 Property, plant and equipment

#### 2.3.1 Recognition and measurement

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

The Group 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 statements.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Property, plant and equipment (continued)

#### 2.3.1 Recognition and measurement (continued)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged between knowledgeable willing parties in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items when available and replacement cost when appropriate.

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.

The gain and loss 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 is recognised net within "realised gains and losses" respectively in the income statements. When revalued assets are sold, the amounts included in the revaluation reserve account are transferred to retained earnings.

#### 2.3.2 Subsequent cost

The cost of replacing a 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 Group or the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised to income statements. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statements as incurred.

#### 2.3.3 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 statements 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 Group 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:

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3 Property, plant and equipment (continued)

#### 2.3.3 Depreciation (continued)

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

### 2.4 Intangible assets

#### 2.4.1 Goodwill

Goodwill arises on business combinations is measured at cost less any accumulated impairment losses.

For acquisitions prior to 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the fair values of the net identifiable assets and liabilities.

For business acquisitions beginning 1 January 2006, goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in the income statements.

#### 2.4.2 Development costs

Expenditure incurred on software development is capitalised, only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

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

#### 2.4.3 Other intangible assets

Intangible assets, other than goodwill, that are acquired by the Group, which have finite useful lives, are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The fair value of intangible assets acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

#### 2.4.4 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 statements as incurred.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Intangible assets (continued)

#### 2.4.5 Amortisation

Amortisation is based on the cost of an asset less its residual value.

Goodwill with indefinite useful lives is not amortised but are tested for impairment annually and whenever there is an indication that it may be impaired.

Other intangible assets with finite useful lives are amortised from the date that they are available for use.

Amortisation is recognised in the income statements 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 and 10 years |

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

### 2.5 Leased assets

#### 2.5.1 Finance lease

Leases in terms of which the Group or 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.

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

#### 2.5.2 Operating lease

Leases, where the Group or the Company does not assume substantially all the risks and rewards of the ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the statements 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.5 Leased assets (continued)

#### 2.5.2 Operating lease (continued)

Payments made under operating leases are recognised in the income statements 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 statements as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to income statements in the reporting period in which they are incurred.

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

### 2.6 Financial instruments

#### 2.6.1 Initial recognition and measurement

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

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

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

#### 2.6.2 Financial instruments categories and subsequent measurement

The Group and the Company categorise and measure financial instruments as follows:

**Financial assets**

**(a) Financial assets at fair value through profit or loss**

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Financial instruments (continued)

#### 2.6.2 Financial instruments categories and subsequent measurement (continued)

**Financial assets (continued)**

**(b) Held-to-maturity investments**

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the Group or the Company has the positive intention and ability to hold them to maturity.

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

**(c) Loans and receivables, excluding insurance receivables**

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

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

**(d) 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 statements. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into income statements. Interest calculated for a debt instrument using the effective interest method is recognised in income statements.

**(e) 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 carrying amount of the insurance receivable will be reduced accordingly and the impairment loss recognised in income statements. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.7.2.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Financial instruments (continued)

#### 2.6.2 Financial instruments categories and subsequent measurement (continued)

**Financial assets (continued)**

**(e) Insurance receivables**

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.6.5 have been met.

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

**Financial liabilities**

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

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

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

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 statements.

#### 2.6.3 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 statements using a straight-line method over the contractual period or, when there is no specified contractual period, recognised in income statements 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.6 Financial instruments (continued)

#### 2.6.4 Regular way purchase or sale of financial assets

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

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

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

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

#### 2.6.5 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 statements.

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 statements.

### 2.7 Impairment

#### 2.7.1 Financial assets, excluding insurance receivables

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

An impairment loss in respect of loans and receivables (excluding insurance receivables as set out in Note 2.7.2 below) and held-to-maturity investments is recognised in income statements and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Impairment (continued)

#### 2.7.1 Financial assets, excluding insurance receivables (continued)

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

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

Impairment losses recognised in income statements for an investment in an equity instrument classified as available-for-sale are not reversed through income statements.

If, in a subsequent financial 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 statements, the impairment loss is reversed, to the extent that the financial asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statements.

#### 2.7.2 Insurance receivables

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.7 Impairment (continued)

#### 2.7.3 Other assets

The carrying amounts of other assets (except for investment property that is measured at fair value, deferred tax assets and non-current assets classified as held for sale) are reviewed at the end of 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 goodwill that has indefinite useful lives, the recoverable amount is estimated usually at each reporting date.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (known as "cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the synergies of the combination.

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, estimate future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statements.

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to income statements in the financial year in which the reversals are recognised, unless it reverses an impairment loss on a revalued asset, in which case it is credited directly to revaluation reserve. When an impairment loss on the same revalued asset was previously recognised in the income statements, a reversal of that impairment loss is recognised in the income statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Investment properties

#### 2.8.1 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 statements in the period in which they arise.

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.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

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 statements in the period in which the item is derecognised.

#### 2.8.2 Reclassification to/from investment property

When an item of property, plant and equipment is transferred to investment properties following a change in its use, any difference arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised in other comprehensive income and accumulated in equity as revaluation reserve. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statements. 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 statements.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.8 Investment properties (continued)

#### 2.8.3 Determination of fair value

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

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

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

### 2.9 Non-current assets held for sale

Non-current assets, or disposal group comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets or disposal group are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statements. Gains are not recognised in excess of any cumulative impairment loss.

Intangible assets and property, plant and equipment once classified as held for sale are not amortised or depreciated.

### 2.10 Cash and cash equivalents and placements with financial institutions

Cash and cash equivalents consist of cash on hands, deposits with financial institutions and highly liquid investments which have an insignificant risk of changes in value with original maturities of three months or less. For the purpose of statements of cash flow, cash and cash equivalents are presented net of bank overdrafts.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy note 2.6.2 (c).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Equity instruments

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

**Preference share capital**

Preference share capital is classified as equity if it is non-redeemable, or is redeemable but only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity.

Preference share capital is classified as financial liability if it is redeemable on a specific date or at the option of the equity holders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in income statements as accrued.

### 2.12 Provisions

A provision is recognised if, as a result of a past event, the Group and the Company have 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.

**Contingent liabilities**

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 Group.

### 2.13 Other financial liabilities and payables

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

### 2.14 Product classification

Product classification applies to the Group's general insurance and life insurance subsidiaries.

The insurance subsidiaries issue 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.14 Product classification (continued)

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the insurance subsidiary (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 insurance subsidiary determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or 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 and unbundling 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 amount 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 statements of financial position similar to investment contracts.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.15 Reinsurance

Reinsurance applies to the Group's general insurance and life insurance subsidiaries.

Insurance risk is ceded 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 insurance subsidiary 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 insurance subsidiary 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 insurance subsidiary will receive from the reinsurer. The impairment loss is recorded in income statements.

The insurance subsidiary also assumes reinsurance risk in the normal course of business for life insurance and general (non-life) insurance contracts when applicable.

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

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statements 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)

### 2.16 General insurance underwriting results

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

#### 2.16.1 Premium income

**(a) Gross premiums**

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

**(b) Reinsurance premiums**

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

Inwards treaty reinsurance premiums comprise both proportional and non-proportional treaties. In respect of reinsurance premiums relating to proportional treaties, it is recognised on the basis of periodic advices received from the cedants given that the periodic advices reflect the individual underlying risks being incepted and reinsured at various inceptions dates of these risks and contractually accounted for, as such to reinsurers under the terms of the proportional treaties.

In respect of reinsurance premiums relating to non-proportional treaties which cover losses occurring during a specified treaty period, the inwards treaty reinsurance premiums are recognised based on the contractual premiums already established at the start of the treaty period under the non-proportional treaty contract.

#### 2.16.2 Unearned premium reserves ("UPR")

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

In determining UPR at the end of the reporting period, the method that most accurately reflects the actual unearned premium used is as follows:

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 General insurance underwriting results (continued)

#### 2.16.3 Claims and expenses

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

The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the end of the reporting period.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the end of the reporting period, using a mathematical method of estimation.

#### 2.16.4 Acquisition costs and deferred acquisition cost (“DAC”)

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

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

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

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

#### 2.16.5 General insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

**Claims liabilities**

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.16 General insurance underwriting results (continued)

#### 2.16.5 General insurance contract liabilities (continued)

**Premium liabilities**

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

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

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

### 2.17 Life insurance underwriting results

#### 2.17.1 Surplus of Life fund

The surplus transferable from the Life fund to the income statements is based on the surplus determined by an annual actuarial valuation of the liabilities to policyholders, made in accordance with the provisions of the Insurance Act 1996 by the subsidiary's appointed actuary.

#### 2.17.2 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. Premiums not received on due dates are recognised as revenue in the income statements and reported as outstanding premiums in the statements of financial position.

#### 2.17.3 Reinsurance premiums

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Life insurance underwriting results (continued)

#### 2.17.4 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.

#### 2.17.5 Life insurance contract liabilities

Life insurance contract 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 benefits 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 actuarial 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 as the contract level derived as stated above.

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.17 Life insurance underwriting results (continued)

#### 2.17.5 Life insurance contract liabilities (continued)

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 statements. Profits originated from margins of adverse deviations on run-off contracts, are recognised in income statements over the life of the contract, whereas losses are fully recognised in income statements during the first year of run-off.

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

#### 2.17.6 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.

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 statements of financial position.

Fair value adjustments are performed at each reporting date and are recognised in income statements. 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 investment-linked fund multiplied by the unit-price of those funds at the end of the reporting period. The fund assets and fund liabilities used to determine the unit-prices at the end of the reporting period are adjusted to take into account the effect of deferred tax on unrealised gains 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.

### 2.18 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.19 Commission and agency expenses

Gross commission and agency expenses, which are cost directly incurred in securing premium on insurance policies, and income derived from reinsurance in the course of ceding of premiums to reinsurers, are charged to income statements in the period in which they are incurred or deferred where appropriate as set out in Note 2.16.4.

### 2.20 Other revenue recognition

#### 2.20.1 Interest income

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

#### 2.20.2 Rental income

Rental income from investment properties is recognised in the income statements 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 on an accrual basis.

#### 2.20.3 Dividend income

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

#### 2.20.4 Realised gains and losses on investments

Realised gains and losses recorded in income statements 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.

### 2.21 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 Group and the Company have 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 Group's and the Company's contribution to the statutory pension funds are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group and the Company have no further payment obligations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statements except to the extent that it relates to a business combination, items recognised directly in equity or insurance contract liabilities.

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

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

Deferred tax liability is recognised for all taxable temporary differences.

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

### 2.23 Earnings per ordinary share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares, which comprise convertible notes.

### 2.24 Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Chief Executive Officer of the Group, to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Significant accounting judgements, estimates and assumptions

#### 2.25.1 Valuation of general insurance claims liabilities

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.25 Significant accounting judgements, estimates and assumptions (continued)

#### 2.25.2 Valuation of life insurance contract liabilities

The valuation of life insurance contract liabilities is based on the Risk-Based Capital Framework for Insurers, 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 benefits 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 actuarial liabilities of investment-linked policies.

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; applied to 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 actuarial 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 zero-coupon spot yields of Malaysian Government Securities ("MGS") with matching duration. Risk-free discount rate for durations of 15 years or more is 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.

## 3. PROPERTY, PLANT AND EQUIPMENT

| Group | Note | Land RM'000 | Buildings RM'000 | Land and buildings* RM'000 | Office equipment, computers, furniture and fittings RM'000 | Motor vehicles RM'000 | Office renovations and partitions RM'000 | Work in progress# RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | | | | | |
| At 1 January 2010 | | 16,564 | 18,035 | 26,610 | 26,903 | 2,906 | 20,925 | 7,913 | 119,856 |
| Additions | | – | – | – | 1,614 | 882 | 295 | 4,647 | 7,438 |
| Disposals | | – | (1,085) | – | (963) | (584) | (43) | – | (2,675) |
| Written off | | – | – | – | (706) | – | (77) | – | (783) |
| Reclassification | | – | – | – | 6,213 | – | 251 | (7,595) | (1,131) |
| Transfer to assets held for sale | 11 | (440) | (1,810) | – | – | – | – | – | (2,250) |
| At 31 December 2010/ 1 January 2011 | | 16,124 | 15,140 | 26,610 | 33,061 | 3,204 | 21,351 | 4,965 | 120,455 |
| Additions | | – | – | – | 3,696 | 380 | 1,270 | 5,474 | 10,820 |
| Disposals | | – | – | – | (1,790) | (921) | (6) | – | (2,717) |
| Written off | | – | – | – | (1,573) | – | (3,375) | – | (4,948) |
| Reclassification | | – | – | – | 5,666 | – | 1,969 | (8,220) | (585) |
| Revaluation | | 3,752 | 612 | – | – | – | – | – | 4,364 |
| At 31 December 2011 | | 19,876 | 15,752 | 26,610 | 39,060 | 2,663 | 21,209 | 2,219 | 127,389 |

* The carrying amounts of land and buildings are not segregated as the required information is not available.
# Certain work-in-progress were reclassified as software development costs (intangible assets), see Note 4.

| Group | Note | Land RM'000 | Buildings RM'000 | Land and buildings* RM'000 | Office equipment, computers, furniture and fittings RM'000 | Motor vehicles RM'000 | Office renovations and partitions RM'000 | Work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Depreciation** | | | | | | | | | |
| 1 January 2010 | | 554 | 1,669 | 1,309 | 12,649 | 1,761 | 6,327 | – | 24,269 |
| Depreciation for the year | 28 | 141 | 540 | 531 | 6,303 | 323 | 2,372 | – | 10,210 |
| Disposals | | – | (76) | – | (931) | (569) | (27) | – | (1,603) |
| Written off | | – | – | – | (659) | – | (75) | – | (734) |
| Transfer to assets held for sale | 11 | – | (151) | – | – | – | – | – | (151) |
| At 31 December 2010/ 1 January 2011 | | 695 | 1,982 | 1,840 | 17,362 | 1,515 | 8,597 | – | 31,991 |
| Depreciation for the year | 28 | 197 | 657 | 565 | 6,783 | 798 | 2,400 | – | 11,400 |
| Disposals | | – | – | – | (1,350) | (621) | (4) | – | (1,975) |
| Written off | | – | – | – | (1,440) | – | (2,646) | – | (4,086) |
| Offset of accumulated depreciation on revaluation | | (735) | (2,055) | – | – | – | – | – | (2,790) |
| At 31 December 2011 | | 157 | 584 | 2,405 | 21,355 | 1,692 | 8,347 | – | 34,540 |

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

## 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Group | Note | Land RM'000 | Buildings RM'000 | Land and buildings* RM'000 | Office equipment, computers, furniture and fittings RM'000 | Motor vehicles RM'000 | Office renovations and partitions RM'000 | Work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Impairment** | | | | | | | | | |
| At 1 January 2010 | | – | – | – | – | – | – | – | – |
| Additions | | – | – | (1,041) | – | – | – | – | (1,041) |
| At 31 December 2010/ 1 January 2011/ 31 December 2011 | | – | – | (1,041) | – | – | – | – | (1,041) |
| **Carrying amounts** | | | | | | | | | |
| At 1 January 2010 | | 16,010 | 16,366 | 25,301 | 14,254 | 1,145 | 14,598 | 7,913 | 95,587 |
| At 31 December 2010/ 1 January 2011 | | 15,429 | 13,158 | 23,729 | 15,699 | 1,689 | 12,754 | 4,965 | 87,423 |
| At 31 December 2011 | | 19,719 | 15,168 | 23,164 | 17,705 | 971 | 12,862 | 2,219 | 91,808 |

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

| Company | Note | Freehold land RM'000 | Buildings RM'000 | Land and buildings RM'000 | Office equipment, computers, furniture and fittings RM'000 | Motor vehicles RM'000 | Office renovations and partitions RM'000 | Work in progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2010 | | – | – | – | 10 | 848 | 15 | – | 873 |
| Additions | | – | – | – | 10 | 882 | – | 1 | 893 |
| At 31 December 2010/ 1 January 2011 | | – | – | – | 20 | 1,730 | 15 | 1 | 1,766 |
| Additions | | – | – | – | 139 | – | – | 2 | 141 |
| Disposals | | – | – | – | – | (395) | – | – | (395) |
| Written off | | – | – | – | (2) | – | – | – | (2) |
| At 31 December 2011 | | – | – | – | 157 | 1,335 | 15 | 3 | 1,510 |
| **Depreciation** | | | | | | | | | |
| At 1 January 2010 | | – | – | – | 5 | 677 | 4 | – | 686 |
| Depreciation for the year | 28 | – | – | – | 5 | 246 | 10 | – | 261 |
| At 31 December 2010/ 1 January 2011 | | – | – | – | 10 | 923 | 14 | – | 947 |
| Depreciation for the year | 28 | – | – | – | 20 | 252 | 1 | – | 273 |
| Reclassification | | – | – | – | (4) | 13 | (9) | – | – |
| Disposals | | – | – | – | – | (382) | – | – | (382) |
| At 31 December 2011 | | – | – | – | 26 | 806 | 6 | – | 838 |
| **Carrying amounts** | | | | | | | | | |
| At 1 January 2010 | | – | – | – | 5 | 171 | 11 | – | 187 |
| At 31 December 2010/ 1 January 2011 | | – | – | – | 10 | 807 | 1 | 1 | 819 |
| At 31 December 2011 | | – | – | – | 131 | 529 | 9 | 3 | 672 |

## 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 3.1 Revaluation of properties

All the Group's land and buildings were revalued in October 2011 by independent professional qualified valuers using the comparison method.

