**MAYBAN LIFE ASSURANCE BHD. (235175-H)**
**(Incorporated in Malaysia)**

# Directors' Report and Audited Financial Statements
# 30 June 2010

235175-H

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

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**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

## DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 30 June 2010.

## PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life insurance business. There have been no significant changes in the principal activities of the Company.

As disclosed in the Note 30(c), the Company transferred its entire shareholding in its subsidiary, Etiqa Life International (Labuan) Ltd ("ELIL"), which is principally engaged in offshore investment-linked life insurance business on 30 June 2010, to the holding company, Mayban Fortis Holdings Berhad ("MFHB"), pursuant to a dividend-in-specie distribution.

## RESULTS

| | **RM'000** |
|---|---|
| Net profit for the financial year | 86,188 |

There were no material transfers to, or from reserves or provisions during the financial year other than as disclosed in the statement of changes in equity.

In the opinion of the directors, the results of the operations of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than the effects arising from the adoption of the Risk-Based Capital ("RBC") framework as disclosed in Note 2.4.

## DIVIDENDS

The amount of dividends paid by the Company since the end of the previous financial year were as follows:

| | **RM'000** |
|---|---|
| A special distribution by way of gross dividend payment of RM102,666,666.67 less 25% of tax, amounting to RM77,000,000 to Safety Capital Sdn Bhd, in respect of the financial year ended 30 June 2010, declared on 22 December 2009 and paid on 10 May 2010. | 77,000 |
| A single-tier dividend-in-specie of RM11,075,950 to Mayban Fortis Holdings Berhad, in respect of the financial year ended 30 June 2010, declared on 24 June 2010. | 11,076 |
| | 88,076 |

The directors do not recommend the payment of any final dividends in respect of the current financial year.

## DIRECTORS

The directors of the Company in office since the date of the last report and at the date of this report are:

| | |
|---|---|
| Dato' Johan bin Ariffin (Chairman) | (appointed on 2 March 2010) |
| Damis Jacobus Ziengs (Vice Chairman) | |
| Sulaiman bin Salleh | |
| Hans J.J. De Cuyper | |
| Datuk Syed Tamim Ansari bin Syed Mohamed (Chairman) | (resigned on 2 March 2010) |
| Datuk Johar bin Che Mat | (resigned on 1 July 2010) |

## CORPORATE GOVERNANCE

The Board of Directors (“the Board”) is committed to ensuring that the highest standards of corporate governance are practised in the Company. This is a fundamental part in discharging their responsibilities to protect and enhance all stakeholders’ values and the financial performance of the Company.

### (a) Board Responsibilities

In discharging their duties, the Board is equally responsible to ensure compliance with the Insurance Act ("the Act") and Regulations, 1996 and Bank Negara Malaysia's ("BNM") Guidelines, including BNM/RH/GL/003-1: Minimum Standards for Prudential Management for Insurers (Consolidated) and other directives. They also have to comply with the tenets of corporate governance by adopting its best practices as stipulated under BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers. Apart from their statutory responsibilities, the Board approves the Company’s major investments, disposals and funding decisions. They ensure the implementation of appropriate systems to manage risks and also review and approve the strategies and financial objectives to be implemented by the management. These functions are carried out by the Board directly and/or through their various committees.

The Board is responsible for creating the framework and policies within which the Company should be operating and the management is responsible for implementing them. This demarcation reinforces the supervisory role of the Board.

Hence, the Company has an organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees and formal performance appraisals are done annually.

The directors, with different backgrounds and experiences, collectively bring with them a wide range of skills and specialised knowledge that are required for the management of the Company.

## CORPORATE GOVERNANCE (CONT'D.)

### (a) Board Responsibilities (cont'd.)

The Board met 6 times during the financial year and the attendance of the directors was as follows:

| Name | Number of Board Meetings Attended | % |
|---|---|---|
| Dato' Johan bin Ariffin (Chairman) | 3/3 | 100 |
| Damis Jacobus Ziengs (Vice Chairman) | 6/6 | 100 |
| Sulaiman bin Salleh | 6/6 | 100 |
| Datuk Johar bin Che Mat | 6/6 | 100 |
| Hans J.J. De Cuyper | 6/6 | 100 |
| Datuk Syed Tamim Ansari bin Syed Mohamed | 3/3 | 100 |

### (b) Management Accountability

Whilst the Board is responsible for creating the framework and policies within which the Company should be operating, the management is accountable for the execution of the enabling policies and attainment of the Company's corporate objectives.

### (c) Corporate Independence

All material related party transactions have been disclosed in Note 26 to the financial statements.

### (d) Internal Controls and Audit

The Board exercises overall responsibility for the Company's internal controls and its effectiveness. The Board recognises that risks cannot be eliminated completely; as such, the systems and processes put in place are aimed at minimising and managing them. The Company has established internal controls which cover all levels of personnel and business processes that ensure the Company's operations are run in an effective and efficient manner as well as to safeguard the assets of the Company and stakeholders' interests. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures that corrective action where necessary, is taken in a timely manner.

The internal audit reports are tabled at the first scheduled Audit Committee ("AC") meeting after the date of receipt of these reports. The internal audit function reports to the Board through the AC, and its findings and recommendations are communicated to senior management and all levels of staff concerned. The AC is established at the holding company's level.

**CORPORATE GOVERNANCE (CONT'D.)**

**(d) Internal Controls and Audit (cont'd.)**

The composition of the AC is as follows:

Sulaiman bin Salleh (Chairman)
Independent Non-Executive Director

Damis Jacobus Ziengs
Non-Independent Non-Executive Director

Datuk Dr. Syed Othman bin Syed Hussin AlHabshi
Independent Non-Executive Director

Datuk Syed Tamim Ansari bin Syed Mohamed ( resigned on 2 March 2010)
Independent Non-Executive Director

The AC met 6 times during the financial year.

**(e) Risk Management**

The Board takes responsibility in establishing the Risk Management Committee ("RMC"). The primary objective of the RMC is to oversee the senior management's activities in managing the key risk areas of the Company and to ensure that the risk management process is in place and functioning effectively.

The Company established the RMC at the holding company's level. In discharging its responsibilities, the RMC is complemented by the Investment Committee of the Board and assisted by the Asset Liability Committee ("ALCO") of the management.

The risk management framework for the Company comprises three main components i.e. policy-making, monitoring and control and risk acceptance while the risk management approach would premise on three lines of defence i.e. risk-taking, risk control and coordinating units and internal audit. Risks have been classified into three main categories, which are made up of insurance risk, financial risk (including market risk, credit risk and balance sheet risk) and operational risk.

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Company. This is achieved through designated management functions and internal controls, which includes the setting up of operational risk limits for all core activities.

The composition of the RMC is as follows:

Dato' Johan bin Ariffin (Chairman) ( appointed on 5 May 2010)
Independent Non-Executive Director

Damis Jacobus Ziengs ( appointed on 23 September 2009)
Non-Independent Non-Executive Director

**CORPORATE GOVERNANCE (CONT'D.)**

**(e) Risk Management (cont'd.)**

| | |
|---|---|
| Sulaiman bin Salleh<br>Independent Non-Executive Director | ( appointed on 5 May 2010) |
| Datuk Syed Tamim Ansari bin<br>Syed Mohamed (Chairman)<br>Independent Non-Executive Director | ( resigned on 2 March 2010) |
| Petrus Bernardus Gerardus van Harten<br>Non-Independent Non-Executive Director | ( resigned on 18 July 2009) |

The RMC met 3 times during the financial year.

**(f) Nomination and Remuneration Committee**

The Company will continue to leverage the existing Nomination and Remuneration Committee of the Board ("NRC") which had taken effect as a merged committee on May 27, 2010 of the ultimate holding company, Malayan Banking Berhad ("MBB"), as part of its governance structure.

The primary objective of the NRC is to establish a documented, formal and transparent procedure for the appointment of directors, chief executive officer and key senior officers. The committee is also responsible to assess the effectiveness of directors, the Board as a whole and the various committees of the Board, the chief executive officer and key senior officers.

Further, the NRC is also responsible to provide a formal and transparent procedure for developing a remuneration policy for directors, chief executive officer and key senior officers and ensuring that their compensation is competitive and consistent with the Company’s culture, objectives and strategy.

The composition of the NRC is as follows:-

Dato' Seri Ismail bin Shahudin (Chairman)
Independent Non-Executive Director

Tan Sri Dr Hadenan bin A. Jalil
Independent Non-Executive Director

Dato' Dr Tan Tat Wai
Independent Non-Executive Director

Encik Zainal Abidin bin Jamal
Non-Independent Non-Executive Director

## CORPORATE GOVERNANCE (CONT'D.)

### (f) Nomination and Remuneration Committee (cont'd.)

Mr Alister Maitland
Independent Non-Executive Director

Prior to the merger, during the financial year, the Nomination Committee met 9 times while the Remuneration & Establishment Committee met 8 times.

The NRC met twice.

### (g) Investment Committee

The Investment Committee ("IC") is set up at Mayban Life Assurance Bhd. However, its membership, roles and responsibilities transcend beyond Mayban Life Assurance Bhd to include and cover all other operating companies under Mayban Fortis Holdings Berhad, i.e. Etiqa Insurance Berhad and Etiqa Takaful Berhad.