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

| Group | 2011<br>RM'000 | 2010<br>RM'000 |
|---|---|---|
| Land | 12,304 | 12,404 |
| Buildings | 7,662 | 7,916 |
| Land and buildings | 21,736 | 24,724 |
| | 41,702 | 45,044 |

### 3.2 Leased computers

At 31 December 2011, the net carrying amounts of leased computers of the Group was RM162,000 (2010: RM1,156,000).

### 3.3 Land

Included in the carrying amounts of land are:

| Group | 2011<br>RM'000 | 2010<br>RM'000 |
|---|---|---|
| Freehold land | 7,449 | 5,760 |
| Long term leasehold land | 12,270 | 9,669 |
| | 19,719 | 15,429 |

## 4. INTANGIBLE ASSETS

| Group | Note | Goodwill RM'000 | Software development costs RM'000 | Other intangible assets RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2010 | | 244,600 | 12,348 | 88,933 | 345,881 |
| Additions | | – | 1,519 | – | 1,519 |
| Reclassification | 3 | – | 1,131 | – | 1,131 |
| At 31 December 2010/1 January 2011 | | 244,600 | 14,998 | 88,933 | 348,531 |
| Additions | | – | 149 | – | 149 |
| Reclassification | 3 | – | 585 | – | 585 |
| At 31 December 2011 | | 244,600 | 15,732 | 88,933 | 349,265 |
| **Amortisation** | | | | | |
| At 1 January 2010 | | – | 6,950 | 20,750 | 27,700 |
| Amortisation for the year | 28 | – | 2,309 | 8,893 | 11,202 |
| At 31 December 2010/1 January 2011 | | – | 9,259 | 29,643 | 38,902 |
| Amortisation for the year | 28 | – | 2,456 | 8,893 | 11,349 |
| At 31 December 2011 | | – | 11,715 | 38,536 | 50,251 |
| **Carrying amounts** | | | | | |
| At 1 January 2010 | | 244,600 | 5,398 | 68,183 | 318,181 |
| At 31 December 2010/1 January 2011 | | 244,600 | 5,739 | 59,290 | 309,629 |
| At 31 December 2011 | | 244,600 | 4,017 | 50,397 | 299,014 |

## 4. INTANGIBLE ASSETS (CONTINUED)

### 4.1 Goodwill

The aggregate carrying amount of goodwill is attributable to the acquisition of the following subsidiaries:

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Allianz Life Insurance Malaysia Berhad ("ALIM") | 4,990 | 4,990 |
| Allianz General Insurance Company (Malaysia) Berhad ("AGIC")/ Bright Mission Berhad ("BMB") | 239,610 | 239,610 |
| | 244,600 | 244,600 |

AGIC and BMB (formerly known as Commerce Assurance Berhad ("CAB")) entered into a Business Transfer Agreement dated 17 September 2008 ("BTA") to undertake a scheme of transfer under Part XI of the Insurance Act, 1996 as approved by BNM ("Scheme"), which involved the transfer and vesting by CAB to AGIC of CAB's entire general insurance business, undertaking of assets including CAB's liabilities and obligations save for the specified excluded assets and liabilities as detailed in the BTA. The Scheme was confirmed by the High Court of Malaya on 9 December 2008 and took effect on 1 January 2009. Consequently, the carrying amount of goodwill arising from the acquisition of CAB has now been allocated to the entire integrated general insurance business of the Group.

**Impairment test for cash-generating unit ("CGU") containing goodwill**

For goodwill attributable to the acquisition of CAB, following the Scheme on 1 January 2009, the carrying amount of goodwill has been allocated to the entire integrated general insurance business of the Group as one CGU, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The recoverable amount is calculated based on the share of net assets as at 31 December 2011 and the projected future financial performance of the general insurance business.

For goodwill attributable to the acquisition of ALIM, the annual impairment test was done by comparing the recoverable amount of ALIM with its carrying amount including the goodwill attributed. The recoverable amount is the value in use which is measured by the Embedded Value attributable to ALIM calculated by an appointed actuary. Embedded Value is the present value of future shareholders distributable profits after tax discounted at the shareholders' required rate of return, or the risk discount rate plus the Net Assets Value. The projected future cash flows are based on the best estimate of assumptions, either derived from the operating unit experience or industry experience.

The recoverable amounts of both the CGUs were determined to be higher than their carrying amounts and thus no impairment loss was recognised.

# 4. INTANGIBLE ASSETS (CONTINUED)

## 4.2 Software development costs

The software development costs are in relation to internal development expenditures incurred for the Open Product Underwriting System ("OPUS") and Integrated Insurance Management System ("IIMS"). Both systems are integrated systems designed to improve the efficiency of the business activities of the subsidiaries. These software development costs are amortised over a period of five years.

## 4.3 Other intangible assets

The other intangibles assets are as follows:

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Cost** | | | |
| The Bancassurance Agreement | 4.3.1 | 88,933 | 88,933 |

### 4.3.1 The Bancassurance Agreement

The Bancassurance Agreement was entered between the Group's general insurance entity, AGIC and CIMB Bank Berhad and formed an integral part of the acquisition of BMB by the Company on 28 August 2007 from Commerce International Group Berhad ("CIG"). The Group's general insurance business is further enhanced through the leverage on CIMB Bank's customer base and nationwide network. The future economic benefits that are attributable to the Bancassurance Agreement was valued at the present value of projected future cash flows to be derived from the tenure of the agreement of ten years using the discounting cash flow model. The recognised intangible asset is amortised over its useful life of ten years.

The following key assumptions have been used in cash flow projections in respect of the Bancassurance Agreement:

**Key assumptions**

| | |
|---|---|
| Bancassurance premium growth rate | 3.5 – 8.3% per annum |
| Discount rate | 9% |
| Investment yield | 3.1% – 3.6% per annum |

## 5. DEFERRED ACQUISITIONS COSTS

| Group | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
|---|---|---|---|
| At 1 January 2010 | 59,680 | (20,280) | 39,400 |
| Movement during the year | (32) | 3,230 | 3,198 |
| At 31 December 2010/1 January 2011 | 59,648 | (17,050) | 42,598 |
| Movement during the year | 11,086 | (4,017) | 7,069 |
| At 31 December 2011 | 70,734 | (21,067) | 49,667 |

## 6. INVESTMENT PROPERTIES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| At 1 January | | 3,392 | 4,312 |
| Fair value changes | 25 | 340 | (220) |
| Transfer to assets held for sale | 11.2 | – | (700) |
| At 31 December | | 3,732 | 3,392 |
| Included in the above are: | | | |
| At fair value | | | |
| Freehold land | | 610 | 410 |
| Long term leasehold land | | 242 | 242 |
| Buildings | | 2,880 | 2,740 |
| | | 3,732 | 3,392 |

The fair value of the investment properties is determined based on valuations performed by an external independent valuer in October 2011 using the comparison method.

Investment properties comprise a number of commercial properties leased to third parties.

The following are recognised in the income statements in respect of investment properties:

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Rental income | 23 | 96 | 96 |
| Direct operating expenses | | | |
| – income generating investment properties | | (3) | (3) |

## 7. INVESTMENTS IN SUBSIDIARIES

| Company | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **At cost** | | |
| Unquoted shares: | | |
| At 1 January | 1,084,521 | 926,613 |
| Addition | – | 157,908 |
| At 31 December | 1,084,521 | 1,084,521 |

The principal activities of the subsidiaries, the place of incorporation and the interest of the Company are as follows:

| Name of subsidiary | Principal activity | Country of incorporation | Effective ownership interest 2011 % | Effective ownership interest 2010 % |
|---|---|---|---|---|
| Allianz Life Insurance Malaysia Berhad ("ALIM") | Underwriting life insurance | Malaysia | 100 | 100 |
| Allianz General Insurance Company (Malaysia) Berhad ("AGIC") | Underwriting general insurance | Malaysia | 100 | 100 |
| Bright Mission Berhad ("BMB") | Investment holding | Malaysia | 100 | 100 |

## 8. INVESTMENTS

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Malaysian government securities | 2,086,180 | 1,617,404 |
| Malaysian government guaranteed bonds | 665,251 | 367,006 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 326,662 | 345,557 |
| Quoted equity securities of corporations in Malaysia | 380,408 | 340,476 |
| Quoted equity securities of corporations outside Malaysia | – | 15,911 |
| Unquoted equity securities of corporations in Malaysia | 2,148 | 2,148 |
| Quoted bonds of corporations in Malaysia | – | 9,201 |
| Unquoted bonds of corporations in Malaysia | 1,525,128 | 1,440,164 |
| Quoted unit trusts in Malaysia | 77,230 | 48,088 |
| Unquoted unit trusts in Malaysia | 375 | 384 |
| Unquoted unit trusts outside Malaysia | 23,234 | 30,002 |
| Negotiable certificates of deposits and structured deposits with licensed financial institutions | 238,102 | 139,954 |
| Government guaranteed loans | 190,000 | 190,000 |
| Commercial loans | – | 12,750 |
| Mortgage loans | 89 | 97 |
| Policy loans | 10,602 | 9,819 |
| Automatic premium loans | 51,810 | 44,240 |
| Fixed and call deposits with: Licensed banks | 14,678 | 20,140 |
| | 5,591,897 | 4,633,341 |

## 8. INVESTMENTS (CONTINUED)

Financial investments are summarised by categories as follows:

| | | Current | | Non-current | | Total | |
|---|---|---|---|---|---|---|---|
| **Group** | Note | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Held-to-maturity financial assets ("HTM") | (a) | – | – | 783,188 | 595,758 | 783,188 | 595,758 |
| Available-for-sale financial assets ("AFS") | (b) | 4,187,878 | 3,419,438 | – | 74,602 | 4,187,878 | 3,494,040 |
| Loans and receivables ("LAR") | (c) | 77,105 | 74,214 | 190,074 | 200,704 | 267,179 | 274,918 |
| Held-for-trading ("HFT") | (d) | 353,652 | 268,625 | – | – | 353,652 | 268,625 |
| | | 4,618,635 | 3,762,277 | 973,262 | 871,064 | 5,591,897 | 4,633,341 |

### (a) Held-to-maturity financial assets

| **Group** | Amortised cost 2011 RM'000 | Fair value 2011 RM'000 | Amortised cost 2010 RM'000 | Fair value 2010 RM'000 |
|---|---|---|---|---|
| Malaysian government securities | 487,359 | 506,864 | 351,683 | 361,063 |
| Malaysian government guaranteed bonds | 187,562 | 197,679 | 126,098 | 134,197 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 108,267 | 111,615 | 117,977 | 120,110 |
| | 783,188 | 816,158 | 595,758 | 615,370 |

### (b) Available-for-sale financial assets

| | Fair value | |
|---|---|---|
| **Group** | 2011 RM'000 | 2010 RM'000 |
| Malaysian government securities | 1,566,390 | 1,258,086 |
| Malaysian government guaranteed bonds and loans | 462,492 | 240,908 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 213,232 | 222,562 |
| Quoted bonds of corporations in Malaysia | – | 8,426 |
| Unquoted bonds of corporations in Malaysia | 1,434,788 | 1,372,440 |
| Quoted equity securities of corporations in Malaysia | 215,655 | 204,045 |
| Quoted equity securities of corporations outside Malaysia | – | 15,911 |
| Quoted unit trusts in Malaysia | 75,656 | 47,856 |
| Unquoted unit trusts in Malaysia | 375 | 384 |
| Unquoted unit trusts outside Malaysia | 8,270 | 10,897 |
| Negotiable certificates of deposits and structured deposits with licensed financial institutions | 208,872 | 110,377 |
| | 4,185,730 | 3,491,892 |

## 8. INVESTMENTS (CONTINUED)

### (b) Available-for-sale financial assets (continued)

| | Cost | |
|---|---|---|
| **Group** | 2011 RM'000 | 2010 RM'000 |
| Unquoted equity securities of corporations in Malaysia | 2,148 | 2,148 |
| Total available-for-sale financial assets | 4,187,878 | 3,494,040 |

### (c) Loans and receivables

| **Group** | Amortised cost 2011 RM'000 | Fair value 2011 RM'000 | Amortised cost 2010 RM'000 | Fair value 2010 RM'000 |
|---|---|---|---|---|
| Government guaranteed loans | 190,000 | 190,000 | 195,524 | 195,524 |
| Commercial loans | – | – | 5,098 | 5,098 |
| Mortgage loans | 89 | 89 | 97 | 97 |
| Policy loans | 10,602 | 10,602 | 9,819 | 9,819 |
| Automatic premium loans | 51,810 | 51,810 | 44,240 | 44,240 |
| Fixed and call deposits with: Licensed banks | 14,678 | 14,678 | 20,140 | 20,140 |
| | 267,179 | 267,179 | 274,918 | 274,918 |

### (d) Held-for-trading

| | Fair value | |
|---|---|---|
| **Group** | 2011 RM'000 | 2010 RM'000 |
| Malaysian government securities | 32,431 | 7,635 |
| Malaysian government guaranteed bonds | 15,197 | – |
| Ringgit denominated bonds by foreign issuers in Malaysia | 5,163 | 5,018 |
| Quoted bonds of corporations in Malaysia | – | 775 |
| Unquoted bonds of corporations in Malaysia | 90,340 | 67,724 |
| Quoted equity securities of corporations in Malaysia | 164,753 | 136,431 |
| Quoted unit trusts in Malaysia | 1,574 | 232 |
| Unquoted unit trusts outside Malaysia | 14,964 | 19,105 |
| Negotiable certificates of deposits and structured deposits with licensed financial institutions | 29,230 | 29,577 |
| Commercial loans | – | 2,128 |
| | 353,652 | 268,625 |