The objectives of the IC include, to present an opinion on the long-term strategic investment policy including real estate, as a recommendation for the Risk Management Meeting ("RMM")/ RMC/ Board based on ALCO advice, to establish the tactical investment policy on the basis of the proposal by the investment manager and within the boundaries laid out in the Investment Management Mandates ("IMM"), to test the policy conducted by the investment manager against the strategic and tactical investment policy/asset management mandate, to evaluate and approve the operational policy conducted by the investment manager. It also evaluates, reviews and maintains the Investment Management Guidelines ("IMG"), based on ALCO advice and negotiates condition with, appoints or dismisses external fund managers, custodians, banks and other financial intermediaries.

The IC reports to the Board of all the operating companies under Mayban Fortis Holdings Berhad.

The composition of the IC is as follows:

Dato' Sri Abdul Wahid bin Omar (Chairman)
Non-Independent Non-Executive Director

Sulaiman bin Salleh
Independent Non-Executive Director

Datuk Dr. Syed Othman bin Syed Hussin AlHabshi
Independent Non-Executive Director

Dato' Haji Aminuddin bin Md. Desa
Chief Executive Officer, Mayban Fortis Holdings Berhad

**CORPORATE GOVERNANCE (CONT'D.)**

**(g) Investment Committee (cont'd.)**

Hans J.J. De Cuyper
Chief Financial Officer, Mayban Fortis Holdings Berhad

Encik Ahmad Shahril Azuar bin Jimin
Chief Executive Officer, Etiqa Takaful Berhad (appointed on 1 January 2010)

Encik Mohd Din bin Merican
Chief Executive Officer, Etiqa Insurance Berhad

Haji Mohd. Tarmidzi bin Ahmad Nordin
Chief Executive Officer, Etiqa Takaful Berhad (retired on 20 October 2009)

The IC met 4 times during the financial year.

**(h) Public Accountability**

As custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally.

**(i) Financial Reporting**

The Board takes responsibility for presenting a balanced and comprehensive assessment of the Company's operations and prospects each time it releases its annual financial statements to shareholders. The AC of the Board assists by scrutinising the information to be disclosed, to ensure accuracy, adequacy and completeness.

**DIRECTORS' BENEFITS**

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than as may arise from the share options granted pursuant to the Maybank Group Employee Share Options Scheme ("ESOS") of the ultimate holding company.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in Note 21 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the ultimate holding company, Malayan Banking Berhad, during the financial year were as follows:

| | Number of Ordinary Shares of RM1 Each | | | |
|---|---|---|---|---|
| | 1 July 2009/ Date of Appointment | Bought | Sold | 30 June 2010 |
| **Ultimate holding company: Malayan Banking Berhad** | | | | |
| **Direct Interest:** | | | | |
| Sulaiman bin Salleh | 63,375 | - | - | 63,375 |
| Datuk Johar bin Che Mat | 212,050 | - | 9,550 | 202,500 |
| Dato' Johan bin Ariffin | - | 70,000 | - | 70,000 |

Other than as disclosed above, none of the directors in office at the end of the financial year had any interest in shares in the Company or its related corporations during the financial year.

## OTHER STATUTORY INFORMATION

(a) Before the balance sheet and income statement of the Company were made out, the directors took reasonable steps:

(i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would:

(i) require any amount to be written off as bad debts or render the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and

(ii) render the values attributed to the current assets in the financial statements of the Company misleading.

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

**OTHER STATUTORY INFORMATION (CONT'D.)**

(d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

(i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

(ii) any contingent liability of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

(i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations when they fall due; and

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

(g) Before the balance sheet and income statement of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for its insurance liabilities in accordance with the valuation method specified in Part D of the RBC framework for insurers issued by Bank Negara Malaysia.

**SIGNIFICANT EVENTS**

The significant events during the financial year are disclosed in Note 30 to the financial statements.

**SUBSEQUENT EVENTS**

The subsequent events after the financial year are disclosed in Note 31 to the financial statements.

**AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 August 2010.

DATO' JOHAN BIN ARIFFIN

HANS J.J. DE CUYPER

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

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

We, DATO' JOHAN BIN ARIFFIN and HANS J.J. DE CUYPER, being two of the directors of MAYBAN LIFE ASSURANCE BHD., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 14 to 89 are drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia and the provision of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 June 2010 and of the financial performance and the cash flows of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 12 August 2010.

DATO' JOHAN BIN ARIFFIN

HANS J.J. DE CUYPER

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

I, SUE CHI KONG, being the officer-in-charge primarily responsible for the financial management of MAYBAN LIFE ASSURANCE BHD., do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 89 are in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed SUE CHI KONG
at Kuala Lumpur in Wilayah Persekutuan
on 12 August 2010

SUE CHI KONG

Before me,

Commissioner for Oaths

**Independent auditors' report to the members of**
**Mayban Life Assurance Bhd.**
**(Incorporated in Malaysia)**

## Report on the financial statements

We have audited the financial statements of Mayban Life Assurance Bhd., which comprise the balance sheet as at 30 June 2010 of the Company, and the income statement, statement of changes in equity and cash flow statement of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 89.

*Directors' responsibility for the financial statements*

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' responsibility*

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

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

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

**Independent auditors' report to the members of**
**Mayban Life Assurance Bhd. (cont'd.)**
**(Incorporated in Malaysia)**

*Opinion*

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 30 June 2010 and of their financial performance and cash flows of the Company for the year then ended.

## Reporting on other legal and regulatory requirements

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

## Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Gloria Goh Ewe Gim
No.1685/04/11(J)
Chartered Accountant

Kuala Lumpur, Malaysia
12 August 2010

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**BALANCE SHEET AS AT 30 JUNE 2010**

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Shareholders' fund assets** | | | |
| Property and equipment | 3(a) | 9,329 | 9,975 |
| Prepaid land lease payments | 5 | 2,344 | 2,375 |
| Investment in a subsidiary | 7 | - | 11,076 |
| Investments | 8(a) | 179,778 | 211,861 |
| Receivables | 10(a) | 96,097 | 43,182 |
| Tax recoverable | | - | 4,268 |
| Cash and bank balances | | 33 | 22 |
| **Total shareholders' fund assets** | | 287,581 | 282,759 |
| **Total life insurance assets (page 18)** | | 6,436,973 | 6,546,808 |
| **TOTAL ASSETS** | | 6,724,554 | 6,829,567 |
| | | | |
| **EQUITY, INSURANCE FUNDS AND LIABILITIES** | | | |
| | | | |
| **Equity** | | | |
| Share capital | 11 | 100,000 | 100,000 |
| Retained profits | | 171,933 | 181,821 |
| Available-for-sale reserve | | 10,047 | - |
| **Total equity** | | 281,980 | 281,821 |
| | | | |
| **Insurance funds** | | | |
| **Life policyholders' fund** | 13 | 4,767,300 | 3,749,504 |
| **Investment-linked funds** | 24 | 1,448,381 | 2,448,342 |
| **Total insurance funds** | | 6,215,681 | 6,197,846 |

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**BALANCE SHEET AS AT 30 JUNE 2010 (CONT'D.)**

| | Note | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Shareholders' fund liabilities** | | | |
| Payables | 16(a) | 168 | 333 |
| Deferred tax liabilities | 17 | 3,578 | 605 |
| Tax payable | | 1,855 | - |
| **Total shareholders' fund liabilities** | | 5,601 | 938 |
| **Total life insurance liabilities (page 18)** | | 221,292 | 348,962 |
| **Total liabilities** | | 226,893 | 349,900 |
| | | | |
| **TOTAL EQUITY, INSURANCE FUNDS AND LIABILITIES** | | 6,724,554 | 6,829,567 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | Share Capital RM'000 | Non Distributable Available-for-Sale Reserve RM'000 | Distributable Retained Profits RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **At 1 July 2008** | | 100,000 | - | 136,645 | 236,645 |
| Net profit for the financial year representing total recognised income for the financial year | | - | - | 45,176 | 45,176 |
| **At 30 June 2009** | | 100,000 | - | 181,821 | 281,821 |
| **At 1 July 2009 (as previously stated)** | | 100,000 | - | 181,821 | 281,821 |
| Effects due to adoption of RBC framework: | | | | | |
| - fair value changes on AFS investments | | - | 1,775 | - | 1,775 |
| - deferred tax on fair value changes | | - | (444) | - | (444) |
| **At 1 July 2009 (restated)** | | 100,000 | 1,331 | 181,821 | 283,152 |
| Net gains from changes in fair value | | - | 11,621 | - | 11,621 |
| Deferred tax on fair value movements | | - | (2,905) | - | (2,905) |
| Net profit for the financial year representing total recognised income for the financial year | | - | - | 86,188 | 86,188 |
| Dividend paid | 30 | - | - | (88,076) | (88,076) |
| Capital repayment | 30 | (8,000) | - | - | (8,000) |
| Capitalised for bonus shares issue | 30 | 8,000 | - | (8,000) | - |
| **At 30 June 2010** | | 100,000 | 10,047 | 171,933 | 281,980 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**INCOME STATEMENT**
**FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| Operating revenue | 18 | 1,497,846 | 1,063,171 |
| Shareholders' fund: | | | |
| Investment income | 19(a) | 10,937 | 9,751 |
| Other income (net) | 20(a) | 2,351 | 40 |
| Management expenses | 21(a) | (1,061) | (992) |
| Profit from operations | | 12,227 | 8,799 |
| Transfer from life fund revenue account | | 93,000 | 42,400 |
| Profit before taxation | | 105,227 | 51,199 |
| Taxation | 22(a) | (19,039) | (6,023) |
| Net profit for the financial year | | 86,188 | 45,176 |
| Earnings per share - basic (sen) | 23 | 86.2 | 45.2 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**LIFE FUND BALANCE SHEET**
**AS AT 30 JUNE 2010**