## 8. INVESTMENTS (CONTINUED)

**Carrying values of financial instruments**

| Group | Note | HTM RM'000 | AFS RM'000 | LAR RM'000 | HFT RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2010** | | 446,618 | 2,812,557 | 113,970 | 212,767 | 3,585,912 |
| Changes in accounting policy, effect from adoption of FRS 139 | | – | 13,163 | (300) | – | 12,863 |
| Purchases | | 188,136 | 2,096,576 | 9,231,235 | 2,955,839 | 14,471,786 |
| Maturities | | (40,000) | (462,356) | (9,069,987) | (2,491,372) | (12,063,715) |
| Disposals | | – | (1,030,634) | – | (410,442) | (1,441,076) |
| Fair value gains/(losses) recorded in: | | | | | | |
| • Income statements | | | | | | |
| – Unrealised gains | 25 | – | 665 | – | 1,504 | 2,169 |
| – Movement in impairment allowance | 25 | – | (799) | – | – | (799) |
| • Other comprehensive income | | – | 2,386 | – | – | 2,386 |
| • Insurance contract liabilities | 18(a) | – | 65,620 | – | – | 65,620 |
| Accretion of discounts | | 1,419 | 5,918 | – | 452 | 7,789 |
| Amortisation of premiums | | (415) | (9,056) | – | (123) | (9,594) |
| **At 31 December 2010/ At 1 January 2011** | | 595,758 | 3,494,040 | 274,918 | 268,625 | 4,633,341 |
| Purchases | | 196,304 | 1,679,886 | 11,062,040 | 364,649 | 13,302,879 |
| Maturities | | (10,000) | (472,246) | (11,064,254) | (13,999) | (11,560,499) |
| Disposals | | – | (535,361) | (5,525) | (267,118) | (808,004) |
| Fair value gains/(losses) recorded in: | | | | | | |
| • Income statements | | | | | | |
| – Unrealised gains | 25 | – | – | – | 558 | 558 |
| – Unrealised foreign exchanges gains | | – | – | – | 726 | 726 |
| – Movement in impairment allowance | 25 | – | (389) | – | – | (389) |
| • Other comprehensive income | | – | 12,164 | – | – | 12,164 |
| • Insurance contract liabilities | 18(a) | – | 13,230 | – | – | 13,230 |
| Accretion of discounts | | 1,441 | 5,899 | – | 338 | 7,678 |
| Amortisation of premiums | | (315) | (9,345) | – | (127) | (9,787) |
| **At 31 December 2011** | | 783,188 | 4,187,878 | 267,179 | 353,652 | 5,591,897 |

## 9. INSURANCE RECEIVABLES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Current** | | | |
| Due premiums including agents, brokers and co-insurers balances | | 86,621 | 88,537 |
| Due from reinsurers and cedants | | 42,782 | 38,598 |
| Group claims receivable | | 795 | 273 |
| | | 130,198 | 127,408 |
| Less: Allowance for impairment | | (22,205) | (33,442) |
| Due from related companies | 9.1 | 8,940 | 6,198 |
| | | 116,933 | 100,164 |

**Estimation of fair value**

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

### 9.1 Amounts due from related companies

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

## 10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Non-current** | | |
| **Other receivables** | | |
| Other receivables, deposits and prepayments | 8,660 | 7,570 |
| Malaysian Institute of Insurance ("MII") bonds | 590 | 590 |
| | 9,250 | 8,160 |
| **Staff loans** | | |
| Mortgage loans | 3,236 | 3,349 |
| Other secured loans | 540 | 2,355 |
| | 3,776 | 5,704 |
| | 13,026 | 13,864 |

## 10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Current** | | | |
| **Other receivables** | | | |
| Other receivables, deposits and prepayments | | 24,034 | 33,976 |
| Sundry deposits | | 480 | 1,470 |
| Less: Allowance for impairment | | (3,579) | (3,605) |
| | | 20,935 | 31,841 |
| Income due and accrued | | 51,087 | 46,577 |
| Due from holding company | 10.1 | 300 | – |
| Due from related companies | 10.2 | 1,406 | 889 |
| Due from inter-fund | 15 | 22,960 | 26,237 |
| | | 96,688 | 105,544 |
| **Staff loans** | | | |
| Mortgage loans | | 458 | 612 |
| Other secured loans | | 260 | 577 |
| | | 718 | 1,189 |
| | | 97,406 | 106,733 |

**Estimation of fair value**

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

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

### 10.1 Amounts due from holding company

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

## 10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

### 10.2 Amounts due from related companies

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

| Company | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| **Other receivables** | | | |
| Other receivables, deposits and prepayments | | 272 | 422 |
| **Staff loans** | | | |
| Mortgage loans | | 553 | 751 |
| Other secured loans | | 37 | 69 |
| | | 590 | 820 |
| | | 862 | 1,242 |
| **Current** | | | |
| **Other receivables** | | | |
| Other receivables, deposits and prepayments | | 673 | 1,041 |
| Income due and accrued | | 6 | 73 |
| Due from subsidiaries | 10.3 | 1,807 | 1,468 |
| | | 2,486 | 2,582 |
| **Staff loans** | | | |
| Mortgage loans | | 72 | 107 |
| Other secured loans | | 20 | 29 |
| | | 92 | 136 |
| | | 2,578 | 2,718 |

**Estimation of fair value**

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

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

### 10.3 Amounts due from subsidiaries

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

## 11. ASSETS CLASSIFIED AS HELD FOR SALE

**Group**

In 2010, the Group's general insurance subsidiary entered into an agreement to sell certain property, plant and equipment and investment property to an external party.

As at 31 December 2011, the assets classified as held for sale are as follow:

| **Group** | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Property, plant and equipment | 11.1 | – | 1,740 |
| Investment properties | 11.2 | – | 700 |
| | | – | 2,440 |

### 11.1 Property, plant and equipment

Property, plant and equipment held for sale comprise of the following:

| **Group** | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Freehold land | | | |
| Cost/Carrying amount | 3 | – | 440 |
| Buildings | | | |
| Cost | 3 | – | 1,810 |
| Accumulated depreciation | | – | (151) |
| Impairment loss recognised | | – | (359) |
| Carrying amount | | – | 1,300 |
| Total | | – | 1,740 |

### 11.2 Investment properties

Investment properties held for sale comprise of the following:

| **Group** | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Buildings | | | |
| At fair value | 6 | – | 700 |

## 12. REINSURANCE ASSETS

| Group | 2011<br>RM'000 | 2010<br>RM'000 |
|---|---|---|
| **Non-current** | | |
| **Reinsurance of insurance contracts** | | |
| General insurance claims liabilities | 467,178 | 425,520 |
| Life insurance actuarial liabilities | 77,768 | 76,864 |
| | 544,946 | 502,384 |
| **Current** | | |
| **Reinsurance of insurance contracts** | | |
| General insurance claims liabilities | 419,211 | 388,070 |
| General insurance premium liabilities | 184,736 | 154,144 |
| Life insurance actuarial liabilities | 5,258 | 4,216 |
| | 609,205 | 546,430 |
| **Total** | 1,154,151 | 1,048,814 |

## 13. BENEFITS AND CLAIMS LIABILITIES

| Group | 2011<br>RM'000 | 2010<br>RM'000 |
|---|---|---|
| **Current** | | |
| Gross benefits and claims liabilities | 79,727 | 68,852 |
| Less: Recoverable from reinsurers | (11,154) | (9,307) |
| Net benefits and claims liabilities | 68,573 | 59,545 |

## 14. INSURANCE PAYABLES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| Performance bond deposits | 14.1 | 13,351 | 16,589 |
| **Current** | | | |
| Due to reinsurers and cedants | | 73,950 | 61,260 |
| Due to agents, brokers, co-insurers and insurers | | 115,325 | 158,811 |
| Due to holding company | 14.2 | 40 | – |
| Due to related companies | 14.2 | 35,111 | 6,879 |
| Performance bond deposits | | 45,405 | 48,201 |
| | | 269,831 | 275,151 |

**Estimation of fair value**

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

### 14.1 Performance bond deposits

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

### 14.2 Amounts due to holding company and related companies

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

## 15. OTHER PAYABLES AND ACCRUALS

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Non-current** | | | |
| Other payables and accrued expenses | 15.1 | 56,900 | 49,817 |
| Finance lease liabilities | 15.2 | 64 | 104 |
| | | 56,964 | 49,921 |
| **Current** | | | |
| Other payables and accrued expenses | 15.1 | 133,639 | 119,406 |
| Finance lease liabilities | 15.2 | 103 | 752 |
| Due to holding company | 15.3 | – | 385 |
| Due to inter-fund | 10 | 22,960 | 26,237 |
| Due to related companies | 15.3 | – | 126 |
| | | 156,702 | 146,906 |
| **Company** | | | |
| **Current** | | | |
| Other payables and accrued expenses | 15.1 | 1,469 | 1,523 |
| Due to a subsidiary | 15.3 | 133,205 | 133,205 |
| | | 134,674 | 134,728 |

**Estimation of fair value**

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

### 15.1 Other payables and accrued expenses

Included in other payables and accrued expenses of the Group is an amount of RM72,023,000 (2010: RM61,428,000) relating to premium received in advance and RM15,181,000 (2010: RM15,102,000) relating to premium deposits.

## 15. OTHER PAYABLES AND ACCRUALS (CONTINUED)

### 15.2 Finance lease liabilities

| Group | Minimum lease payments 2011 RM'000 | Interest 2011 RM'000 | Principal 2011 RM'000 |
|---|---|---|---|
| Less than one year | 111 | 8 | 103 |
| Between one and five years | 68 | 4 | 64 |
| | 179 | 12 | 167 |

### 15.3 Amounts due to holding company, subsidiary and related companies

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

## 16. SUBORDINATED LOANS

### 16.1 Subordinated loans to subsidiaries – Company

**Subordinated loan to Allianz General Insurance Company (Malaysia) Berhad**

***Subordinated loan II***

The Subordinated loan II comprises:

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

(b) Subordinated loan arising from the Master Subordinated Loan Agreement dated 26 March 2009 of RM19,785,000, entered into between AGIC and the Company.

The Master Subordinated Loan Agreement was in relation to the proposed disposal of 14 Sale and Purchase Agreements ("SPAs") of which 13 out of 14 SPAs have been completed during the financial year 2009 and the remaining 1 property was completed on 11 May 2010 with a total consideration of RM19,785,000 (2009: 13 out of 14 SPAs have been completed with a total consideration of RM18,333,000).

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

## 16. SUBORDINATED LOANS (CONTINUED)

### 16.1 Subordinated loans to subsidiaries – Company (continued)

**Subordinated loan to Allianz General Insurance Company (Malaysia) Berhad (continued)**

***Subordinated loan II (continued)***

AGIC had on 4 June 2010 repaid the sum of RM19,785,000 to the Company via the allotment and issuance of 19,784,796 new ordinary shares of RM1.00 each by AGIC at par to the Company and the balance of RM0.66 each was settled in cash by AGIC to the Company.

The remaining portion of subordinated loan II of RM30,670,000 (2010: RM30,670,000) was revalued to be at RM29,396,000 (2010: RM28,171,000) with the adoption of FRS 139.

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

## 17. DEFERRED TAX ASSETS AND LIABILITIES

### 17.1 Recognised deferred tax assets and liabilities

Deferred tax on the life insurance 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 RM76,373,000 (2010: RM67,384,000) based on the Malaysian tax rate of 25%.

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

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group** | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Property, plant and equipment | – | 133 | (7,608) | (5,983) | (7,608) | (5,850) |
| Intangible assets | – | – | (973) | (1,393) | (973) | (1,393) |
| Provisions | 9,632 | 9,068 | – | – | 9,632 | 9,068 |
| Fair value reserve of securities available-for-sale | – | 116 | (13,109) | (9,178) | (13,109) | (9,062) |
| Fair value movement to income statement | – | – | (1,166) | (1,116) | (1,166) | (1,116) |
| Tax assets/(liabilities) | 9,632 | 9,317 | (22,856) | (17,670) | (13,224) | (8,353) |
| Set off | (9,632) | (7,243) | 9,632 | 7,243 | – | – |
| Net tax assets/(liabilities) | – | 2,074 | (13,224) | (10,427) | (13,224) | (8,353) |
| **Company** | | | | | | |
| Property, plant and equipment | – | – | (29) | (10) | (29) | (10) |
| Net tax liabilities | – | – | (29) | (10) | (29) | (10) |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity.

## 17. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

### 17.3 Movement in temporary differences during the year:

| Group | At 1.1.2010 RM'000 | Recognised in income statement (Note 29) RM'000 | Recognised in other comprehensive income (Note 29) RM'000 | Recognised in insurance contract liabilities (Note 18) RM'000 | At 31.12.2010/ 1.1.2011 RM'000 | Recognised in income statement (Note 29) RM'000 | Recognised in other comprehensive income (Note 29) RM'000 | Recognised in insurance contract liabilities (Note 18) RM'000 | At 31.12.2011 RM'000 |
|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | (6,055) | 205 | – | – | (5,850) | (597) | (1,045) | (116) | (7,608) |
| Intangible assets | (1,338) | (55) | – | – | (1,393) | 420 | – | – | (973) |
| Tax losses carry forward | 2,371 | (2,371) | – | – | – | – | – | – | – |
| Provisions | 1,235 | 7,833 | – | – | 9,068 | 564 | – | – | 9,632 |
| Fair value reserve of securities available-for-sale | – | – | (3,812) | (5,250) | (9,062) | – | (3,041) | (1,006) | (13,109) |
| Fair value movement to income statement | (983) | (133) | – | – | (1,116) | (50) | – | – | (1,166) |
| | (4,770) | 5,479 | (3,812) | (5,250) | (8,353) | 337 | (4,086) | (1,122) | (13,224) |
| **Company** | | | | | | | | | |
| Property, plant and equipment | (108) | (4) | 102 | – | (10) | (19) | – | – | (29) |

## 18. INSURANCE CONTRACT LIABILITIES

| | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| **Group** | Note | Gross RM'000 | Reinsurance RM'000 | Net RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| Life insurance | (a) | 3,491,231 | (83,026) | 3,408,205 | 2,857,967 | (81,080) | 2,776,887 |
| General insurance | (b) | 2,463,498 | (1,071,125) | 1,392,373 | 2,161,314 | (967,734) | 1,193,580 |
| | | 5,954,729 | (1,154,151) | 4,800,578 | 5,019,281 | (1,048,814) | 3,970,467 |

The non-current gross insurance contract liabilities amounts to RM3,472,397,000 (2010: RM2,033,555,000) and the non-current reinsurance contract liabilities amounts to RM544,946,000 (2010: RM502,384,000).