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Property and equipment | 3(b) | 39,981 | 43,862 |
| Investment properties | 4 | 250 | 220 |
| Prepaid land lease payments | 5 | 9,377 | 9,501 |
| Intangible assets | 6 | - | 8 |
| Investments | 8(b) | 4,761,800 | 3,604,750 |
| Loans | 9 | 75,429 | 115,556 |
| Receivables | 10(b) | 61,304 | 83,891 |
| Tax recoverable | | 1,873 | 4,063 |
| Cash and bank balances | | 13,777 | 7,850 |
| **Investment-linked funds assets** | 24 | 1,473,182 | 2,677,107 |
| **Total life insurance assets** | | 6,436,973 | 6,546,808 |
| **LIABILITIES AND INSURANCE FUNDS** | | | |
| Provision for outstanding claims | 14 | 30,937 | 29,610 |
| Derivative liabilities | 15 | - | 5,058 |
| Payables | 16(b) | 145,123 | 78,361 |
| Deferred tax liabilities | 17 | 16,219 | 3,395 |
| Tax payable | | 4,212 | 3,773 |
| **Investment-linked funds liabilities** | 24 | 24,801 | 228,765 |
| **Total life insurance liabilities** | | 221,292 | 348,962 |
| **Life policyholders' fund** | 13 | 4,767,300 | 3,749,504 |
| **Investment-linked funds** | 24 | 1,448,381 | 2,448,342 |
| **Total life insurance liabilities and life policyholders' funds** | | 6,436,973 | 6,546,808 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**LIFE FUND REVENUE ACCOUNT**
**FOR THE YEAR ENDED 30 JUNE 2010**

| | Note | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| Gross premiums | 18 | 1,086,490 | 696,492 |
| Reinsurance | | (10,609) | (9,313) |
| Net premiums | | 1,075,881 | 687,179 |
| Benefits paid and payable: | | | |
| Death | | (50,096) | (48,728) |
| Maturity | | (113,475) | (69,179) |
| Surrender | | (85,198) | (84,844) |
| Cash bonus | | (102) | (125) |
| Others | | (13,997) | (13,628) |
| | | (262,868) | (216,504) |
| | | 813,013 | 470,675 |
| Commissions and agency expense | | (34,391) | (33,532) |
| Management expenses | 21(b) | (41,332) | (43,966) |
| | | 737,290 | 393,177 |
| Investment income | 19(b) | 208,396 | 183,096 |
| Other income (net) | 20(b) | 36,106 | 18,320 |
| Surplus before taxation | | 981,792 | 594,593 |
| Taxation | 22(b) | (18,300) | (11,466) |
| Surplus after taxation | | 963,492 | 583,127 |
| Life policyholders' fund at beginning of financial year | | | |
| - As previously stated | | 3,749,504 | 3,208,777 |
| - Effects due to adoption of RBC framework: | | | |
| - reversal of provision for diminution | | 22,982 | - |
| - impairment effects of AFS investments | | (10,433) | - |
| - fair value changes on AFS investments | | (16,830) | - |
| - deferred tax effects | | 343 | - |
| - As restated | | 4,709,058 | 3,791,904 |
| Movements in fair value of AFS assets, net of deferred tax | | 151,242 | - |
| Transfer to income statement (page 59) | | (93,000) | (42,400) |
| Life policyholders' fund at end of financial year | | 4,767,300 | 3,749,504 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT**
**FOR THE YEAR ENDED 30 JUNE 2010**

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before taxation | 105,227 | 51,199 |
| Adjustments for: | | |
| Depreciation of property and equipment | 4,540 | 4,587 |
| Amortisation of prepaid land lease payments | 155 | 156 |
| Amortisation of intangible assets | 8 | 134 |
| Gain on disposal of property and equipment | (2) | - |
| Writeback of provision for diminution in value of investments | - | (33,902) |
| Impairment of AFS investments | 6,472 | - |
| Accretion of discounts net of amortisation of premiums | (24,286) | (22,381) |
| (Gain)/loss on disposal of investments | (157,838) | 29,014 |
| Loss on disposal of derivatives | 61,149 | 7,266 |
| Gross dividend income | (18,449) | (17,950) |
| Interest income | (218,664) | (218,212) |
| Other investment income | (250) | - |
| Fair value on investment property | (30) | - |
| Provision for doubtful debts | 11 | 1,391 |
| Life fund surplus | (8,994) | (156,387) |
| Unrealised loss/(gain) in value of investments in investment-linked funds | 44,669 | (40,409) |
| (Increase)/decrease in value of investments in derivatives | (79,855) | 79,308 |
| Transfer of life fund surplus to shareholders' fund | (93,000) | (42,400) |
| Loss from operations before changes in operating assets and liabilities | (379,137) | (358,586) |
| Net proceeds from disposal of investments | 329,118 | 184,003 |
| Net purchase of derivatives | (1,339) | (3,887) |
| Decrease/(increase) in loans | 40,127 | (2,066) |
| (Increase)/decrease in receivables | (54,683) | 6,313 |
| Increase in fixed and call deposits | (110,225) | (26,985) |
| (Decrease)/increase in provision for outstanding claims | (175,990) | 176,394 |
| Increase/(decrease) in payables | 67,156 | (11,049) |
| Cash used in operations | (284,973) | (35,863) |

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**CASH FLOW STATEMENT**
**FOR THE YEAR ENDED 30 JUNE 2010 (CONT'D.)**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D.)** | | |
| Income taxes paid | (33,580) | (23,789) |
| Dividends received | 16,875 | 15,399 |
| Interest received | 213,171 | 216,822 |
| Net cash generated (used in)/from operating activities | (88,507) | 172,569 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (13) | (636) |
| Proceeds from disposal of property and equipment | 2 | - |
| Net cash used in investing activities | (11) | (636) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividend paid | (77,000) | - |
| Capital repayment | (8,000) | - |
| Net cash used in financing activities | (85,000) | - |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | (173,518) | 171,933 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 187,602 | 15,669 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 14,084 | 187,602 |
| Cash and cash equivalents comprise: | | |
| Cash and bank balances: | | |
| Shareholders' fund | 33 | 22 |
| Life fund | 13,777 | 7,850 |
| Investment-linked funds | 274 | 179,730 |
| | 14,084 | 187,602 |

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

**MAYBAN LIFE ASSURANCE BHD.**
**(Incorporated in Malaysia)**

**NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2010**

## 1. CORPORATE INFORMATION

The Company is principally engaged in the underwriting of life insurance business. There have been no significant changes in the principal activities of the Company.

As disclosed in the Note 30(c), the Company transferred its entire shareholding in its subsidiary, Etiqa Life International (Labuan) Ltd ("ELIL"), who is principally engaged in offshore investment-linked life insurance business on 30 June 2010 to the holding company, Mayban Fortis Holdings Berhad ("MFHB") pursuant to a dividend-in-specie distribution.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur.

The holding, penultimate and ultimate holding companies of the Company are Mayban Fortis Holdings Berhad ("MFHB"), Etiqa International Holdings Sdn. Bhd. ("EIHSB") and Malayan Banking Berhad ("MBB") respectively, which are incorporated in Malaysia. MBB is a licensed commercial bank listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 12 August 2010.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements comply with Financial Reporting Standards ("FRS") in Malaysia, as modified by Bank Negara Malaysia ("BNM") and the provisions of the Companies Act 1965, the Insurance Act 1996, and Guidelines/Circulars issued by BNM in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention, except for investment properties and those financial instruments that have been measured at their fair values and insurance liabilities in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") framework for insurers issued by BNM. The RBC framework became effective for the insurers from 1 January 2009 and the impact of the changes arising from the adoption of the RBC framework is discussed in Note 2.4.

The Company had adopted all FRS, Interpretations of the Issues Committee ("IC Interpretations"), Amendments to FRS and/or IC Interpretations and Technical Releases ("TRs") except for those which have been issued but are not yet effective as described in Note 2.3. The financial statements are presented in Ringgit Malaysia (“RM”) and rounded to the nearest thousand ("RM’000") unless otherwise stated.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies

#### (a) Life Insurance Underwriting Results

The surplus transferable from the life insurance funds to the income statement is based on the surplus determined by an annual actuarial valuation of the long-term liabilities to policyholders.

##### (i) Premium income

Premium income represents premium recognised in the life insurance funds.

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

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

Outward reinsurance premiums are recognised in the same financial period as the original policies to which the reinsurance relates.

##### (ii) Provision for claims

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

Recoveries on reinsurance claims are accounted for in the same financial period as the original claims are recognised.

Claims and provisions for claims arising on life insurance policies, including settlement costs are accounted for, using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and

- death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the assured or occurrence of the contingency covered.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (a) Life Insurance Underwriting Results (cont'd.)

##### (iii) Commissions and agency expenses

Commissions and agency expenses, which are costs directly incurred in securing premiums on insurance policies, net of income derived from reinsurers in the course of ceding of premiums to reinsurers, are charged to the revenue account in the period in which they are incurred.

##### (iv) Creation/cancellation of units

Creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract are reflected in the income statements of the investment-linked funds.

Creation/cancellation of units is recognised in the financial statements at the next valuation date, after the request to purchase/sell units is received from the policyholders.

#### (b) Other Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transactions will flow to the enterprise and the amount of the revenue can be measured reliably.

##### (i) Interest/profit income

Interest/profit income is recognised on a time proportion basis that reflects the effective yield on the asset except for interest on loans which are considered non-performing, i.e., when repayments are in arrears for more than three months, in which case, recognition of such interest is suspended with retrospective adjustment made to the date of first default. Subsequent to suspension, interest is recognised on the receipt basis until all arrears have been paid.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (b) Other Revenue Recognition (cont'd.)

##### (ii) Dividend income

Dividend income is recognised on a declared basis when the shareholder’s right to receive payment is established.

##### (iii) Rental income

Rental income is recognised on the accrual basis in accordance with the terms of the relevant agreements except where default in payment of rental has already occurred and rental due remains outstanding for over three months, in which case, recognition of rental income is suspended. Subsequent to suspension, rental income is recognised on the receipt basis until all arrears have been paid.

#### (c) Employee Benefits

##### (i) Short-term benefits

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

##### (ii) Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient funds to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the income statement/revenue account as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF").

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (c) Employee Benefits (cont'd.)

##### (iii) Share-based compensation

The ultimate holding company's share-based compensation scheme, Maybank Group Employee Share Options Scheme ("ESOS"), allows the Maybank Group's employees to acquire ordinary shares of the ultimate holding company.

The total fair value of share options granted to employees is recognised as an employee cost charged by the ultimate holding company over the vesting period and taking into account the probability that the options will vest. The fair value of the share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable on vesting date.

Settlement with the ultimate holding company in respect of the arrangement of the scheme is by cash over the vesting period.

#### (d) Property and Equipment and Depreciation

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

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Buildings on leasehold land are depreciated over the shorter of 50 years or the remaining period of the respective leases.

Depreciation on other property and equipment is provided for, on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (d) Property and Equipment and Depreciation (cont'd.)

| | |
|---|---|
| Buildings | 2% |
| Furniture, fittings, office equipment and renovation | 10% - 20% |
| Computers and peripherals | 25% |
| Electrical and security equipment | 10% |
| Motor vehicles | 20% |

The residual values, useful life and depreciation method are reviewed at each financial year end to ensure that the amount, period and method of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in income statement/revenue account.

#### (e) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at, by reference to market evidence of transaction prices for similar properties and is performed by firms of professional independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued and/or periodic intervening valuation by internal professional, as appropriate.

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

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Company holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either, they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in income statement/revenue account in the year in which they arise.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (f) Leases

##### (i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company, all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases except that property held under operating leases that would otherwise meet the definition of an investment property, is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted, for as if held under a finance lease (Note 2.2(e)).

##### (ii) Finance Leases - The Company as Lessee

Useful lives of all leasehold buildings are shorter than the lease term of the leasehold land on which the buildings are located. As such, all risks and rewards incidental to the ownership of such assets would be deemed to have been substantially transferred to the Company at the end of their useful lives. All leasehold buildings are therefore classified as finance lease in the financial statements.

Buildings held under finance lease are recognised as assets in the balance sheet of the Company and measured in accordance with FRS 116 - Property, Plant and Equipment and FRS 140 - Investment Properties.

##### (iii) Operating Leases - The Company as Lessee

Operating lease payments are recognised as expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payment made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (g) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination, is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least, at each balance sheet date.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently, if the events or changes in circumstances indicate that the carrying value may be impaired either individually, or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is also reviewed annually, to determine whether the useful life assessment continues to be supportable.

Computer software are amortised over their finite useful lives of 2 to 5 years.

#### (h) Investments

**<u>Prior to 1 July 2009</u>**

**(i) Malaysian Government Securities and Other Approved Investments**

Malaysian Government Securities ("MGS") and other approved investments inclusive of Negotiable Certificates of Deposit ("NCD") and Negotiable Islamic Certificates of Deposit ("NICD") as specified by BNM are stated at cost adjusted for the amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to maturity date.

Amortisation of premiums and accretion of discounts are charged or credited in the income statement/revenue accounts.

**(ii) Government Guaranteed Bonds and Unquoted Corporate Bonds**

Government guaranteed bonds and unquoted corporate bonds which carry a minimum rating of “BBB” or “P3” are valued at cost adjusted for amortisation of premiums and accretion of discounts, where applicable, calculated on the effective yield basis, from the date of purchase to their respective maturity dates. Any corporate bond with a lower rating is stated at the lower of cost and net realisable value.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (h) Investments (cont'd.)

**<u>Prior to 1 July 2009 (cont'd.)</u>**

**(ii) Government Guaranteed Bonds and Unquoted Corporate Bonds (cont'd.)**

For the purpose of determining net realisable values, the discounted cash flow model is used after taking into account the projected cash flow expected to be generated from holding the bond.

**(iii) Quoted Investments**

Quoted investments are stated at the lower of cost and market value determined on an aggregate portfolio basis by category of investments except that if diminution of a particular investment is not regarded as temporary, specific provision is made against the value of that investment.

Cost is determined on the weighted average basis while market value is determined based on market prices as at balance sheet date.

**(iv) Unquoted Investments**

Unquoted investments are stated at cost less any accumulated impairment losses.

Increases or decreases in the carrying amount of investments are recognised in the income statement.

**(v) Investments of Investment-linked funds**

All investments of the investment-linked funds are stated at closing market prices or indicative market prices as at balance sheet date.

Any increase or decrease in value of investments is taken into the investment-linked funds income statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (h) Investments (cont'd.)

**Prior to 1 July 2009 (cont'd.)**

**(vi) Derivative Instruments**

Derivative financial instruments are not recognised in the financial statements.

Over-the-counter derivatives comprise forward foreign exchange contracts, currency on swap contracts and options. They are revalued at balance sheet date, of which valuations are provided by financial institutions using market conventions. Unrealised losses from derivative financial instruments are recognised in the income statement/revenue account. For investment-linked business, any increase or decrease in the revaluation of derivative financial instruments are taken into the investment-linked funds income statements.

On disposal of investments, the difference between net disposal proceeds and the carrying amount is recognized in the revenue accounts/ income statement.

**Subsequent to 30 June 2009**

With the adoption of the RBC framework effective from 1 July 2009, the Company changed its accounting policies and classified its investments as held-for-trading ('HFT") securities and available-for-sale ("AFS") financial assets, as appropriate. The classification depends on the purpose for which the investments were acquired or originated and is determined at initial recognition.

**(i) AFS financial assets**

AFS financial assets are non-derivative financial assets not classified as HFT securities.

After initial recognition, AFS financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in the fair value reserve in equity or in the unallocated surplus of the Life Funds except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method which are recognised in the Revenue Accounts/Income Statement accordingly. The cumulative gain or loss previously recognised in equity is recognised in the Revenue Accounts/ Income Statement when the financial asset is derecognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (h) Investments (cont'd.)

**Subsequent to 30 June 2009 (cont'd.)**

**(i) AFS financial assets (cont'd.)**

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

**(ii) HFT securities**

Financial assets held for trading are those investments typically bought with the intention to sell in the near future.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gain and loss are recognised in profit or loss.

Investments under unit-linked funds are classified as HFT at inception as they are managed and evaluated on a fair value basis in accordance with the respective investment strategy and mandate.

Derivatives are financial instruments or contracts where its values vary according to changes in interest rate, foreign exchange rate, credit spread or other variables. Embedded derivatives are in hybrid financial instruments that also include non-derivative host contracts.

#### (i) Fair Value of Investments

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices for assets at the close of business on the balance sheet date.

For investments in quoted unit and real estate investment trusts, fair value is determined by reference to published prices. Investments in equity that do not have quoted market price in an active market and whose fair value cannot be reliably measured will be stated at cost.

For financial instruments where there is no active market such as unquoted fixed income securities i.e. unquoted bonds, MGS, GII, government guaranteed bonds, Khazanah bonds, the fair values are determined by reference to indicative prices obtained from Bondweb. The fair values of structured deposits are based on latest market prices obtained from financial institutions. NCDs and NICDs are valued at the lower of the face value or market value, in the aggregate for all such NCD/NICDs. The market value of NCD/NICDs are determined by reference to BNM Interest Rate Swap.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)**

**2.2 Summary of Significant Accounting Policies (cont'd.)**

**(i) Fair value of Investments (cont'd.)**

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement.

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

**(j) Impairment**

**(i) Financial Assets**

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset is impaired includes observable data about loss events like significant financial difficulty of the insurer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for that financial asset because of financial difficulties which indicate that there is measurable decrease in the estimated future cash flows. However, it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events is considered in determining whether an asset is impaired.

AFS financial assets

Impairment losses on AFS financial assets are recognised by transferring the difference between the amortised acquisition cost and current fair values from equity to income statement, even though the financial assets have not been derecognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement.

Impairment losses recognised on investments in equity instruments classified as AFS are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as AFS are recognised in the income statement if the increase in fair value can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (j) Impairment (cont'd.)