## 18. INSURANCE CONTRACT LIABILITIES (CONTINUED)

### (a) Life insurance

Life insurance contract liabilities consist of:

| | | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|---|
| **Group** | Note | Gross RM'000 | Reinsurance RM'000 | Net RM'000 | Gross RM'000 | Reinsurance RM'000 | Net RM'000 |
| Actuarial liabilities | | 2,615,884 | (83,026) | 2,532,858 | 2,107,457 | (81,080) | 2,026,377 |
| Unallocated surplus | | 485,212 | – | 485,212 | 414,303 | – | 414,303 |
| Available-for-sale fair value reserves | | 72,594 | – | 72,594 | 60,370 | – | 60,370 |
| Net assets value attributable to unitholders | 34 | 314,966 | – | 314,966 | 274,875 | – | 274,875 |
| Asset revaluation reserve | | 2,575 | – | 2,575 | 962 | – | 962 |
| | | 3,491,231 | (83,026) | 3,408,205 | 2,857,967 | (81,080) | 2,776,887 |

| | Gross | | | Reinsurance | | | |
|---|---|---|---|---|---|---|---|
| **Group** | 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** | 1,296,185 | 966,163 | 2,262,348 | (2,275) | (69,329) | (71,604) | 2,190,744 |
| Premiums received (Note 22) | 509,309 | 520,150 | 1,029,459 | (8,586) | (55,561) | (64,147) | 965,312 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 27) | (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 | 4,894 | – | 4,894 | – | – | – | 4,894 |
| Adjustments due to changes in assumptions | (1,903) | 37,755 | 35,852 | – | (17,379) | (17,379) | 18,473 |
| Net asset value attributable to unitholders (Note 34) | – | 26,238 | 26,238 | – | – | – | 26,238 |
| Available-for-sale fair value reserve | 50,504 | 15,116 | 65,620 | – | – | – | 65,620 |
| Unallocated surplus | 40,122 | 25,765 | 65,887 | – | – | – | 65,887 |
| Deferred tax effects: | | | | | | | |
| Available-for-sale fair value reserve | (4,040) | (1,210) | (5,250) | – | – | – | (5,250) |
| **At 31 December 2010** | 1,715,433 | 1,142,534 | 2,857,967 | (2,154) | (78,926) | (81,080) | 2,776,887 |

## 18. INSURANCE CONTRACT LIABILITIES (CONTINUED)

### (a) Life insurance (continued)

| Group | Gross With DPF RM'000 | Gross Without DPF RM'000 | Gross Total RM'000 | Reinsurance With DPF RM'000 | Reinsurance Without DPF RM'000 | Reinsurance Total RM'000 | Net RM'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2011** | 1,715,433 | 1,142,534 | 2,857,967 | (2,154) | (78,926) | (81,080) | 2,776,887 |
| Premiums received (Note 22) | 493,687 | 650,023 | 1,143,710 | (9,525) | (58,105) | (67,630) | 1,076,080 |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 27) | (71,800) | (225,308) | (297,108) | 6,557 | 45,155 | 51,712 | (245,396) |
| Benefits and claims experience variation | 34,554 | (11,801) | 22,753 | 396 | (379) | 17 | 22,770 |
| Fees deducted | (96,784) | (261,401) | (358,185) | 2,571 | 3,667 | 6,238 | (351,947) |
| Credit of interest or change in unit-prices | 5,978 | – | 5,978 | – | – | – | 5,978 |
| Adjustments due to changes in assumptions | 18,118 | (1,093) | 17,025 | (319) | 8,036 | 7,717 | 24,742 |
| Net asset value attributable to unitholders (Note 34) | – | 14,343 | 14,343 | – | – | – | 14,343 |
| Available-for-sale fair value reserve | 6,377 | 6,853 | 13,230 | – | – | – | 13,230 |
| Asset revaluation reserve | 1,200 | 529 | 1,729 | – | – | – | 1,729 |
| Unallocated surplus | 34,956 | 35,955 | 70,911 | – | – | – | 70,911 |
| Deferred tax effects: | | | | | | | |
| Available-for-sale fair value reserve | (458) | (548) | (1,006) | – | – | – | (1,006) |
| Asset revaluation reserve | (81) | (35) | (116) | – | – | – | (116) |
| **At 31 December 2011** | 2,141,180 | 1,350,051 | 3,491,231 | (2,474) | (80,552) | (83,026) | 3,408,205 |

### (b) General insurance

General insurance contract liabilities consist of:

| Group | Note | 2011 Gross RM'000 | 2011 Reinsurance RM'000 | 2011 Net RM'000 | 2010 Gross RM'000 | 2010 Reinsurance RM'000 | 2010 Net RM'000 |
|---|---|---|---|---|---|---|---|
| Provision for claims reported by policyholders | | 1,357,126 | (699,336) | 657,790 | 1,227,631 | (658,994) | 568,637 |
| Provision for incurred but not reported claims ("IBNR") | | 453,673 | (187,053) | 266,620 | 368,545 | (154,596) | 213,949 |
| Provision for outstanding claims | 18.1 | 1,810,799 | (886,389) | 924,410 | 1,596,176 | (813,590) | 782,586 |
| Provision for unearned premiums | 18.2 | 652,699 | (184,736) | 467,963 | 565,138 | (154,144) | 410,994 |
| | | 2,463,498 | (1,071,125) | 1,392,373 | 2,161,314 | (967,734) | 1,193,580 |

## 18. INSURANCE CONTRACT LIABILITIES (CONTINUED)

### (b) General insurance (continued)

#### 18.1 Provision for outstanding claims

| Group | 2011 Gross RM'000 | 2011 Reinsurance RM'000 | 2011 Net RM'000 | 2010 Gross RM'000 | 2010 Reinsurance RM'000 | 2010 Net RM'000 |
|---|---|---|---|---|---|---|
| At 1 January | 1,596,176 | (813,590) | 782,586 | 1,442,314 | (750,460) | 691,854 |
| Claims incurred in the current accident year | 863,518 | (240,597) | 622,921 | 927,982 | (349,931) | 578,051 |
| Other movements in claims incurred in prior accident years | 44,683 | (35,360) | 9,323 | (84,474) | 54,501 | (29,973) |
| Claims paid during the year (Note 27) | (693,578) | 203,158 | (490,420) | (689,646) | 232,300 | (457,346) |
| At 31 December | 1,810,799 | (886,389) | 924,410 | 1,596,176 | (813,590) | 782,586 |

#### 18.2 Provision for unearned premiums

| Group | 2011 Gross RM'000 | 2011 Reinsurance RM'000 | 2011 Net RM'000 | 2010 Gross RM'000 | 2010 Reinsurance RM'000 | 2010 Net RM'000 |
|---|---|---|---|---|---|---|
| At 1 January | 565,138 | (154,144) | 410,994 | 536,266 | (176,702) | 359,564 |
| Premiums written during the year (Note 22) | 1,463,084 | (399,962) | 1,063,122 | 1,324,282 | (401,431) | 922,851 |
| Premiums earned during the year | (1,375,523) | 369,370 | (1,006,153) | (1,295,410) | 423,989 | (871,421) |
| At 31 December | 652,699 | (184,736) | 467,963 | 565,138 | (154,144) | 410,994 |

## 19. SHARE CAPITAL

| Group and Company | 2011 Number of shares ('000) | 2011 Amount RM'000 | 2010 Number of shares ('000) | 2010 Amount RM'000 |
|---|---|---|---|---|
| **Authorised:** | | | | |
| **Ordinary shares of RM1 each** | | | | |
| As at 1 January | 600,000 | 600,000 | 200,000 | 200,000 |
| Created during the year | – | – | 400,000 | 400,000 |
| As at 31 December | 600,000 | 600,000 | 600,000 | 600,000 |
| **Irredeemable convertible preference shares of RM1 each** | | | | |
| As at 1 January | 400,000 | 400,000 | – | – |
| Created during the year | – | – | 400,000 | 400,000 |
| As at 31 December | 400,000 | 400,000 | 400,000 | 400,000 |
| **Issued and paid-up shares classified as equity instruments:** | | | | |
| **Ordinary shares of RM1 each** | | | | |
| As at 1 January | 153,869 | 153,869 | 153,869 | 153,869 |
| Issued during the year | 2,559 | 2,559 | – | – |
| As at 31 December | 156,428 | 156,428 | 153,869 | 153,869 |
| **Irredeemable convertible preference shares of RM1 each** | | | | |
| As at 1 January | 192,337 | 192,337 | – | – |
| Issued during the year | – | – | 192,337 | 192,337 |
| Conversion during the year | (2,559) | (2,559) | – | – |
| As at 31 December | 189,778 | 189,778 | 192,337 | 192,337 |

During the financial year, the Group and the Company issued 2,559,000 ordinary shares of RM1 each at par for conversion of ICPS of RM1 each.

## 20. RESERVES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Share premium | 20.1 | 424,823 | 424,823 |
| Asset revaluation reserve | 20.2 | 9,735 | 5,355 |
| Fair value reserve | 20.3 | 20,559 | 11,436 |
| Retained earnings | | 591,594 | 471,781 |
| At 31 December | | 1,046,711 | 913,395 |
| **Company** | | | |
| Share premium | 20.1 | 424,823 | 424,823 |
| Retained earnings | | 218,551 | 221,215 |
| At 31 December | | 643,374 | 646,038 |

### 20.1 Share premium

| Group and Company | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| At 1 January | 424,823 | 5,529 |
| Issuance of ICPS | – | 419,294 |
| At 31 December | 424,823 | 424,823 |

### 20.2 Asset revaluation reserve

The revaluation reserve relates to the revaluation of owner occupied properties for the general business and shareholder's fund.

Owner occupied properties are stated at valuation based on revaluation conducted by independent professional qualified valuers using the comparison method.

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| At 1 January | 5,355 | 5,397 | – | 412 |
| Revaluation of land and buildings | 5,425 | – | – | – |
| Disposal of land and building | – | (42) | – | (514) |
| Effect of deferred tax | (1,045) | – | – | 102 |
| At 31 December | 9,735 | 5,355 | – | – |

## 20. RESERVES (CONTINUED)

### 20.3 Fair value reserve

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

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Fair value reserve** | | |
| At 1 January | 11,436 | – |
| Effect of adopting the fair value measurement on securities available-for-sale | – | 9,669 |
| Net gain arising from change in fair value of securities available-for-sale | 9,123 | 1,767 |
| At 31 December | 20,559 | 11,436 |

### 20.4 Section 108 tax credit

Subject to agreement by the Inland Revenue Board, the Company has sufficient Section 108 tax credit and tax exempt income to frank and distribute all of its distributable reserves as at 31 December 2011 if paid out as dividends.

The Finance Act, 2007 introduced a single tier company income tax system with effect from 1 January 2008. As such, the Section 108 tax credit as at 31 December 2011 will be available to the Company until such time the credit is fully utilised or upon expiry of the six years transitional period on 31 December 2013, whichever is earlier.

## 21. OPERATING REVENUE

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Gross earned premiums | 22 | 2,519,233 | 2,324,869 |
| Investment income | 23 | 232,572 | 184,168 |
| | | 2,751,805 | 2,509,037 |
| **Company** | | | |
| Investment income | 23 | 14,845 | 2,265 |

## 22. NET EARNED PREMIUMS

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **(a) Gross premiums** | | | |
| Insurance contracts: | | | |
| Life | 18(a) | 1,143,710 | 1,029,459 |
| General | 18.2 | 1,463,084 | 1,324,282 |
| | | 2,606,794 | 2,353,741 |
| Changes in unearned premiums provision | | | |
| Life | | – | – |
| General | | (87,561) | (28,872) |
| **Gross earned premiums** | | 2,519,233 | 2,324,869 |
| **(b) Premiums ceded** | | | |
| Insurance contracts: | | | |
| Life | 18(a) | (67,630) | (64,147) |
| General | 18.2 | (399,962) | (401,431) |
| | | (467,592) | (465,578) |
| Changes in unearned premiums provision | | | |
| Life | | – | – |
| General | | 30,592 | (22,558) |
| **Premiums ceded to reinsurers** | | (437,000) | (488,136) |
| **Net earned premiums** | | 2,082,233 | 1,836,733 |

## 23. INVESTMENT INCOME

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Rental of premises from: | | | |
| – investment properties | 6 | 96 | 96 |
| – owner occupied properties | | 143 | 152 |
| **Held for trading financial assets** | | | |
| Coupon income from: | | | |
| – Malaysian government securities | | 743 | 308 |
| – Malaysian government guaranteed bonds | | 369 | – |
| – Ringgit denominated bonds by foreign issuers in Malaysia | | 248 | 1 |
| – Malaysian government guaranteed loans | | – | 47 |
| – Quoted bonds of corporations in Malaysia | | 15 | 25 |
| – Unquoted bonds of corporations in Malaysia | | 3,325 | 2,779 |
| – Commercial loans | | – | 10 |
| Dividend income from: | | | |
| – Quoted equity securities in Malaysia | | 5,710 | 3,334 |
| – Quoted unit trusts in Malaysia | | 62 | 1,595 |
| Interest income from financial institutions: | | | |
| – Negotiable certificates of deposits | | 2 | 1,089 |
| – Structured deposits | | 1,725 | 126 |
| Accretion of discounts on: | | | |
| – Malaysian government securities | | 1 | 56 |
| – Quoted bonds of corporations in Malaysia | | 36 | 54 |
| – Unquoted bonds of corporations in Malaysia | | 37 | 342 |
| – Structured deposits | | 264 | – |
| Amortisation of premiums on: | | | |
| – Malaysian government securities | | (36) | (20) |
| – Malaysian government guaranteed bonds | | (1) | – |
| – Unquoted bonds of corporations in Malaysia | | (88) | (96) |
| – Negotiable certificates of deposits | | (1) | (7) |
| – Structured deposits | | (1) | – |

## 23. INVESTMENT INCOME (CONTINUED)

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Available-for-sale financial assets** | | |
| Coupon income from: | | |
| – Malaysian government securities | 60,732 | 46,387 |
| – Malaysian government guaranteed bonds | 14,894 | 7,384 |
| – Ringgit denominated bonds by foreign issuers in Malaysia | 9,247 | 8,212 |
| – Quoted bonds of corporations in Malaysia | 550 | 674 |
| – Unquoted bonds of corporations in Malaysia | 63,485 | 56,710 |
| – Negotiable certificates of deposits | – | 1,620 |
| Dividend income from: | | |
| – Quoted equity securities in Malaysia | 5,103 | 4,474 |
| – Quoted unit trusts in Malaysia | 3,776 | 1,056 |
| – Unquoted unit trusts in Malaysia | 12 | 8 |
| Accretion of discounts on: | | |
| – Malaysian government securities | 1,459 | 349 |
| – Malaysian government guaranteed bonds | 512 | 1,364 |
| – Ringgit denominated bonds by foreign issuers in Malaysia | 63 | 127 |
| – Quoted bonds of corporations in Malaysia | 265 | 221 |
| – Unquoted bonds of corporations in Malaysia | 3,299 | 3,667 |
| – Structured deposits | 1,818 | – |
| Amortisation of premiums on: | | |
| – Malaysian government securities | (8,468) | (6,875) |
| – Malaysian government guaranteed bonds | (523) | (12) |
| – Ringgit denominated bonds by foreign issuers in Malaysia | (342) | (57) |
| – Unquoted bonds of corporations in Malaysia | (833) | (1,546) |
| – Negotiable certificates of deposits | (23) | (369) |
| Interest income from financial institutions: | | |
| – Negotiable certificates of deposits | 2,858 | 949 |
| – Structured deposits | 4,710 | 2,891 |

## 23. INVESTMENT INCOME (CONTINUED)

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Held to maturity financial assets** | | |
| Coupon income from: | | |
| – Malaysian government securities | 17,558 | 14,014 |
| – Malaysian government guaranteed bonds | 7,277 | 5,801 |
| – Ringgit denominated bonds by foreign issuers in Malaysia | 4,964 | 3,949 |
| Accretion of discounts on: | | |
| – Malaysian government securities | 936 | 589 |
| – Malaysian government guaranteed bonds | 1,009 | 463 |
| – Ringgit denominated bonds by foreign issuers in Malaysia | 402 | 367 |
| Amortisation of premiums on: | | |
| – Malaysian government securities | (1,792) | (111) |
| – Ringgit denominated bonds by foreign issuers in Malaysia | (94) | (255) |
| – Government guaranteed bonds | (56) | (50) |
| **Loans and receivables** | | |
| Interest income from: | | |
| – Malaysian government guaranteed loans | 8,656 | 4,218 |
| – Commercial loans | 330 | 1,007 |
| – Mortgage loans | 6 | (3) |
| – Policy loans | 748 | 642 |
| – Automatic premium loans | 3,650 | 3,037 |
| Interest income from financial institutions: | | |
| – Fixed deposits | 8,695 | 7,780 |
| – Bank balances | 5,040 | 5,595 |
| | 232,572 | 184,168 |
| **Company** | | |
| **Loans and receivables** | | |
| Interest income from financial institutions: | | |
| – Fixed deposits | 120 | 1,056 |
| Dividend income from subsidiary (unquoted) | 13,500 | – |
| Other interest income | 1,225 | 1,209 |
| | 14,845 | 2,265 |