##### (ii) Non-financial Assets

The carrying amounts of assets, other than investment properties and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis, unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash generating unit ("CGU") to which the asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing values in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in the income statement in the period in which it arises. An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in the income statement/revenue account.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (k) Loans and Receivables

Loans and receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date. Specific provisions are made for any premiums, including brokers and reinsurers balances which remain outstanding for more than six months from the date on which they become receivable.

#### (l) Payables

Payables are stated at cost which is the fair value of the considerations to be paid in the future for goods and services received.

#### (m) Foreign Currencies

##### (i) Foreign currency transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies), are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair values were determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items and on the translation of monetary items, are included in the income statement/revenue account for the period except for exchange differences arising on monetary items that form part of the Company's net investment in foreign operations.

Exchange differences arising on the translation of non-monetary items carried at fair value, are included in the income statement/revenue account for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.2 Summary of Significant Accounting Policies (cont'd.)

#### (n) Income Tax

Income tax on the income statement/revenue account for the year comprises of current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that, it is probable that, taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and the time of the transaction, affects neither accounting nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement/revenue account, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also charged or credited directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

#### (o) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash and bank balances but do not include fixed and call deposits.

The cash flow statements have been prepared using the indirect method.

#### (p) Equity Instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised and accounted for in equity in the period in which they are declared.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 Changes in accounting policies and effects arising from adoption of new and revised FRS, amendments to FRS, IC interpretations and TRs

The changes in accounting policies are disclosed in Note 2.4.

**Standards and interpretations issued but not yet effective**

At the date of authorisation of these financial statements, the following new FRS, amendments to FRS and Interpretations of the Issues Committee ("IC Interpretations") and Technical Releases ("TRs") have been issued but are not yet effective and have not been adopted by the Company:

**Effective for financial periods beginning on or after 1 January 2010**

(i) FRS 4: Insurance Contracts
(ii) FRS 7: Financial Instruments - Disclosures
(iii) FRS 101: Presentation of Financial Statements (revised 2009)
(iv) FRS 123: Borrowing Costs
(v) FRS 139: Financial Instruments - Recognition and Measurement
(vi) Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
(vii) Amendments to FRS 2 Share-based Payment - Vesting Conditions and Cancellations
(viii) Amendments to FRS 132 Financial Instruments: Presentation
(ix) Amendments to FRS 132 Financial Instruments: Presentation (Classification of Rights Issues)
(x) Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosure and IC Interpretation 9: Reassessment of Embedded Derivatives
(xi) Amendments to FRSs contained in the document entitled 'Improvements to FRS's (2009)
(xii) IC Interpretation 9 Reassessment of Embedded Derivatives
(xiii) IC Interpretation 10 Interim Financial Reporting and Impairment
(xiv) IC Interpretation 11 FRS 2 - Group and Treasury Share Transactions
(xv) IC Interpretation 13 Customer Loyalty Programmes
(xvi) IC Interpretation 14 FRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
(xvii) TR i - 3 Presentation of Financial Statements of Islamic Financial Institutions

**Effective for financial periods beginning on or after 1 July 2010**

(i) FRS 1: First time Adoption of Financial Reporting Standards
(ii) FRS 3: Business Combinations (revised)
(iii) FRS 127: Consolidated and Separate Financial Statements (amended)
(iv) Amendments to FRS 2 Share-based Payment

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 Changes in accounting policies and effects arising from adoption of new and revised FRS, amendments to FRS, IC interpretations and TRs (cont'd.)

**Standards and interpretations issued but not yet effective (cont'd.)**

**Effective for financial periods beginning on or after 1 July 2010 (cont'd.)**

(v) Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
(vi) Amendments to FRS 138 Intangible Assets
(vii) Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
(viii) IC Interpretation 12 Service Concession Arrangements
(ix) IC Interpretation 15 Agreements for the Construction of Real Estate
(x) IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
(xi) IC Interpretation 17 Distributions of Non-cash Assets to Owners

**Effective for financial periods beginning on or after 1 January 2011**

(i) Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters
(ii) Amendments to FRS 1 Additional Exemptions for First -Time Adopters
(iii) Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
(iv) Amendments to FRS 7 Improving Disclosures about Financial Instruments
(v) IC Interpretation 4 Determining whether an Arrangement contains a Lease
(vi) IC Interpretation 18 Transfers of Assets from customers*
(vii) TR 3 Guidance of Disclosures of Transition to IFRSs
(viii) TRi - 4 Shariah Disclosures Compliant Sale Contracts

* This interpretation shall be applied prospectively to transfers of assets from customers received on or after 1 January 2011.

The Company plans to adopt the above pronouncements when they become effective in the respective financial periods. Unless otherwise described below, these pronouncements are expected to have no significant impact to the financial statements of the Company upon their initial application:

***(i) FRS 139 Financial Instruments: Recognition and Measurement***

This standard establishes the principles for the recognition, derecognition and measurement of an entity's financial instruments and for hedge accounting. Requirements for presenting and disclosing information about financial instruments are as required under FRS 132: Financial Instruments: Presentation and FRS 7: Financial Instruments - Disclosures.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.3 Changes in accounting policies and effects arising from adoption of new and revised FRS, amendments to FRS, IC interpretations and TRs (cont'd.)

***(ii) FRS 4 Insurance Contracts***

This standard specifies the financial reporting requirements for insurance contracts by any entity that issues such contracts, including disclosures to assist users of financial statements understand the amounts, timing and uncertainty of future cash flows arising from insurance contracts.

***(iii) FRS 7 Financial Instruments: Disclosures***

This standard requires both quantitative and qualitative disclosures in respect of an entity's exposure to financial instruments and related risks. It also requires enhanced disclosures regarding components of its financial position and performance, and possible changes to the way of presenting certain items in the financial statements.

***(iv) FRS 101 Presentation of Financial Statements (Revised 2009)***

This standard sets the overall requirements for the presentation of financial statements, guidelines for their structure and the minimum requirements for their content.

The standard separates owner and non-owner changes in equity, whereby the statement of changes in equity will include only details of transactions with owners, and all non-owner changes in equity will be presented as a single line, labelled as total comprehensive income. The standard also introduces a statement of comprehensive income, which presents all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Company is currently evaluating the format to be adopted. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. The adoption of this revised FRS will not have any impact on the financial position and results of the Company.

In accordance with the respective transitional provisions, the Company are exempted from disclosing the possible impact to the financial statements upon the initial application of the above Standards.

### 2.4 Risk-Based Capital framework for Insurers

The Company adopted the RBC framework which is applicable to all insurers licensed under the Insurance Act 1996 effective from 1 January 2009. Insurers are required to apply the new valuation bases for assets and liabilities as specified under Part D of the RBC framework.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Risk-Based Capital framework for Insurers (cont'd.)

The RBC framework also requires that any adjustments to the carrying amounts of assets and liabilities as a result of the adoption of the new valuation bases above, must be recognised as adjustments to the balance of retained earnings or unallocated surplus brought forward and via the creation of an AFS reserve at the beginning of the financial year.

The effects on adoption of RBC framework prospectively on 1 July 2009 and description of the changes affecting the opening balances of retained earnings or unallocated surplus and AFS reserve, related assets and liabilities are summarised below:

**Changes in Accounting Treatment**

**(a) Investments**

**i) Investments measured at HFT**

Upon the adoption of the RBC framework, financial instruments of the insurance investment-linked funds are classified as HFT.

The fair value of these investments are determined as disclosed in Note 2.2 (i). Gains or losses arising from the change in fair value is recognised in the revenue account.

The effects on the balance sheets and revenue account are set out in Note 2.4(c).

**ii) Investments measured at AFS**

Investments classified as AFS are measured at fair value. Gains or losses arising from changes in the fair value of AFS financial instruments are recognised in the AFS reserve in equity except for impairment losses and foreign exchange gains and losses arising from monetary instruments which are recognised in the Revenue Account/Income Statement.

The fair value of these investments are determined as disclosed in Note 2.2 (i).

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.

On derecognition, the cumulative gain or loss recognised in equity, or in the unallocated surplus of the life insurance funds, is reclassified from equity into Revenue Accounts/ Income Statement. The effects on the balance sheets and revenue account are set out in Note 2.4 (c).

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Risk-Based Capital framework for Insurers (cont'd.)

**Changes in Accounting Treatment (cont'd.)**

**(b) Life insurance contract liabilities valued at Gross Premium valuation method**

With effect from 1 January 2009, liabilities of insurance business are determined in accordance with BNM's RBC framework for insurers.

All life insurance liabilities are valued using a prospective actuarial valuation based on the sum of the present values of future benefits and expenses less future gross considerations arising from the policies discounted at the appropriate risk discount rate. This method is known as the Gross Premium Valuation method.

For non-participating business, the expected future cash flows are determined using best estimate assumptions with an appropriate allowance for provision of risk margin for adverse deviation from expected experience such that an overall level of sufficiency of policy reserves at the 75% confidence level is secured. For participating business, the expected cash flows are determined using best estimate assumptions together with the assumption that the current bonus rate to policyholders will be maintained.