## 24. REALISED GAINS AND LOSSES

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Property, plant and equipment** | | |
| Realised (losses)/gains on disposal | (60) | 131 |
| **Investment properties** | | |
| Realised losses on disposal | (232) | – |
| **Financial assets** | | |
| Realised gains on disposal: | | |
| – Quoted equity securities of corporations in Malaysia | 33,353 | 34,301 |
| – Quoted unit trusts in Malaysia | – | 75 |
| – Malaysian government securities | – | 8,201 |
| – Quoted bonds of corporations in Malaysia | 1,220 | 1,058 |
| – Unquoted bonds of corporations in Malaysia | – | 20 |
| – Unquoted debts securities in Malaysia | 1,587 | 65 |
| – Quoted debts securities in Malaysia | 1 | 64 |
| Realised losses on disposal: | | |
| – Quoted equity securities of corporations outside Malaysia | (582) | – |
| – Quoted unit trusts outside Malaysia | (1,016) | (2,270) |
| – Unquoted bonds of corporations in Malaysia | (4) | (34) |
| Total realised gains for financial assets | 34,559 | 41,480 |
| Total net realised gains | 34,267 | 41,611 |

## 25. FAIR VALUE GAINS AND LOSSES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Investment properties | 6 | 340 | (220) |
| Financial assets – held for trading | | 558 | 2,169 |
| Impairment loss on financial assets | | (389) | (799) |
| Total fair value gains on financial assets | | 509 | 1,150 |

## 26. FEE AND COMMISSION INCOME

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Policyholder administration and service charges | 22,098 | 23,336 |
| Deferred acquisition cost | (4,017) | 3,230 |
| Reinsurance commission income | 52,772 | 58,143 |
| Total fee and commission income | 70,853 | 84,709 |

## 27. NET BENEFITS AND CLAIMS

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **(a) Gross benefits and claims paid** | | | |
| Insurance contracts: | | | |
| Life | 18(a) | (297,108) | (282,184) |
| General | 18.1 | (693,578) | (689,646) |
| | | (990,686) | (971,830) |
| **(b) Claims ceded to reinsurers** | | | |
| Insurance contracts: | | | |
| Life | 18(a) | 51,712 | 45,089 |
| General | 18.1 | 203,158 | 232,300 |
| | | 254,870 | 277,389 |
| **(c) Gross change in contract liabilities** | | | |
| Insurance contracts: | | | |
| Life | | (619,427) | (535,249) |
| General | | (214,623) | (153,862) |
| | | (834,050) | (689,111) |
| **(d) Change in contract liabilities ceded to reinsurers** | | | |
| Insurance contracts: | | | |
| Life | | 1,946 | 9,476 |
| General | | 72,799 | 63,130 |
| | | 74,745 | 72,606 |
| **Net benefits and claims** | | (1,495,121) | (1,310,946) |

## 28. MANAGEMENT EXPENSES

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Advertising and marketing expenses | | 6,497 | 3,226 |
| Amortisation of intangible assets | 4 | 11,349 | 11,202 |
| Auditors' remuneration: | | | |
| – Statutory audits | | 615 | 565 |
| – Other services | | 10 | 10 |
| Insurance and other receivables: | | | |
| – Impairment loss recovered | | (233) | (122) |
| – Impairment loss written off | | 6,675 | 2,951 |
| – Reversal of allowance for impairment loss | | (11,113) | (1,063) |
| Bank charges | | 8,280 | 6,953 |
| Depreciation of property, plant and equipment | 3 | 11,400 | 10,210 |
| Employee benefits | 28.1 | 140,277 | 127,070 |
| Insurance guarantee scheme fund and levies | | 4,391 | 2,592 |
| Non-executive directors' fee and remuneration | 28.2 | 1,097 | 1,023 |
| Rental of office equipment | | 122 | 107 |
| Rental of premises to third party | | 7,448 | 6,774 |
| Other expenses | | 83,812 | 70,049 |
| | | 270,627 | 241,547 |
| **Company** | | | |
| Advertising and marketing expenses | | 15 | 1 |
| Auditors' remuneration: | | | |
| – Statutory audits | | 125 | 125 |
| – Other services | | 10 | 10 |
| Bank charges | | 2 | – |
| Depreciation of property, plant and equipment | 3 | 273 | 261 |
| Employee benefits | 28.1 | 1,707 | 286 |
| Non-executive directors' fee and remuneration | 28.2 | 375 | 492 |
| Rental of office equipment | | – | 3 |
| Rental of premises to third party | | 15 | 33 |
| Other expenses | | 614 | 940 |
| | | 3,136 | 2,151 |

## 28. MANAGEMENT EXPENSES (CONTINUED)

### 28.1 Employee benefits

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Wages and salaries | 109,109 | 96,922 | 1,478 | 253 |
| Social security contributions | 836 | 767 | 5 | – |
| Contributions to Employee's Provident Fund | 15,592 | 13,027 | 152 | 33 |
| Other benefits | 14,740 | 16,354 | 72 | – |
| | 140,277 | 127,070 | 1,707 | 286 |

### 28.2 Key management personnel compensation

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **Executive directors:** | | | | |
| Salaries and other emoluments | 910 | 3,961 | 140 | 156 |
| Bonus | 198 | 2,339 | 98 | 141 |
| Contribution to Employee's Provident Fund | 205 | 367 | 37 | 27 |
| Estimated money value of benefits-in-kind | 305 | 520 | 33 | 49 |
| | 1,618 | 7,187 | 308 | 373 |
| **Non-executive directors:** | | | | |
| Fees | 704 | 605 | 248 | 214 |
| Estimated money value of benefits-in-kind | 393 | 418 | 127 | 278 |
| | 1,097 | 1,023 | 375 | 492 |
| Other key management personnel* | | | | |
| Short term employee benefits | 10,784 | 7,725 | 36 | 154 |

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

## 28. MANAGEMENT EXPENSES (CONTINUED)

### 28.2 Key management personnel compensation (continued):

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

| | Number of directors | | | |
|---|---|---|---|---|
| | Group | | Company | |
| | 2011 | 2010 | 2011 | 2010 |
| **Executive directors:** | | | | |
| Below RM1,000,000 | 1 | 1 | 2 | 2 |
| RM1,000,000 and above | 1 | 1 | – | – |
| **Non-executive directors:** | | | | |
| Below RM100,000 | 2 | 2 | 4 | 4 |
| RM100,001 – RM200,000 | 1 | – | 2 | – |
| RM200,001 – RM300,000 | 2 | 2 | – | 1 |
| RM500,001 – RM600,000 | 1 | 1 | – | – |

### 28.3 Chief executive officer remuneration:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| Salaries and other emoluments | 1,336 | 3,465 | 86 | 101 |
| Bonus | 738 | 1,905 | 11 | 94 |
| Contribution to Employee's Provident Fund | 331 | 246 | 19 | 13 |
| Estimated money value of benefits-in-kind | 321 | 506 | 30 | 48 |
| | 2,726 | 6,122 | 146 | 256 |
| Amount included in employee benefits expenses | 2,726 | 6,122 | 146 | 256 |

## 29. TAX EXPENSE

### 29.1 Recognised in the income statements

| | Note | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|---|
| **Current tax expense** | | | | | |
| Current year | | 70,270 | 58,955 | 1,611 | – |
| Under provision in prior years | | 3,023 | 8,874 | 638 | 202 |
| | | 73,293 | 67,829 | 2,249 | 202 |
| **Deferred tax expense** | | | | | |
| Origination and reversal of temporary differences | | (118) | 4,201 | 19 | 4 |
| Over provision in prior years | | (219) | (9,680) | – | – |
| | 17.2 | (337) | (5,479) | 19 | 4 |
| Tax expense | | 72,956 | 62,350 | 2,268 | 206 |

### 29.2 Recognised directly in other comprehensive income

| | Group 2011 RM'000 | Group 2010 RM'000 | Company 2011 RM'000 | Company 2010 RM'000 |
|---|---|---|---|---|
| **Fair value reserve** | | | | |
| At 1 January | 3,812 | – | – | – |
| Change in accounting policy: | | | | |
| Effect of adopting the fair value measurement for securities available-for-sale | – | 3,193 | – | – |
| Net gain arising from change in fair value | 3,041 | 619 | – | – |
| At 31 December | 6,853 | 3,812 | – | – |
| **Asset revaluation reserve** | | | | |
| At 1 January | 1,107 | 1,107 | – | 102 |
| Gain arising from revaluation surplus | 1,045 | – | – | – |
| Disposal of property | – | – | – | (102) |
| At 31 December | 2,152 | 1,107 | – | – |

## 29. TAX EXPENSE (CONTINUED)

### 29.3 Recognised in insurance contract liabilities

| | Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| **Available-for-sale fair value reserves** | | |
| At 1 January | 5,250 | – |
| Change in accounting policy: | | |
| Effect of adopting the fair value measurement for securities available-for-sale | – | 754 |
| Net gain arising from change in fair value | 1,006 | 4,496 |
| At 31 December | 6,256 | 5,250 |
| **Asset revaluation reserve** | | |
| At 1 January | 73 | 73 |
| Gain arising from revaluation surplus | 116 | – |
| At 31 December | 189 | 73 |

### 29.4 Reconciliation of tax expense

| | Group | |
|---|---|---|
| | 2011 RM'000 | 2010 RM'000 |
| Profit before tax | 204,883 | 191,550 |
| Tax at Malaysian tax rate of 25% | 51,221 | 47,887 |
| Life fund assessable investment income | 12,602 | 10,568 |
| Tax rate differential of 17% in respect of life fund | (2,284) | (1,375) |
| Income not subject to tax | (34) | (294) |
| Expenses not deductible for tax purposes | 7,839 | 6,322 |
| Other items | 808 | 48 |
| | 70,152 | 63,156 |
| Under/(Over) provision in prior years | 2,804 | (806) |
| Tax expense | 72,956 | 62,350 |

## 29. TAX EXPENSE (CONTINUED)

### 29.4 Reconciliation of tax expense (continued)

| Company | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Profit/(Loss) before tax | 11,718 | (49) |
| Tax at Malaysian tax rate of 25% | 2,930 | (12) |
| Income not subject to tax | (2,224) | (298) |
| Expenses not deductible for tax purposes | 320 | 95 |
| Other items | 604 | 219 |
| | 1,630 | 4 |
| Under provision in prior years | 638 | 202 |
| Tax expense | 2,268 | 206 |

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

Previously, investment income and gains from disposal of investments from life fund was taxed twice, once at tax rate of 8% in the life fund and again at a tax rate of 25% when the surplus from life fund is transferred to shareholders' fund. In a Gazette Order on 21 April 2008 and effective from year of assessment 2008 onwards, insurance companies are permitted a set-off ("Section 110B Credits") from the total amount of tax imposed on the shareholders' fund to overcome the incidence of double taxation.

Section 110B credits are governed by a specific Inland Revenue Board ("IRB") guideline issued on 5 November 2008 which details the computation of said credits available to the shareholders' fund of an insurance company. Section 110B credits are applied before dividend tax credits when computing net tax payable to IRB.

Under Section 60 (10A) of the Income Tax Act, 1967 ("Act"), tax losses of the life fund are restricted for deduction against future statutory income of the life fund.

However, Section 60 is silent with regards to the utilisation of unabsorbed tax losses arising from the shareholders' fund. The industry in general (including the Company), has in the past, adopted the position that the tax losses of the shareholders' fund should be preserved for utilisation against the taxable income from the same source. However, the tax authority has made adjustments to utilise the unabsorbed losses of the shareholders' fund to offset against the income of the life fund based on the general provision of the Act.

This will result in the tax losses from the shareholders' fund (that would be taxed at the corporate rate) to be offset against the taxable income of the life fund (that would be taxed at a lower rate of 8%).

## 29. TAX EXPENSE (CONTINUED)

### 29.4 Reconciliation of tax expense (continued)

Arising from the adjustments made by the tax authority, the Company's taxation beginning year of assessment 2010, has been prepared without bringing forward unabsorbed tax losses of the shareholders' fund.

The industry has appealed to the Ministry of Finance to allow tax losses of the shareholders' fund to be preserved for utilisation against the taxable income from the same source.

## 30. EARNINGS PER ORDINARY SHARE

### (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share at 31 December 2011 was based on the profit attributable to ordinary shareholders of RM131,927,000 (2010: RM129,200,000) and the weighted average number of ordinary shares in issue during the year of 154,244,000 (2010: 153,869,000).

| | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Profit attributable to ordinary shareholders | 131,927 | 129,200 |
| Weighted average number of shares in issue | 154,244 | 153,869 |
| Basic earnings per ordinary share (sen) | 85.53 | 83.97 |

### (b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share at 31 December 2011 was based on profit attributable to ordinary shareholders and a weighted average number of ordinary shares in issue after adjusting for the effects of all dilutive potential ordinary shares, calculated as follows:

| | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Profit attributable to ordinary shareholders | 131,927 | 129,200 |
| Weighted average number of shares in issue, including bonus element | 184,367 | 177,672 |
| Effect of conversion of ICPS | 189,778 | 79,042 |
| Diluted weighted average number of ordinary shares at 31 December | 374,145 | 256,714 |
| Diluted earnings per ordinary share (sen) | 35.26 | 50.33 |

## 31. DIVIDENDS

Dividends recognised in the current year by the Company are:

| | Sen per share (net of tax) | Total amount RM'000 | Date of payment |
|---|---|---|---|
| **2011** | | | |
| Final 2010 ordinary | 2.63 | 4,036 | |
| Final 2010 preference | 4.20 | 8,078 | |
| | | 12,114 | 8 August 2011 |
| **2010** | | | |
| Final 2009 ordinary | 1.50 | 2,308 | 3 August 2010 |

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

| | Sen per share (net of tax) |
|---|---|
| Final 2011 ordinary | 3.94 |
| Final 2011 preference | 6.30 |

## 32. OPERATING LEASES

### 32.1 Leases as lessee

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

| **Group** | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Less than one year | 5,170 | 5,606 |
| Between one and five years | 4,591 | 8,375 |
| | 9,761 | 13,981 |

The leases typically run for an initial period of 1-5 years, with an option to renew the leases. None of the leases include contingent rentals.

## 32. OPERATING LEASES (CONTINUED)

### 32.2 Leases as lessor

The Group leases out its investment property under operating leases (see Note 6). The future minimum lease receivables under non-cancellable leases are as follows:

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| Less than one year | 168 | 81 |
| Between one and five years | 203 | 32 |
| | 371 | 113 |

## 33. CAPITAL EXPENDITURE COMMITMENTS

| Group | 2011 RM'000 | 2010 RM'000 |
|---|---|---|
| **Property, plant and equipment** | | |
| Approved but not contracted for | 28,846 | 17,051 |
| Contracted but not provided for | 2,927 | 4,769 |

## 34. INVESTMENT-LINKED BUSINESS

### Investment-linked funds statement of financial position as at 31 December

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| **Assets** | | | |
| Investments | | 277,833 | 249,586 |
| Other receivables, deposits and prepayments | | 6,592 | 7,274 |
| Cash and cash equivalents | | 35,945 | 30,492 |
| **Total assets** | | 320,370 | 287,352 |
| **Liabilities** | | | |
| Deferred tax liabilities | | 1,043 | 1,102 |
| Other payables and accruals | | 103 | 126 |
| Benefits and claims liabilities | | 4,102 | 11,247 |
| Current tax liabilities | | 156 | 2 |
| **Total liabilities** | | 5,404 | 12,477 |
| **Net asset value of funds** | 18(a) | 314,966 | 274,875 |

## 34. INVESTMENT-LINKED BUSINESS (CONTINUED)

### Investment-linked funds income statement for the year ended 31 December

| Group | Note | 2011 RM'000 | 2010 RM'000 |
|---|---|---|---|
| Investment income | | 12,080 | 9,415 |
| Realised gains and losses | | 6,726 | 20,927 |
| Fair value gains and losses | | (792) | 1,320 |
| Other operating income | | 834 | 2,895 |
| | | 18,848 | 34,557 |
| Other operating expenses | | (3,289) | (5,874) |
| Profit before tax | | 15,559 | 28,683 |
| Tax expense | | (1,216) | (2,445) |
| **Net profit for the year** | 18(a) | 14,343 | 26,238 |

## 35. OPERATING SEGMENT

Segment information is presented in respect of the Group's business segments. Each business segment is managed separately based on the Group's management and internal reporting structure.