**(c) Summary of effects of change in accounting treatment on the current financial year's financial statements**

The following table presents the changes to the affected balance sheet items, arising from the adoption of the RBC framework for insurers with effect from 1 January 2009. Pursuant to the RBC framework, the resultant changes are reflected in the opening balance of retained profits or unallocated surplus and via the creation of AFS reserves as at 1 July 2009, as appropriate. These adjustments are detailed below:

| | As at 1 July 2009 RM'000 | Effect of RBC framework Increase/ (Decrease) RM'000 | Restated as at 1 July 2009 RM'000 |
|---|---|---|---|
| **Shareholders' fund** | | | |
| **AFS Reserve** | - | 1,331 | 1,331 |
| Effect of fair value adjustments | - | 1,775 | 1,775 |
| Deferred tax effects | - | (444) | (444) |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Risk-Based Capital framework for Insurers (cont'd.)

**Changes in Accounting Treatment (cont'd.)**

**(c) Summary of effects of change in accounting treatment on the current financial year's financial statements (cont'd.)**

| | <------------------At 30.06.2009------------------> | | |
|---|---|---|---|
| | Previously stated RM'000 | (Decrease) /increase RM'000 | Restated RM'000 |
| **Life funds** | | | |
| **Policyholders' Fund** | 3,749,504 | (3,938) | 3,745,566 |
| - Actuarial liabilities | | | |
| Change in valuation of actuarial liabilities | 3,223,857 | (205,578) | 3,018,279 |
| - Unallocated surplus | 525,647 | 217,124 | 742,771 |
| Change in valuation of actuarial liabilities | 525,647 | 205,578 | 731,225 |
| Reversal of provision for diminution | - | 22,982 | 22,982 |
| Impairment effects of AFS investments | - | (10,433) | (10,433) |
| Deferred tax effects | - | (1,003) | (1,003) |
| - AFS reserve | - | (15,484) | (15,484) |
| Fair value effects of AFS investments | - | (16,830) | (16,830) |
| Deferred tax effects on fair value changes | - | 1,346 | 1,346 |

The following tables provide estimates of the extent to which each of the line items in the balance sheet and income statement/revenue account apart from the life insurance liabilities accounts for the financial year ended 30 June 2010 are higher or lower than it would have been had the previous policies been applied in the current financial year.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.4 Risk-Based Capital framework for Insurers (cont'd.)

**Changes in Accounting Treatment (cont'd.)**

**(c) Summary of effects of change in accounting treatment on the current financial year's financial statements (cont'd.)**

The effects on the balance sheet and income statement/revenue account in respect of life insurance liabilities have not been disclosed as it is not practical to estimate the impact.

**i) Effects on Balance Sheet as at 30 June 2010**

| | Increase/ (decrease) RM'000 |
|---|---|
| **Shareholders' fund** | |
| Fair value of Investments | 13,396 |
| Available-for-sale reserve | 10,047 |
| Deferred tax liability | 3,349 |
| **Life funds** | |
| Fair value of Investments | 149,674 |
| Available-for-sale reserve | 135,758 |
| Deferred tax liability | 12,808 |
| Life policyholders' fund | 147,304 |

**ii) Effects on Revenue Account for the financial year ended 30 June 2010**

| | Increase/ (decrease) RM'000 |
|---|---|
| **Life funds** | |
| Changes in valuation basis for AFS investments | 2,112 |
| Deferred taxation due to changes in valuation basis for AFS assets | 169 |
| Surplus before taxation | 2,112 |
| Surplus after taxation | 1,943 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.5 Significant Accounting Estimates and Judgements

#### (a) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

**(i) Depreciation of property and equipment**

The cost of the building and equipment, for example, elevators, lifts and others and the self-occupied properties are depreciated on a straight-line basis, over the estimated remaining useful lives.

The Company estimates the useful lives of these equipment to be within 5 to 10 years.

The cost of self-occupied buildings are depreciated on a straight-line basis. The Company estimates the useful lives to be 50 years.

**(ii) Valuation of investment properties**

The measurement of the fair value for investment properties is arrived at, by reference to market evidence of transaction prices for similar properties. Full valuations on investment properties are performed by firms of professional independent valuers at regular intervals, of not less than every 3 years.

**(iii) Amortisation and impairment of other intangible assets**

Intangible assets that can be separated and sold and have a finite useful life are amortised over their estimated useful lives.

The determination of the estimated useful life of these intangible assets requires management to analyse the circumstances, the industry and market practice and also to use judgement. At each balance sheet date, or more frequently when events or changes in circumstances dictate, intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the assets with its recoverable amount.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.5 Significant Accounting Estimates and Judgements (cont'd.)

#### (a) Key Sources of Estimation Uncertainty (cont'd.)

##### (iv) Liabilities of insurance businesses

With effect from 1 January 2009, liabilities of insurance business are determined in accordance with BNM’s RBC framework for insurers.

All life insurance liabilities are valued using a prospective actuarial valuation based on the sum of the present values of future benefits and expenses less future gross considerations arising from the policies discounted at the appropriate risk discount rate. This method is known as the Gross Premium Valuation method.

For non-participating business, the expected future cash flows are determined using best estimate assumptions with an appropriate allowance for provision of risk margin for adverse deviation from expected experience such that an overall level of sufficiency of policy reserves at the 75% confidence level is secured. For participating business, the expected cash flows are determined using best estimate assumptions together with the assumption that the current bonus rate to policyholders will be maintained.

##### (v) Deferred taxation

Deferred tax implications arising from the changes in corporate income tax rates are measured with reference to the estimated realisation and settlement of temporary differences in the future periods in which the tax rates are expected to apply, based on the tax rates enacted or substantively enacted at the balance sheet date. While management's estimates on the realisation and settlement of temporary differences are based on the available information at the balance sheet date, changes in business strategy, future operating performance and other factors could impact on the actual timing and amount of temporary differences realised and settled. Any difference between the actual amount and the estimated amount would be recognised in the income statement in the period in which actual realisation and settlement occurs.

Deferred tax assets are recognised for all provisions for diminution in value of investments, net amortisation of premium in investments and other temporary differences to the extent that it is probable that taxable profit will be available against which the benefits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

### 2.5 Significant Accounting Estimates and Judgements (cont'd.)

#### (a) Key Sources of Estimation Uncertainty (cont'd.)

##### (v) Deferred taxation (cont'd.)

During the year, the total deferred tax assets recognised in Shareholders' Fund and Life Insurance Fund are RM137,775 (2009: RM93,976) and RM1,774,539 (2009: RM2,666,392) respectively, as disclosed in Note 17.

#### (b) Critical Judgements made in Applying Accounting Policies

##### (i) Impairment of AFS

Significant judgement is required to assess impairment for AFS investments. The Company evaluates the duration and extent to which the fair value of an investment is less than cost; the financial health and near term business outlook for the investee, including but not limited to factors such as industry and sector performance, changes in technology and operational and financial cash flow.

##### (ii) Classification between investment properties and property and equipment

The Company has developed certain criteria based on FRS 140 in making judgement whether a property qualifies to be classified as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of good or services or for administrative purpose. If these portions could be sold separately (or leased out separately under finance lease), the Company would account for the portion separately. If the portion could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purpose.

## 3. PROPERTY AND EQUIPMENT

### (a) Shareholders' fund

| 2010 | Buildings self - occupied properties RM'000 | Furniture, fittings and office equipment RM'000 | Computers and peripherals RM'000 | Electrical and security equipment RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 July 2009/30 June 2010 | 11,257 | 1,889 | 162 | 3,722 | 17,030 |
| **Accumulated Depreciation** | | | | | |
| At 1 July 2009 | 1,915 | 1,815 | 162 | 3,163 | 7,055 |
| Charge for the year | 225 | 49 | - | 372 | 646 |
| At 30 June 2010 | 2,140 | 1,864 | 162 | 3,535 | 7,701 |
| **Net Book Value** | 9,117 | 25 | - | 187 | 9,329 |
| **2009** | | | | | |
| **Cost** | | | | | |
| At 1 July 2008/30 June 2009 | 11,257 | 1,889 | 162 | 3,722 | 17,030 |
| **Accumulated Depreciation** | | | | | |
| At 1 July 2008 | 1,689 | 1,766 | 162 | 2,791 | 6,408 |
| Charge for the year | 226 | 49 | - | 372 | 647 |
| At 30 June 2009 | 1,915 | 1,815 | 162 | 3,163 | 7,055 |
| **Net Book Value** | 9,342 | 74 | - | 559 | 9,975 |