Performance is measured based on segment profit before tax, interest, depreciation and amortisation, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer (the chief operating decision maker). Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

**Segment assets**

The total segment asset is measured based on all assets (including goodwill) of a segment, as included in the internal management reports that are reviewed by the Group's Chief Executive Officer. Segment total asset is used to measure the return of assets of each segment.

**Segment capital expenditure**

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

## 35. OPERATING SEGMENT (CONTINUED)

### 35.1 Business segments

The Group comprises the following main business segments:

| | |
|---|---|
| Investment holding | Investment holding |
| General insurance | Underwriting of all classes of general insurance business |
| Life insurance | Underwriting of all classes of life insurance business |

### 35.2 Geographical segments

The Group operates predominantly in Malaysia and, accordingly, the Directors are of the opinion that the financial information by geographical segments of the Group's operations is not necessary to be presented.

| **Business segments** | Investment holding RM'000 | General business and shareholders' fund RM'000 | Life business RM'000 | Consolidated RM'000 |
|---|---|---|---|---|
| **2011** | | | | |
| Segment revenue | 9,318 | 1,456,918 | 1,285,569 | 2,751,805 |
| Segment results | (2,236) | 175,745 | 31,374 | 204,883 |
| Profit before tax | | | | 204,883 |
| Tax expense | | | | (72,956) |
| Profit for the year | | | | 131,927 |
| Segment assets | 288,994 | 3,845,074 | 3,798,596 | 7,932,664 |
| Segment liabilities | 4,790 | 2,736,361 | 3,798,596 | 6,539,747 |
| Capital expenditure | 141 | 5,446 | 5,382 | 10,969 |
| Depreciation of property, plant and equipment | 822 | 7,928 | 2,650 | 11,400 |
| Amortisation of intangible assets | – | 11,304 | 45 | 11,349 |
| Reversal of allowance for impairment loss on receivables | – | (11,510) | 397 | (11,113) |
| Amortisation of premiums | – | 6,253 | 3,534 | 9,787 |
| Accretion of discounts | – | (1,062) | (6,616) | (7,678) |

## 35. OPERATING SEGMENT (CONTINUED)

### 35.2 Geographical segments (continued)

| Business segments | Investment holding RM'000 | General business and shareholders' fund RM'000 | Life business RM'000 | Consolidated RM'000 |
|---|---|---|---|---|
| **2010** | | | | |
| Segment revenue | 6,706 | 1,362,853 | 1,139,478 | 2,509,037 |
| Segment results | 2,661 | 162,512 | 26,377 | 191,550 |
| Profit before tax | | | | 191,550 |
| Tax expense | | | | (62,350) |
| Profit for the year | | | | 129,200 |
| Segment assets | 281,784 | 3,430,901 | 3,134,432 | 6,847,117 |
| Segment liabilities | 8,589 | 2,444,495 | 3,134,432 | 5,587,516 |
| Capital expenditure | 893 | 5,212 | 2,852 | 8,957 |
| Depreciation of property, plant and equipment | 809 | 7,722 | 1,679 | 10,210 |
| Amortisation of intangible assets | – | 11,157 | 45 | 11,202 |
| Reversal of allowance for impairment loss on receivables | – | (730) | (333) | (1,063) |
| Amortisation of premiums | 21 | 5,595 | 3,978 | 9,594 |
| Accretion of discounts | – | (2,776) | (5,013) | (7,789) |

## 36. RELATED PARTIES

### 36.1 Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Group or the Company if the Group or the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or vice versa, or where the Group and the Company and the other 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 Group or the Company either directly or indirectly. The key management personnel include all the Directors of the Group and the Company, and certain members of senior management of the Group and the Company. Compensation of key management personnel have been disclosed in Note 28.2. Apart from this, there are no other transactions with key management personnel.

## 36. RELATED PARTIES (CONTINUED)

### 36.2 The significant transactions with related parties are as follows:

| Group | Amount transacted for the year ended 31 December 2011 RM'000 | Amount transacted for the year ended 31 December 2010 RM'000 |
|---|---|---|
| **Trade** | | |
| **Ultimate holding company** | | |
| Reinsurance premium | (527) | (186) |
| **Related companies*** | | |
| Reinsurance premium and commission | (167,762) | (145,160) |
| Motor insurance premium | (146) | (130) |
| Insurance premium | (90) | – |
| **Non-trade** | | |
| **Ultimate holding company** | | |
| Reimbursement/(Payment) of Group incentive | 51 | (16) |
| Payment of personnel expenses | (349) | (109) |
| Payment of IT service costs | (135) | (138) |
| Payment of global marketing expenses | (912) | (1,052) |
| Share of Human Resource database platform expenses | (13) | – |
| Reimbursement of payment made on behalf | 202 | – |
| Payment of E-learning expenses | – | (109) |
| Subordinated loan | – | (490,000) |
| **Related companies*** | | |
| Investment in foreign unit trust | 13,671 | 4,271 |
| Payment of service fees | (4,548) | – |
| (Payment)/Reimbursement of other expenses | (409) | 80 |
| Payment of fund management and fees | (1,351) | (1,131) |
| Payment of personnel expenses | (476) | (195) |
| Payment of telemarketing fee | (464) | (1,252) |
| Payment of brokerage fees for purchase and sale of equities | (359) | – |
| Payment of intranet portal network cost | (304) | (417) |
| Insurance payment | (298) | (196) |
| Rental expenses | (226) | (121) |
| Rental income | 98 | 90 |
| Share of common expenses | 62 | – |
| Payment of expenses made on behalf | – | (554) |
| Reimbursement of personal expenses for secondment staffs | – | 206 |
| Payment of risk survey fee | – | (10) |

* Related companies are companies within the Allianz SE group.

## 36. RELATED PARTIES (CONTINUED)

### 36.2 The significant transactions with related parties are as follows (continued):

| Company | Amount transacted for the year ended 31 December 2011 RM'000 | Amount transacted for the year ended 31 December 2010 RM'000 |
|---|---|---|
| **Non-trade** | | |
| **Ultimate holding company** | | |
| Subordinated loan | – | (490,000) |
| **Subsidiaries** | | |
| Reimbursement of expenses related to common resources | 7,223 | 7,428 |
| Reimbursement of payment made on behalf | 677 | 84 |
| Rental of other premises - income/(expense) | 33 | (30) |
| Subordinated loans | – | 38,431 |

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

Significant related party balances related to the above transactions are disclosed in Note 9, 10, 14, 15 and 16.

## 37. RISK MANAGEMENT FRAMEWORK

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

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

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

**Risk underwriting and identification**

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

## 37. RISK MANAGEMENT FRAMEWORK (CONTINUED)

**Risk evaluation, reporting and controlling**

The Group's qualitative and quantitative risk reporting and controlling framework provides transparency and early warning indicators to senior management with regards to its overall risk profile and whether the profile is within delegated limits and authorities.

**Risk strategy and risk appetite**

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

**Communication and transparency**

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

**Risk governance structure**

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

RMC bears the overall responsibility for effective risk identification, measurement, monitoring and control functions of the Group. RMC also oversees the Senior Management's activities in managing the key risk areas of the Group 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 the Group and to report to the Board on its recommendations and/or decisions. Through structured reporting from the Risk Management Working Committee ("RMWC"), RMC will consolidate the status of the risks and present them to the Board for consideration.

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

**Governance and regulatory framework**

The Group is required to comply with the requirements of the Insurance Act and Regulations, 1996, relevant laws and guidelines from BNM, Life Insurance Association Malaysia ("LIAM"), Persatuan Insurans Am Malaysia ("PIAM") and Bursa Securities Malaysia Berhad.

The Group 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.

## 38. INSURANCE RISK

Underwriting risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims, frequency and severity and 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 Group 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.

### 38.1 Life insurance contracts

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 DPF and without DPF by type of contract.

| | Gross | | | Reinsurance | | | |
|---|---|---|---|---|---|---|---|
| **Group** | 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 2011** | | | | | | | |
| Whole life | 1,195,816 | 168,124 | 1,363,940 | – | (15,641) | (15,641) | 1,348,299 |
| Endowment | 408,027 | 309,738 | 717,765 | – | (1,716) | (1,716) | 716,049 |
| Mortgage | – | 121,176 | 121,176 | – | (57,135) | (57,135) | 64,041 |
| Riders and others | 303,450 | 109,553 | 413,003 | (2,474) | (6,060) | (8,534) | 404,469 |
| **Total** | 1,907,293 | 708,591 | 2,615,884 | (2,474) | (80,552) | (83,026) | 2,532,858 |
| **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 |

As all of the business is derived from Malaysia, the entire life insurance contract liabilities are in Malaysia and no investment contract.

## 38. INSURANCE RISK (CONTINUED)

### 38.1 Life insurance contracts (continued)

**Key assumptions**

Significant judgement 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 an 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 and universal life contracts, it is assumed that the subsidiary 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 subsidiary is not exposed to longevity risk.

- 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 subsidiary 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 an 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.

## 38. INSURANCE RISK (CONTINUED)

### 38.1 Life insurance contracts (continued)

**Key assumptions (continued)**

- Discount rate
  In the valuation of the total benefits insurance liabilities of participating life policies, the subsidiary 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 subsidiary 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 subsidiary's investment philosophy, market condition and the prevailing long term market return for each asset class.

  Malaysian Government Securities (MGS) spot 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.

  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 | |
|---|---|---|---|---|---|---|
| **Group** | 2011 % | 2010 % | 2011 % | 2010 % | 2011 % | 2010 % |
| **Type of business** | | | | | | |
| **With fixed and guaranteed terms and with DPF contracts** | | | | | | |
| Life insurance | 70 – 80 | 70 – 80 | 3 – 30 | 3 – 30 | 4.50 – 6.50 | 4.50 – 6.50 |
| **Without DPF contracts** | | | | | | |
| Life insurance | 70 – 150 | 70 – 150 | 3 – 40 | 3 – 35 | MGS spot yield | Weighted MGS yield |

(1) Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003.

## 38. INSURANCE RISK (CONTINUED)

### 38.1 Life insurance contracts (continued)

**Sensitivities**

The analysis below is performed for reasonable possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities and profit before tax. Sensitivities testing on individual assumptions are meaningful to analyse the magnitude of reserve changes for each assumption. However, it should be studied with care as it does not capture the possible correlation effect when all assumptions are being stressed simultaneously. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

| Group | 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 2011** | | | | |
| Mortality | +5% | – | 14,332 | 11,522 |
| Discount rate | –0.5% | (18,000) | 209,338 | 206,288 |
| Expenses | +10% | – | 18,003 | 17,748 |
| Lapse and surrender rates | –10% | – | 31,097 | 30,637 |
| **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 |

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

# 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.

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts

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

The table below sets out the concentration of the general insurance risk as at the end of the reporting period by type of contract.

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

**Key assumptions**

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

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

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

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Sensitivities**

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

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

| Group | Change in assumptions | Impact on gross liabilities RM'000 | Impact on net liabilities RM'000 | Impact on profit before tax RM'000 | Impact on equity* RM'000 |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| Average claim cost | +10% | 177,511 | 89,844 | (89,844) | (67,383) |
| Average number of claims | +10% | 120,217 | 88,265 | (88,265) | (66,199) |
| Average claim settlement period | Increased by 6 months | 22,709 | 9,457 | (9,457) | (7,092) |
| **31 December 2010** | | | | | |
| Average claim cost | +10% | 152,401 | 74,311 | (74,311) | (55,733) |
| Average number of claims | +10% | 155,776 | 96,114 | (96,114) | (72,085) |
| Average claim settlement period | Increased by 6 months | 30,183 | 14,698 | (14,698) | (11,024) |

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

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

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Claims development table**

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

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

The management of the subsidiary believes that the estimate of total claims outstanding as of 31 December 2011 is adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

**Gross general insurance claims liabilities for 2011:**

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

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Claims development table (continued)**

**Gross general insurance claims liabilities for 2011 (continued):**

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

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Claims development table (continued)**

**Net general insurance claims liabilities for 2011:**

| Group | Before 2004 RM'000 | 2004 RM'000 | 2005 RM'000 | 2006 RM'000 | 2007 RM'000 | 2008 RM'000 | 2009 RM'000 | 2010 RM'000 | 2011 RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** | | | | | | | | | | |
| At end of accident year | – | 307,213 | 328,056 | 376,869 | 397,343 | 419,318 | 472,716 | 517,803 | 622,921 | – |
| One year later | – | 306,556 | 321,692 | 377,596 | 401,498 | 422,319 | 479,710 | 494,994 | – | – |
| Two years later | – | 299,947 | 323,723 | 373,040 | 395,653 | 431,658 | 493,315 | – | – | – |
| Three years later | – | 305,192 | 319,372 | 363,464 | 398,007 | 441,584 | – | – | – | – |
| Four years later | – | 305,147 | 311,223 | 364,426 | 394,074 | – | – | – | – | – |
| Five years later | – | 299,970 | 312,445 | 361,628 | – | – | – | – | – | – |
| Six years later | – | 298,097 | 312,947 | – | – | – | – | – | – | – |
| Seven years later | – | 306,013 | – | – | – | – | – | – | – | – |
| **Current estimate of cumulative claims incurred** | – | 306,013 | 312,947 | 361,628 | 394,074 | 441,584 | 493,315 | 494,994 | 622,921 | – |
| At end of accident year | – | 121,478 | 123,658 | 151,133 | 150,994 | 165,070 | 191,803 | 188,247 | 201,756 | – |
| One year later | – | 221,125 | 228,893 | 271,229 | 275,172 | 305,313 | 343,484 | 352,308 | – | – |
| Two years later | – | 242,202 | 254,287 | 291,736 | 306,459 | 350,112 | 408,146 | – | – | – |
| Three years later | – | 258,735 | 268,988 | 312,530 | 333,465 | 376,842 | – | – | – | – |
| Four years later | – | 268,727 | 282,380 | 328,164 | 346,469 | – | – | – | – | – |
| Five years later | – | 276,060 | 291,273 | 335,861 | – | – | – | – | – | – |
| Six years later | – | 285,685 | 295,103 | – | – | – | – | – | – | – |
| Seven years later | – | 290,684 | – | – | – | – | – | – | – | – |
| **Cumulative payments to-date** | – | 290,684 | 295,103 | 335,861 | 346,469 | 376,842 | 408,146 | 352,308 | 201,756 | – |
| Net general insurance claims liabilities (direct and facultative) | 9,594 | 15,329 | 17,844 | 25,767 | 47,605 | 64,742 | 85,169 | 142,686 | 421,165 | 829,901 |
| Net general insurance claims liabilities (treaty inward) | | | | | | | | | | 17,795 |
| Best estimate of claims liability | | | | | | | | | | 847,696 |
| Claims handling expenses | | | | | | | | | | 5,695 |
| PRAD at 75% confidence level | | | | | | | | | | 71,019 |
| **Net general insurance claims liabilities** | | | | | | | | | | 924,410 |

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Claims development table (continued)**