**3. PROPERTY AND EQUIPMENT (CONT'D.)**

**(b) Life fund**

| 2010 | Buildings self - occupied properties RM'000 | Furniture, fittings and office equipment RM'000 | Office renovation RM'000 | Computers and peripherals RM'000 | Electrical and security equipment RM'000 | Motor vehicles RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 July 2009 | 45,028 | 13,398 | 8,231 | 7,714 | 14,887 | 327 | 89,585 |
| Additions | - | 13 | - | - | - | - | 13 |
| Disposals | - | - | - | - | - | (4) | (4) |
| At 30 June 2010 | 45,028 | 13,411 | 8,231 | 7,714 | 14,887 | 323 | 89,594 |
| **Accumulated Depreciation** | | | | | | | |
| At 1 July 2009 | 7,655 | 11,918 | 5,460 | 7,709 | 12,654 | 327 | 45,723 |
| Charge for the year | 901 | 677 | 823 | 4 | 1,489 | - | 3,894 |
| Disposals | - | - | - | - | - | (4) | (4) |
| At 30 June 2010 | 8,556 | 12,595 | 6,283 | 7,713 | 14,143 | 323 | 49,613 |
| **Net Book Value** | 36,472 | 816 | 1,948 | 1 | 744 | - | 39,981 |
| **2009** | | | | | | | |
| **Cost** | | | | | | | |
| At 1 July 2008 | 45,028 | 13,139 | 7,854 | 7,795 | 14,887 | 327 | 89,030 |
| Additions | - | 259 | 377 | - | - | - | 636 |
| Disposals | - | - | - | (81) | - | - | (81) |
| At 30 June 2009 | 45,028 | 13,398 | 8,231 | 7,714 | 14,887 | 327 | 89,585 |
| **Accumulated Depreciation** | | | | | | | |
| At 1 July 2008 | 6,754 | 11,205 | 4,629 | 7,785 | 11,165 | 326 | 41,864 |
| Charge for the year | 901 | 713 | 831 | 5 | 1,489 | 1 | 3,940 |
| Disposals | - | - | - | (81) | - | - | (81) |
| At 30 June 2009 | 7,655 | 11,918 | 5,460 | 7,709 | 12,654 | 327 | 45,723 |
| **Net Book Value** | 37,373 | 1,480 | 2,771 | 5 | 2,233 | - | 43,862 |

## 4. INVESTMENT PROPERTIES

**Life fund**

| | Buildings on freehold land RM'000 |
|---|---|
| **2010** | |
| At 1 July 2009 | 220 |
| Fair value adjustment | 30 |
| At 30 June 2010 | 250 |
| **2009** | |
| At 1 July 2008 | 220 |
| Fair value adjustment | - |
| At 30 June 2009 | 220 |

## 5. PREPAID LAND LEASE PAYMENTS

| | Shareholders' fund RM'000 | Life fund RM'000 | Total RM'000 |
|---|---|---|---|
| **2010** | | | |
| **Cost** | | | |
| At 1 July 2009/ 30 June 2010 | 2,639 | 10,557 | 13,196 |
| **Accumulated Amortisation** | | | |
| At 1 July 2009 | 264 | 1,056 | 1,320 |
| Amortisation for the year | 31 | 124 | 155 |
| At 30 June 2010 | 295 | 1,180 | 1,475 |
| **Net Book Value** | 2,344 | 9,377 | 11,721 |
| **2009** | | | |
| **Cost** | | | |
| At 1 July 2008/ 30 June 2009 | 2,639 | 10,557 | 13,196 |
| **Accumulated Amortisation** | | | |
| At 1 July 2008 | 233 | 931 | 1,164 |
| Amortisation for the year | 31 | 125 | 156 |
| At 30 June 2009 | 264 | 1,056 | 1,320 |
| **Net Book Value** | 2,375 | 9,501 | 11,876 |

## 6. INTANGIBLE ASSETS

**Life fund**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Cost** | | |
| At beginning and end of financial year | 8,449 | 8,449 |
| **Accumulated Amortisation and Impairment** | | |
| At beginning of financial year | 8,441 | 8,307 |
| Amortisation | 8 | 134 |
| At end of financial year | 8,449 | 8,441 |
| **Net Book Value** | - | 8 |

## 7. INVESTMENT IN A SUBSIDIARY

**Shareholders' fund**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Unquoted shares, at cost | - | 13,225 |
| Provision for impairment | - | (2,149) |
| | - | 11,076 |

The subsidiary is:

| Name of company | Place of incorporation | Effective interest (%) 2010 | Effective interest (%) 2009 | Principal activity |
|---|---|---|---|---|
| Etiqa Life International (Labuan) Ltd. ("ELIL") | Federal Territory of Labuan, Malaysia | - | 100 | Offshore investment - linked life insurance business |

On 30 June 2010, ELIL's assets, liabilities and insurance business were transferred to MFHB via dividend-in-specie as disclosed in Note 30(c). The group balance sheet is no longer included in the financial statement of the Company and the results of ELIL are consolidated at the Company's holding company, MFHB.

## 8. INVESTMENTS

### (a) Shareholders' fund

**Available-for-sale ("AFS")**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Cost RM'000 | Fair Value RM'000 | Cost RM'000 | Market/ indicative value RM'000 |
| Malaysian Government Securities ("MGS") | 20,952 | | 26,807 | |
| Net amortisation of premiums | (179) | | (62) | |
| | 20,773 | 20,974 | 26,745 | 26,413 |
| Quoted in Malaysia: | | | | |
| Shares and warrants of corporations | 29,026 | 39,062 | 18,083 | 19,514 |
| Unit and property trusts | 1,824 | 2,368 | 1,801 | 2,040 |
| Unquoted in Malaysia: | | | | |
| Government guaranteed bond | 10,000 | 10,413 | - | - |
| Khazanah bonds | 15,989 | | 15,989 | |
| Net accretion of discounts | 940 | | 194 | |
| | 16,929 | 17,358 | 16,183 | 15,818 |
| Corporate bonds | 54,171 | | 71,282 | |
| Net accretion of discounts | 527 | | 2,603 | |
| | 54,698 | 56,505 | 73,885 | 74,781 |
| Negotiable Certificates of Deposit ("NCD")/Negotiable Islamic Certificates of Deposit ("NICD") | 20,406 | | 20,406 | |
| Net amortisation of premiums | (372) | | (314) | |
| | 20,034 | 20,000 | 20,092 | 21,194 |
| Fixed and call deposits with: | | | | |
| Licensed commercial banks | 13,098 | | - | |
| Investment banks | - | | 55,072 | |
| | 13,098 | 13,098 | 55,072 | |
| TOTAL INVESTMENTS | 166,382 | 179,778 | 211,861 | |

## 8. INVESTMENTS (CONT'D.)

### (a) Shareholders' fund (cont'd.)

**(i) The remaining maturity of investments as at balance sheet date is, as follows:**

| | < 1 year RM'000 | 1 to <3 years RM'000 | 3 to 5 years RM'000 | > 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| MGS | - | - | 15,692 | 5,282 | 20,974 |
| Government guaranteed bond | - | - | - | 10,413 | 10,413 |
| Khazanah bonds | - | - | - | 17,358 | 17,358 |
| Unquoted corporate bonds | 10,099 | 17,025 | 10,346 | 19,035 | 56,505 |
| NCD/NICD | 15,000 | 5,000 | - | - | 20,000 |
| Fixed and call deposits with: | | | | | |
| Licensed commercial banks | 13,098 | - | - | - | 13,098 |
| **2009** | | | | | |
| MGS | - | - | 26,807 | - | 26,807 |
| Khazanah bonds | - | - | - | 15,989 | 15,989 |
| Unquoted corporate bonds | 3,409 | 34,219 | 11,265 | 22,389 | 71,282 |
| NCD/NICD | - | 15,406 | 5,000 | - | 20,406 |
| Fixed and call deposits with: | | | | | |
| Investment banks | 55,072 | - | - | - | 55,072 |

**(ii) The weighted average rates of return of investments at the balance sheet date were, as follows:**

| | 2010 % per annum | 2009 % per annum |
|---|---|---|
| MGS | 2.53 | 3.51 |
| Government guaranteed bond | 5.07 | - |
| Khazanah bonds | 4.52 | 4.52 |
| Unquoted corporate bonds | 5.58 | 5.32 |
| NCD/NICD | 5.82 | 5.81 |
| Fixed and call deposits with: | | |
| Licensed commercial banks | 2.57 | - |
| Investment banks | - | 1.81 |

## 8. INVESTMENTS (CONT'D.)

### (b) Life fund

**Available-for-sale ("AFS")**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Cost RM'000 | Fair Value RM'000 | Cost RM'000 | Market/ indicative value RM'000 |
| MGS | 156,650 | | 135,897 | |
| Net amortisation of premiums | (1,092) | | (352) | |
| | 155,558 | 156,057 | 135,545 | 131,675 |
| Government Investment Issues ("GII") | 49,889 | | 43,755 | |
| Net accretion of discounts | 88 | | 223 | |
| | 49,977 | 49,263 | 43,978 | 42,298 |
| Quoted in Malaysia: | | | | |
| Shares and warrants of corporations | 236,402 | 299,235 | 179,519 | 187,103 |
| Unit and property trusts | 27,688 | | 27,748 | |
| Provision for diminution in value | - | | (1,369) | |
| | 27,688 | 30,983 | 26,379 | 26,383 |
| Quoted outside Malaysia: | | | | |
| Shares of corporations | 7,383 | 6,883 | 2,029 | 2,712 |
| Unit trusts | 8,517 | | 9,240 | |
| Provision for diminution in value | - | | (1,762) | |
| | 8,517 | 6,964 | 7,478 | 7,478 |
| Unquoted in Malaysia: | | | | |
| Shares of corporations | 2,148 | | 2,147 | |
| Provision for diminution in value | - | | (55) | |
| | 2,148 | 2,089 | 2,092 | |
| Preference shares of a corporation | - | | 17,832 | |
| Provision for diminution in value | - | | (9,362) | |
| | - | - | 8,470 | |