**Cross general insurance claims liabilities for 2010:**

| Group | Before 2003 RM'000 | 2003 RM'000 | 2004 RM'000 | 2005 RM'000 | 2006 RM'000 | 2007 RM'000 | 2008 RM'000 | 2009 RM'000 | 2010 RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** | | | | | | | | | | |
| At end of accident year | – | 415,412 | 454,981 | 396,675 | 458,967 | 696,740 | 600,933 | 800,472 | 808,271 | – |
| One year later | – | 435,186 | 505,306 | 440,946 | 569,098 | 704,712 | 581,075 | 819,547 | – | – |
| Two years later | – | 425,834 | 463,428 | 501,045 | 567,365 | 661,421 | 587,257 | – | – | – |
| Three years later | – | 418,270 | 484,221 | 490,653 | 552,186 | 664,919 | – | – | – | – |
| Four years later | – | 422,270 | 482,009 | 482,932 | 552,987 | – | – | – | – | – |
| Five years later | – | 422,233 | 476,105 | 483,850 | – | – | – | – | – | – |
| Six years later | – | 417,542 | 472,675 | – | – | – | – | – | – | – |
| Seven years later | – | 415,639 | – | – | – | – | – | – | – | – |
| **Current estimate of cumulative claims incurred** | – | 415,639 | 472,675 | 483,850 | 552,987 | 664,919 | 587,257 | 819,547 | 808,271 | – |
| At end of accident year | – | 156,864 | 145,693 | 171,799 | 173,028 | 202,481 | 183,848 | 250,248 | 214,460 | – |
| One year later | – | 303,954 | 329,065 | 312,208 | 365,770 | 378,908 | 366,451 | 565,497 | – | – |
| Two years later | – | 351,162 | 360,368 | 348,788 | 420,153 | 447,535 | 445,223 | – | – | – |
| Three years later | – | 370,017 | 387,466 | 379,645 | 451,648 | 482,778 | – | – | – | – |
| Four years later | – | 378,397 | 404,171 | 402,374 | 470,711 | – | – | – | – | – |
| Five years later | – | 386,035 | 412,476 | 415,267 | – | – | – | – | – | – |
| Six years later | – | 391,887 | 427,621 | – | – | – | – | – | – | – |
| Seven years later | – | 383,714 | – | – | – | – | – | – | – | – |
| **Cumulative payments to-date** | – | 383,714 | 427,621 | 415,267 | 470,711 | 482,778 | 445,223 | 565,497 | 214,460 | – |
| Gross general insurance claims liabilities (direct and facultative) | 18,328 | 31,925 | 45,054 | 68,583 | 82,276 | 182,141 | 142,034 | 254,050 | 593,811 | 1,418,202 |
| Gross general insurance claims liabilities (treaty inward) | | | | | | | | | | 16,867 |
| Best estimate of claims liability | | | | | | | | | | 1,435,069 |
| Claims handling expenses | | | | | | | | | | 5,001 |
| PRAD at 75% confidence level | | | | | | | | | | 156,106 |
| **Gross general insurance claims liabilities** | | | | | | | | | | 1,596,176 |

## 38. INSURANCE RISK (CONTINUED)

### 38.2 General insurance contracts (continued)

**Claims development table (continued)**

**Net general insurance claims liabilities for 2010:**

| Group | Before 2003 RM'000 | 2003 RM'000 | 2004 RM'000 | 2005 RM'000 | 2006 RM'000 | 2007 RM'000 | 2008 RM'000 | 2009 RM'000 | 2010 RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Accident year** | | | | | | | | | | |
| At end of accident year | – | 296,867 | 307,213 | 328,056 | 376,869 | 397,343 | 419,318 | 472,716 | 517,803 | – |
| One year later | – | 275,753 | 306,556 | 321,692 | 377,596 | 401,498 | 422,319 | 479,710 | – | – |
| Two years later | – | 277,102 | 299,947 | 323,723 | 373,040 | 395,653 | 431,658 | – | – | – |
| Three years later | – | 275,955 | 305,192 | 319,372 | 363,464 | 398,007 | – | – | – | – |
| Four years later | – | 269,582 | 305,147 | 311,223 | 364,426 | – | – | – | – | – |
| Five years later | – | 269,160 | 299,970 | 312,445 | – | – | – | – | – | – |
| Six years later | – | 265,511 | 298,097 | – | – | – | – | – | – | – |
| Seven years later | – | 269,753 | – | – | – | – | – | – | – | – |
| **Current estimate of cumulative claims incurred** | – | 269,753 | 298,097 | 312,445 | 364,426 | 398,007 | 431,658 | 479,710 | 517,803 | – |
| At end of accident year | – | 118,023 | 121,478 | 123,658 | 151,133 | 150,994 | 165,070 | 191,803 | 188,247 | – |
| One year later | – | 207,131 | 221,125 | 228,893 | 271,229 | 275,172 | 305,313 | 343,484 | – | – |
| Two years later | – | 228,742 | 242,202 | 254,287 | 291,736 | 306,459 | 350,112 | – | – | – |
| Three years later | – | 238,012 | 258,735 | 268,988 | 312,530 | 333,465 | – | – | – | – |
| Four years later | – | 244,351 | 268,727 | 282,380 | 328,164 | – | – | – | – | – |
| Five years later | – | 249,289 | 276,060 | 291,273 | – | – | – | – | – | – |
| Six years later | – | 254,302 | 285,685 | – | – | – | – | – | – | – |
| Seven years later | – | 259,825 | – | – | – | – | – | – | – | – |
| **Cumulative payments to-date** | – | 259,825 | 285,685 | 291,273 | 328,164 | 333,465 | 350,112 | 343,484 | 188,247 | – |
| Net general insurance claims liabilities (direct and facultative) | 7,602 | 9,928 | 12,412 | 21,172 | 36,262 | 64,542 | 81,546 | 136,226 | 329,556 | 699,246 |
| Net general insurance claims liabilities (treaty inward) | | | | | | | | | | 15,293 |
| Best estimate of claims liability | | | | | | | | | | 714,539 |
| Claims handling expenses | | | | | | | | | | 4,027 |
| PRAD at 75% confidence level | | | | | | | | | | 64,020 |
| **Net general insurance claims liabilities** | | | | | | | | | | 782,586 |

## 39. FINANCIAL RISK

Exposure to credit, liquidity, market (currency risk, interest rate risk, price risk) and operational risk arises in the normal course of the Group's and the Company's business. The Group and the Company are 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.

### 39.1 Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk arises principally from the underwriting of 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 Group 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 Group 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 a minimum rating of A- by any internationally recognised rating agency as outlined in the Group's Investment Mandate which is approved by the Board of Directors.

The Group and 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.

The Company's exposure to credit risk arises principally from the subordinated loan to a subsidiary. The Company does not specifically monitor the ageing of subordinated loan. As at the end of the reporting period, there was no indication that the subsidiary would default on repayment.

## 39. FINANCIAL RISK

### 39.1 Credit risk (continued)

**Credit exposure by credit rating**

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

| Group | Neither past-due nor impaired Investment grade* RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Past-due but not impaired RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| HTM financial investments | | | | | |
| Malaysian government securities | – | 487,359 | – | – | 487,359 |
| Malaysian government guaranteed bonds | – | 187,562 | – | – | 187,562 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 108,267 | – | – | – | 108,267 |
| LAR | | | | | |
| Government guaranteed loans | – | 190,000 | – | – | 190,000 |
| Other loans | – | 62,501 | – | – | 62,501 |
| Fixed and call deposits | 4,373 | 10,305 | – | – | 14,678 |
| AFS financial investments | | | | | |
| Malaysian government securities | – | 1,566,390 | – | – | 1,566,390 |
| Malaysian government guaranteed bonds | 50,894 | 411,598 | – | – | 462,492 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 211,838 | 1,394 | – | – | 213,232 |
| Debt securities | 1,434,788 | – | – | – | 1,434,788 |
| Structured deposits | 208,872 | – | – | – | 208,872 |
| HFT financial investments | | | | | |
| Malaysian government securities | – | 22,129 | 10,302 | – | 32,431 |
| Malaysian government guaranteed bonds | – | 10,098 | 5,099 | – | 15,197 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 1,549 | – | 3,614 | – | 5,163 |
| Debt securities | 30,197 | – | 60,143 | – | 90,340 |
| Structured deposits | – | – | 29,230 | – | 29,230 |
| Reinsurance assets | 251,650 | 530,711 | – | – | 782,361 |
| Insurance receivables | 5,076 | 105,247 | – | 6,610 | 116,933 |
| Cash and cash equivalents | 474,642 | 1,305 | 35,945 | – | 511,892 |
| | 2,782,146 | 3,586,599 | 144,333 | 6,610 | 6,519,688 |

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

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

| Company | Neither past-due nor impaired: Investment grade* RM'000 | Neither past-due nor impaired: Non-rated RM'000 | Investment-linked funds RM'000 | Past-due but not impaired RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **31 December 2011** | | | | | |
| Subordinated loan | – | 29,396 | – | – | 29,396 |
| Cash and cash equivalents | 5,871 | – | – | – | 5,871 |
| | 5,871 | 29,396 | – | – | 35,267 |

| Group | Neither past-due nor impaired: Investment grade* RM'000 | Neither past-due nor impaired: Non-rated RM'000 | Investment-linked funds 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 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 78,781 | 39,196 | – | – | 117,977 |
| LAR | | | | | |
| Government guaranteed loans | 5,524 | 190,000 | – | – | 195,524 |
| Commercial loans | – | 5,098 | – | – | 5,098 |
| Other loans | – | 54,156 | – | – | 54,156 |
| Fixed and call deposits | 20,140 | – | – | – | 20,140 |
| AFS financial investments | | | | | |
| Malaysian government securities | 50,962 | 1,207,124 | – | – | 1,258,086 |
| Malaysian government guaranteed bonds | – | 240,908 | – | – | 240,908 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 207,566 | 14,996 | – | – | 222,562 |
| Debt securities | 1,380,866 | – | – | – | 1,380,866 |
| Negotiable certificates of deposits and structured deposits | 35,775 | 74,602 | – | – | 110,377 |

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

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

| Group | Neither past-due nor impaired Investment grade* RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Past-due but not impaired RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **31 December 2010 (continued)** | | | | | |
| HFT financial investments | | | | | |
| Malaysian government securities | – | 4,041 | 3,594 | – | 7,635 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 1,506 | – | 3,512 | – | 5,018 |
| Debt securities | 8,577 | 2,001 | 60,049 | – | 70,627 |
| Negotiable certificates of deposits | – | – | 554 | – | 554 |
| Structured deposits | – | – | 29,023 | – | 29,023 |
| Reinsurance assets | 248,986 | 491,088 | – | – | 740,074 |
| Insurance receivables | 4,948 | 86,912 | – | 8,304 | 100,164 |
| Cash and cash equivalents | 462,869 | 1,394 | 30,492 | – | 494,755 |
| | 2,506,500 | 2,889,297 | 127,224 | 8,304 | 5,531,325 |

| Company | Neither past-due nor impaired Investment grade* RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Past-due but not impaired RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Subordinated loan | – | 28,171 | – | – | 28,171 |
| Cash and cash equivalents | 7,631 | – | – | – | 7,631 |
| | 7,631 | 28,171 | – | – | 35,802 |

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

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

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

| Group | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| HTM financial investments | | | | | | | |
| Malaysian government securities | – | – | – | – | 487,359 | – | 487,359 |
| Malaysian government guaranteed bonds | – | – | – | – | 187,562 | – | 187,562 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 108,267 | – | – | – | – | – | 108,267 |
| LAR | | | | | | | |
| Government guaranteed loans | – | – | – | – | 190,000 | – | 190,000 |
| Other loans | – | – | – | – | 62,501 | – | 62,501 |
| Fixed and call deposits | 2,575 | 1,798 | – | – | 10,305 | – | 14,678 |
| AFS financial investments | | | | | | | |
| Malaysian government securities | – | – | – | – | 1,566,390 | – | 1,566,390 |
| Malaysian government guaranteed bonds | 50,894 | – | – | – | 411,598 | – | 462,492 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 211,838 | – | – | – | 1,394 | – | 213,232 |
| Debt securities | 478,703 | 908,364 | 47,721 | – | – | – | 1,434,788 |
| Structured deposits | 208,872 | – | – | – | – | – | 208,872 |
| HFT financial investments | | | | | | | |
| Malaysian government securities | – | – | – | – | 22,129 | 10,302 | 32,431 |
| Malaysian government guaranteed bonds | – | – | – | – | 10,098 | 5,099 | 15,197 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 1,549 | – | – | – | – | 3,614 | 5,163 |
| Debt securities | 11,402 | 18,795 | – | – | – | 60,143 | 90,340 |
| Structured deposits | – | – | – | – | – | 29,230 | 29,230 |
| Reinsurance assets | 67 | 91,886 | 157,730 | 1,967 | 530,711 | – | 782,361 |
| Insurance receivables | 85 | 177 | 4,421 | 393 | 111,857 | – | 116,933 |
| Cash and cash equivalents | 257,424 | 174,044 | 43,174 | – | 1,305 | 35,945 | 511,892 |
| | 1,331,676 | 1,195,064 | 253,046 | 2,360 | 3,593,209 | 144,333 | 6,519,688 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

| Company | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| Subordinated loan | – | – | – | – | 29,396 | – | 29,396 |
| Cash and cash equivalents | 5,871 | – | – | – | – | – | 5,871 |
| | 5,871 | – | – | – | 29,396 | – | 35,267 |

| Group | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds 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 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 78,781 | – | – | – | 39,196 | – | 117,977 |
| LAR | | | | | | | |
| Government guaranteed loans | 551 | 2,763 | 2,210 | – | 190,000 | – | 195,524 |
| Commercial loans | – | – | – | – | 5,098 | – | 5,098 |
| Other loans | – | – | – | – | 54,156 | – | 54,156 |
| Fixed and call deposits | 20,140 | – | – | – | – | – | 20,140 |
| AFS financial investments | | | | | | | |
| Malaysian government securities | 50,962 | – | – | – | 1,207,124 | – | 1,258,086 |
| Malaysian government guaranteed bonds | – | – | – | – | 240,908 | – | 240,908 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 207,566 | – | – | – | 14,996 | – | 222,562 |
| Debt securities | 439,987 | 839,025 | 96,971 | 4,883 | – | – | 1,380,866 |
| Negotiable certificates of deposits and structured deposits | 35,775 | – | – | – | 74,602 | – | 110,377 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

| Group | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | | |
| HFT financial investments | | | | | | | |
| Malaysian government securities | – | – | – | – | 4,041 | 3,594 | 7,635 |
| Ringgit denominated bonds by foreign issuers in Malaysia | 1,506 | – | – | – | – | 3,512 | 5,018 |
| Debt securities | 1,000 | 7,577 | – | – | 2,001 | 60,049 | 70,627 |
| Negotiable certificates of deposits and structured deposits | – | – | – | – | – | 29,577 | 29,577 |
| Reinsurance assets | 767 | 115,400 | 131,339 | 1,480 | 491,088 | – | 740,074 |
| Insurance receivables | 48 | 589 | 4,139 | 172 | 95,216 | – | 100,164 |
| Cash and cash equivalents | 319,489 | 94,674 | 48,706 | – | 1,394 | 30,492 | 494,755 |
| | 1,156,572 | 1,060,028 | 283,365 | 6,535 | 2,897,601 | 127,224 | 5,531,325 |

| Company | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | | |
| Subordinated loan | – | – | – | – | 28,171 | – | 28,171 |
| Cash and cash equivalents | 7,631 | – | – | – | – | – | 7,631 |
| | 7,631 | – | – | – | 28,171 | – | 35,802 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

**Credit exposure by credit rating (continued)**

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

| Group | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| Investment grade | 1,331,676 | 1,195,064 | 253,046 | 2,360 | – | 128,932 | 2,911,078 |
| Non-rated | – | – | – | – | 3,586,599 | 15,401 | 3,602,000 |
| Past-due but not impaired | – | – | – | – | 6,610 | – | 6,610 |
| | 1,331,676 | 1,195,064 | 253,046 | 2,360 | 3,593,209 | 144,333 | 6,519,688 |
| **31 December 2010** | | | | | | | |
| Investment grade | 1,156,572 | 1,060,028 | 283,365 | 6,535 | – | 123,501 | 2,630,001 |
| Non-rated | – | – | – | – | 2,889,297 | 3,723 | 2,893,020 |
| Past-due but not impaired | – | – | – | – | 8,304 | – | 8,304 |
| | 1,156,572 | 1,060,028 | 283,365 | 6,535 | 2,897,601 | 127,224 | 5,531,325 |

| Company | AAA RM'000 | AA RM'000 | A RM'000 | BBB RM'000 | Non-rated RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | |
| Investment grade | 5,871 | – | – | – | – | – | 5,871 |
| Non-rated | – | – | – | – | 29,396 | – | 29,396 |
| | 5,871 | – | – | – | 29,396 | – | 35,267 |
| **31 December 2010** | | | | | | | |
| Investment grade | 7,631 | – | – | – | – | – | 7,631 |
| Non-rated | – | – | – | – | 28,171 | – | 28,171 |
| | 7,631 | – | – | – | 28,171 | – | 35,802 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.1 Credit risk (continued)

#### (i) Past due but not impaired financial assets

The Group has not provided the credit risk analysis for the financial assets of the investment-linked business. This is due to the fact that, in investment-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.

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

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

| Group | <30 days RM'000 | 31 to 60 days RM'000 | 61 to 90 days RM'000 | > 91 days RM'000 | Investment-linked funds RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | |
| Insurance receivables | 4,852 | 672 | 277 | 809 | – | 6,610 |
| **31 December 2010** | | | | | | |
| Insurance receivables | 7,340 | 844 | – | 120 | – | 8,304 |

#### (ii) Past due and impaired financial assets

As at 31 December 2011, based on combination of collective and individual assessment of receivables, there are impaired insurance receivables of RM22,205,000 (2010: RM33,442,000) and other receivables of RM3,579,000 (2010: RM3,605,000) respectively. No collateral is held as security for any past due or impaired assets. A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

| | Insurance receivables | | Other receivables | |
|---|---|---|---|---|
| **Group** | 2011 RM'000 | 2010 RM'000 | 2011 RM'000 | 2010 RM'000 |
| **At 1 January** | 33,442 | 34,419 | 3,605 | 3,691 |
| Impairment loss (reversed)/ recognised during the year | (11,237) | (977) | 124 | (86) |
| Impairment loss written off | – | – | (150) | – |
| **At 31 December** | 22,205 | 33,442 | 3,579 | 3,605 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.2 Liquidity risk

Liquidity risk is the risk of loss resulting from the danger that short-term current or future payment obligations cannot be met or can only be met on the basis of altered conditions, along with the risk that in the case of a liquidity crisis of the Group and 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 Group and 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 Group 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 summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on remaining undiscounted contractual obligations, including interest/profit payable and receivable.

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

Investment-linked funds' 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.

Maturity profile of the Company's financial liabilities is not presented given that all financial liabilities are repayable within one year.

| Group | Carrying value RM'000 | Up to a year RM'000 | 1-3 years RM'000 | 3-5 years RM'000 | 5-15 years RM'000 | Over 15 years RM'000 | No maturity date RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | | |
| Insurance claims liabilities | | | | | | | | |
| With DPF | 2,141,180 | 110,243 | (259,515) | (9,716) | 1,922,282 | 5,640,845 | – | 7,404,139 |
| Without DPF | 1,350,051 | 827,420 | 83,408 | 35,906 | 344,961 | 371,134 | – | 1,662,829 |
| Provision for claims | 1,357,126 | 638,320 | 430,584 | 159,909 | 128,313 | – | – | 1,357,126 |
| Other financial liabilities | 4,252 | 2,789 | 1,463 | – | – | – | – | 4,252 |
| Insurance payables | 283,182 | 269,831 | 12,245 | 1,106 | – | – | – | 283,182 |
| Other payables | 213,666 | 156,702 | 56,964 | – | – | – | – | 213,666 |
| Benefits and claims liabilities | 68,573 | 68,573 | – | – | – | – | – | 68,573 |
| **Total liabilities** | 5,418,030 | 2,073,878 | 325,149 | 187,205 | 2,395,556 | 6,011,979 | – | 10,993,767 |

## 39. FINANCIAL RISK (CONTINUED)

### 39.2 Maturity profiles (continued)

| Group | 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 claims liabilities | | | | | | | | |
| With DPF | 1,715,433 | (39,989) | (452,448) | (16,457) | 1,921,606 | 5,369,122 | – | 6,781,834 |
| Without DPF | 1,142,534 | 551,640 | 76,744 | 28,358 | 331,541 | 588,750 | – | 1,577,033 |
| Provision for claims | 1,227,631 | 599,885 | 399,326 | 121,075 | 107,345 | – | – | 1,227,631 |
| Other financial liabilities | 3,595 | 2,013 | 1,582 | – | – | – | – | 3,595 |
| Insurance payables | 291,740 | 275,151 | 16,589 | – | – | – | – | 291,740 |
| Other payables | 196,827 | 146,906 | 49,921 | – | – | – | – | 196,827 |
| Benefits and claims liabilities | 59,545 | 59,545 | – | – | – | – | – | 59,545 |
| **Total liabilities** | 4,637,305 | 1,595,151 | 91,714 | 132,976 | 2,360,492 | 5,957,872 | – | 10,138,205 |

### 39.3 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 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 Group.
- The Investment Policy and Mandate which formulated the single counter limits, group limits and sector limits are in place. Compliance to such limits is monitored monthly and reported to 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 Group also issues investment-linked policies in a number of products. In the investment-linked business, the policyholders bear the investment risk on the assets held in the investment-linked funds as the policy benefits are directly linked to the value of the assets in the funds. The Group'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.

## 39. FINANCIAL RISK (CONTINUED)

### 39.4 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 Group's primary transactions are carried out in Ringgit Malaysia ("RM"). As the Group's business is conducted primarily in Malaysia, the Group'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 Group'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 Group has no significant concentration of foreign currency risk.

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

**Exposure to foreign currency risk**

The Company's exposure to foreign currency risk, based on carrying amounts as at end of the reporting period were:

| Group | Financial assets RM'000 | Investment-linked funds RM'000 |
|---|---|---|
| **31 December 2011** | | |
| **Denominated in** | | |
| USD | 8,270 | 14,964 |
| AUD | – | 27,197 |
| **31 December 2010** | | |
| **Denominated in** | | |
| USD | 10,897 | 19,105 |
| HKD | 15,911 | – |
| AUD | – | 26,920 |

### 39.5 Interest rate risk

The Group 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.

## 39. FINANCIAL RISK (CONTINUED)

### 39.5 Interest rate risk (continued)

**Cash flow sensitivity analysis for variable rate instruments**

The analysis below is performed for reasonable possible movements in interest rate with all other variables held constant, showing the impact on the profit before tax, equity and insurance contract liabilities.

**Life insurance contracts:**

| Group | Change in variables | Impact on profit before tax# RM'000 | Impact on equity* RM'000 | Impact on insurance contract liabilities** RM'000 |
|---|---|---|---|---|
| **31 December 2011** | | | | |
| Interest rate | +100 basis points | (18,000) | (20,467) | (83,522) |
| Interest rate | +200 basis points | (18,000) | (26,998) | (160,595) |
| **31 December 2010** | | | | |
| Interest rate | +100 basis points | (15,000) | (17,111) | (69,156) |
| Interest rate | +200 basis points | (15,000) | (22,506) | (130,411) |

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

# 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. Where the interests risk resides in shareholders' fund, the impact will be directly to profit and equity of the Group. 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 Group.

* 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.

## 39. FINANCIAL RISK (CONTINUED)

### 39.5 Interest rate risk (continued)

**General insurance contracts:**

| Group | Change in variables | Impact on profit before tax RM'000 | Impact on Equity* RM'000 |
|---|---|---|---|
| **31 December 2011** | | | |
| Interest rate | +100 basis points | – | (48,594) |
| Interest rate | +50 basis points | – | (24,297) |
| **31 December 2010** | | | |
| Interest rate | +100 basis points | – | (35,193) |
| Interest rate | +50 basis points | – | (17,596) |

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

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

### 39.6 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 Group'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 investment-linked business.

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

**Equity price risk sensitivity analysis**

The analysis below is performed for reasonable possible movements in key variables with all other variables held constant, showing the impact on profit before tax ("PBT") (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in income statements) and Equity (that reflects adjustments to PBT 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.

## 39. FINANCIAL RISK (CONTINUED)

### 39.6 Price risk (continued)

| Group | Changes in variables | 31 December 2011 Impact on profit before tax# RM'000 | 31 December 2011 Impact on equity* RM'000 | 31 December 2011 Impact on insurance contract liabilities** RM'000 | 31 December 2010 Impact on profit before tax# RM'000 | 31 December 2010 Impact on equity* RM'000 | 31 December 2010 Impact on insurance contract liabilities** RM'000 |
|---|---|---|---|---|---|---|---|
| **Market indices** | | | | | | | |
| Market value | –10% | – | – | (42,103) | – | – | (37,561) |
| Market value | –20% | (18,000) | (13,500) | (84,206) | (15,000) | (11,250) | (75,122) |

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

# 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. Where the change in market price resides in shareholders' fund, the impact will be directly to profit and equity of the Group. 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 Group.

* 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.

### 39.7 Operational risk

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

The Group 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.

## 39. FINANCIAL RISK (CONTINUED)

### 39.8 Fair value of financial instruments

The Group's and the Company's basis in estimation of fair values for financial instruments are as follows:

- The fair values of structured deposits and negotiable certificates of deposits are based on the indicative market prices from the issuing banks;
- 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 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 Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia 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;
- The carrying amount of government guaranteed loan, commercial loans, policy loans, automatic premium loans, bankers' acceptances and fixed and call deposits are assumed to approximate their fair values.
- The carrying amounts of mortgage loans and other secured loans are calculated based on the present value of future cash flow, discounted at the market rate of interest at the date of issuance.
- The carrying amounts of cash and cash equivalents, insurance receivables and other receivables, subordinated loan and other payables approximate fair values due to the relatively short term nature of these financial instruments.

Estimation of the fair values of Malaysian government securities, Malaysian government guaranteed bonds, Ringgit denominated bonds by foreign issuers in Malaysia, 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 yields may be different from the actual market yields in future.

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

## 39. FINANCIAL RISK (CONTINUED)

### 39.8 Fair value of financial instruments (continued)

#### 39.8.1 Fair value hierarchy

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

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

| **Group** | Level 1 RM'000 | Level 2 RM'000 | Level 3 RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2011** | | | | |
| **Financial assets** | | | | |
| Malaysian government securities | – | 1,598,821 | – | 1,598,821 |
| Malaysian government guaranteed bonds and loans | – | 477,689 | – | 477,689 |
| Ringgit denominated bonds by foreign issuers in Malaysia | – | 218,395 | – | 218,395 |
| Unquoted debt securities | – | 1,525,128 | – | 1,525,128 |
| Quoted equity securities of corporations in Malaysia | 380,408 | – | – | 380,408 |
| Quoted unit trusts in Malaysia | 77,230 | – | – | 77,230 |
| Unquoted unit trusts in Malaysia | – | 375 | – | 375 |
| Unquoted unit trusts outside Malaysia | – | 23,234 | – | 23,234 |
| Structured deposits with licensed financial institutions | – | 238,102 | – | 238,102 |
| | 457,638 | 4,081,744 | – | 4,539,382 |

## 40. CAPITAL MANAGEMENT

**Regulatory capital**

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

The insurance subsidiaries of the Group have met their regulatory requirements.

## 41. SUPPLEMENTARY INFORMATION ON THE BREAKDOWN OF REALISED AND UNREALISED PROFITS OR LOSSES

The breakdown of the retained earnings of the Group and of the Company as at 31 December 2011, into realised and unrealised profits, pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, are as follow:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2010<br>RM'000 |
| Total retained earnings of Allianz Malaysia Berhad and its subsidiaries: | | | | |
| – Realised | 585,308 | 468,170 | 218,532 | 221,205 |
| – Unrealised | 6,286 | 3,611 | 19 | 10 |
| Total retained earnings | 591,594 | 471,781 | 218,551 | 221,215 |

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

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# Form of Proxy

**ALLIANZ MALAYSIA BERHAD (12428-W)**
**(Incorporated in Malaysia)**

| Number of Shares Held | |
|---|---|
| CDS Account No. | |

I/We *(name of shareholder)* ________________________________________

NRIC No./Passport No./Company No. ______________________ (new) ______________________ (old)

of *(full address)* ________________________________________

being a member of ALLIANZ MALAYSIA BERHAD, hereby appoint *(name of proxy/proxies)* ______________________

NRIC No./Passport No. ______________________ of *(full address)* ______________________

________________________________________

or failing him/her, ______________________ NRIC No./Passport No. ______________________

of *(full address)* ________________________________________

as my/our proxy to attend and vote for me/us on my/our behalf at the 38th Annual General Meeting of the Company to be held at Junior Ballroom, Level 2, Hotel InterContinental Kuala Lumpur, 165 Jalan Ampang, 50450 Kuala Lumpur on Wednesday, 27 June 2012 at 10.00 a.m. and at any adjournment thereof.

| NO. | RESOLUTIONS | FOR | AGAINST |
|---|---|---|---|
| 1 | Receipt of Audited Financial Statements for the financial year ended 31 December 2011 and the Reports of the Directors and Auditors thereon | | |
| 2 | Declaration of a first and final dividend | | |
| 3 | Approval of payment of Directors' fees | | |
| 4 | Re-election of Mr. Foo San Kan as Director | | |
| 5 | Re-election of Mr. Ong Eng Chow as Director | | |
| 6 | Re-election of Y. Bhg. Dato' Dr. Thillainathan A/L Ramasamy as Director | | |
| 7 | Re-appointment of Y. Bhg. Tan Sri Razali Ismail as Director | | |
| 8 | Re-appointment of Messrs KPMG as Auditors and authority to the Directors to fix the Auditors' remuneration | | |
| **Special Business** | | | |
| 9 | Proposed Renewal of Shareholders' Mandate | | |

Please indicate with an "X" in the appropriate boxes on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy will vote or abstain as he/she thinks fit.

As witness my/our hand this __________ day of ______________________ 2012.

| Contact No. | |
|---|---|

________________________
Signature of shareholder/common seal

**Representation at Meeting**

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two (2) proxies to attend and vote instead of him. If two (2) proxies are appointed, the instrument of proxy must specify the proportion of his shareholdings to be represented by each proxy.
2. A proxy may but need not be a member of the Company and Section 149(1)(b) of the Companies Act, 1965 shall not apply to the Company.
3. A member who is an authorised nominee as defined under the Securities Industry (Central Depositories) Act 1991, may appoint at least one (1) proxy in respect of each securities account it holds with ordinary shares of the Company standing to the credit of the said securities account.
4. The instrument appointing a proxy/proxies must be in writing under the hand of the appointor or his attorney. If the appointor is a corporation, under its common seal or the hand of its attorney.
5. The instrument of proxy shall be deposited at the Registered Office of the Company at Suite 3A-15, Level 15, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur not later than forty-eight (48) hours before the appointed time for holding the Annual General Meeting.

**Note to Holders of Irredeemable Convertible Preference Share ("ICPS")**

The holders of the ICPS shall entitle to attend the 38th Annual General Meeting but have no right to vote at the said Annual General Meeting. The voting rights of the ICPS holders are detailed on page 95 of this Annual Report.

Affix Stamp

**Allianz Malaysia Berhad** **(12428-W)**
Suite 3A-15, Level 15, Block 3A
Plaza Sentral, Jalan Stesen Sentral 5
Kuala Lumpur Sentral
50470 Kuala Lumpur

**Attention : The Company Secretary**