## 8. INVESTMENTS (CONT'D.)

### (b) Life fund (cont'd.)

**Available-for-sale ("AFS")**

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Cost RM'000 | Fair Value RM'000 | Cost RM'000 | Market/ indicative value RM'000 |
| Government guaranteed bonds | 610,672 | | 476,145 | |
| Net amortisation of premiums | (6,926) | | (5,115) | |
| | 603,746 | 615,974 | 471,030 | 467,372 |
| Khazanah bonds | 95,069 | | 19,187 | |
| Net accretion of discounts | 3,513 | | 233 | |
| | 98,582 | 101,173 | 19,420 | 18,981 |
| Corporate bonds | 2,506,874 | | 1,772,069 | |
| Net accretion of discounts | 42,212 | | 39,483 | |
| Provision for impairment in value | (16,905) | | (10,433) | |
| | 2,532,181 | 2,589,223 | 1,801,119 | 1,789,738 |
| NCD/NICD | 402,781 | | 469,602 | |
| Net accretion of discounts | 32,437 | | 31,888 | |
| | 435,218 | 460,285 | 501,490 | 526,963 |
| Structured deposits | 130,000 | 116,834 | 214,000 | 197,619 |
| Fixed and call deposits with: | | | | |
| Licensed commercial banks | 324,087 | | - | |
| Investment banks | - | | 184,998 | |
| | 324,087 | 324,087 | 184,998 | |
| Unquoted outside Malaysia: | | | | |
| Unit trusts | 2,750 | 2,750 | 7,203 | |
| TOTAL INVESTMENTS | 4,614,237 | 4,761,800 | 3,604,750 | |

**8. INVESTMENTS (CONT'D.)**

**(b) Life fund**

**(i) The remaining maturity of investments as at balance sheet date is, as follows:**

| | < 1 year RM'000 | 1 to <3 years RM'000 | 3 to 5 years RM'000 | > 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| MGS | - | - | 47,844 | 108,213 | 156,057 |
| GII | - | 1,931 | 21,730 | 25,602 | 49,263 |
| Government guaranteed bonds | - | - | 77,259 | 538,715 | 615,974 |
| Khazanah bonds | - | - | - | 101,173 | 101,173 |
| Unquoted corporate bonds | 134,713 | 194,172 | 498,750 | 1,761,588 | 2,589,223 |
| NCD/NICD | 30,197 | 93,966 | 151,792 | 184,330 | 460,285 |
| Structured deposits | - | 42,469 | 74,365 | - | 116,834 |
| Fixed and call deposits with: | | | | | |
| Licensed commercial banks | 324,087 | - | - | - | 324,087 |
| **2009** | | | | | |
| MGS | - | - | 26,894 | 109,003 | 135,897 |
| GII | - | 1,513 | - | 42,242 | 43,755 |
| Government guaranteed bonds | - | 19,766 | 10,009 | 446,370 | 476,145 |
| Khazanah bonds | - | - | - | 19,187 | 19,187 |
| Unquoted corporate bonds | 48,714 | 268,286 | 233,053 | 1,222,016 | 1,772,069 |
| NCD/NICD | 66,821 | 26,276 | 216,450 | 160,055 | 469,602 |
| Structured deposits | - | 20,000 | 110,000 | 84,000 | 214,000 |
| Fixed and call deposits with: | | | | | |
| Investment banks | 184,998 | - | - | - | 184,998 |

## 8. INVESTMENTS (CONT'D.)

### (b) Life fund (cont'd.)

**(ii) The weighted average rates of return of investments at the balance sheet date were, as follows:**

| | 2010<br>%<br>per annum | 2009<br>%<br>per annum |
|---|---|---|
| MGS | 3.78 | 3.81 |
| GII | 3.71 | 3.67 |
| Government guaranteed bonds | 4.45 | 4.40 |
| Khazanah bonds | 4.67 | 4.52 |
| Unquoted corporate bonds | 5.58 | 5.92 |
| NCD/NICD | 5.13 | 4.98 |
| Structured deposits | 0.16 | 2.48 |
| Fixed and call deposits with: | | |
| Licensed commercial banks | 2.59 | - |
| Investment banks | - | 2.13 |

## 9. LOANS

**Life fund**

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Policy/automatic premium loans | 61,254 | 57,725 |
| Corporate loans | 8,500 | 51,300 |
| Staff loans: | | |
| Secured | 4,726 | 5,645 |
| Unsecured | 704 | 886 |
| Other loans | 245 | - |
| | 75,429 | 115,556 |
| Receivable after 12 months | 14,170 | 57,824 |

**The average effective interest rates of the loans receivable during the year were, as follows:**

| | 2010<br>%<br>per annum | 2009<br>%<br>per annum |
|---|---|---|
| Policy/automatic premium loans | 8.00 | 8.00 |
| Corporate loans | 7.68 | 5.79 |
| Staff loans | 3.10 | 3.09 |
| Other loans | 5.96 | - |

## 10. RECEIVABLES

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| **Other receivables:** | | |
| Income due and accrued | 1,726 | 1,575 |
| Provision for doubtful debts | (4) | (4) |
| | 1,722 | 1,571 |
| Amount due from life fund | 94,030 | 41,301 |
| Sundry receivables, deposits and prepayment | 345 | 310 |
| | 96,097 | 43,182 |
| **(b) Life fund** | | |
| **Trade receivables:** | | |
| Outstanding premiums | 4,229 | 3,979 |
| Provision for doubtful debts | (3) | (12) |
| | 4,226 | 3,967 |
| Amount due from reinsurers | 2,248 | 803 |
| | 6,474 | 4,770 |
| **Other receivables:** | | |
| Sundry receivables, deposits and prepayment | 4,768 | 4,587 |
| Provision for doubtful debts | (14) | (379) |
| | 4,754 | 4,208 |
| Income due and accrued | 43,804 | 35,481 |
| Provision for doubtful debts | (14) | (21) |
| | 43,790 | 35,460 |
| Amount due from investment-linked funds | 6,286 | 39,453 |
| | 54,830 | 79,121 |
| TOTAL RECEIVABLES | 61,304 | 83,891 |

## 11. SHARE CAPITAL

| | Number of Ordinary Shares of RM1 Each | | Amount | |
|---|---|---|---|---|
| | 2010 '000 | 2009 '000 | 2010 RM'000 | 2009 RM'000 |
| **Authorised:** | | | | |
| At beginning/end of financial year | 100,000 | 100,000 | 100,000 | 100,000 |
| **Issued and fully paid-up:** | | | | |
| At beginning/end of financial year | 100,000 | 100,000 | 100,000 | 100,000 |

## 12. DIVIDENDS

| | 2010 RM'000 |
|---|---|
| **Dividends in respect of and recognised in current financial year:** | |
| A special distribution by way of gross dividend payment of RM102,666,666.67 less 25% of tax, amounting to RM77,000,000 to Safety Capital Sdn Bhd, in respect of the financial year ended 30 June 2010, declared on 22 December 2009 and paid on 10 May 2010. | 77,000 |
| A single-tier dividend-in-specie of RM11,075,950 to Mayban Fortis Holdings Berhad, in respect of the financial year ended 30 June 2010, declared on 24 June 2010. | 11,076 |
| | 88,076 |

The directors do not recommend the payment of any final dividend in respect of the current financial year.

## 13. LIFE POLICYHOLDERS' FUND

| | | 2010 RM'000 | 2009 RM'000 |
|---|---|---|---|
| **Actuarial liabilities:** | | | |
| At beginning of financial year (as previously stated) | | 3,223,857 | 2,731,796 |
| Effect of adoption of RBC framework: | | | |
| -change in valuation of actuarial liabilities | | (205,578) | - |
| At beginning of financial year (as stated) | | 3,018,279 | 2,731,796 |
| Add: | Increase in policy reserves | 813,535 | 458,593 |
| | Bonus allocated to participating policyholders ( including interim bonus) from normal surplus | - | 35,481 |
| Less : | Interim bonus paid | - | (2,013) |
| | | 813,535 | 492,061 |
| At end of financial year | | 3,831,814 | 3,223,857 |
| **Unallocated surplus:** | | | |
| At beginning of financial year (as previously stated) | | 525,647 | 446,613 |
| Effect of adoption of RBC framework (Note 2.4 (c)(i)): | | | |
| - change in valuation of actuarial liabilities | | 205,578 | - |
| - reversal of provision for diminution | | 22,982 | - |
| - impairment effects of AFS investments | | (10,433) | - |
| - deferred tax effects | | (1,003) | - |
| At beginning of financial year (as stated) | | 742,771 | 446,613 |
| Add: Surplus arising during the financial year | | 149,957 | 156,915 |
| Less: Bonus allocated to participating policyholders | | | |
| - from normal surplus | | - | (35,481) |
| Transfer to income statement | | (93,000) | (42,400) |
| | | 56,957 | 79,034 |
| At end of financial year | | 799,728 | 525,647 |
| **Available-for-Sale reserves** | | | |
| At beginning of financial year (as previously stated) | | - | - |
| Effects due to adoption of RBC framework: | | | |
| - fair value changes on AFS investments | | (16,830) | - |
| - deferred tax on fair value changes | | 1,346 | - |
| At beginning of financial year (as stated) | | (15,484) | - |
| Movement in fair value of AFS investments | | 164,393 | - |
| Deferred tax effects on fair value changes | | (13,151) | - |
| At end of financial year | | 135,758 | - |
| **Life policyholders' fund at end of financial year:** | | | |
| Actuarial liabilities | | 3,831,814 | 3,223,857 |
| Unallocated surplus | | 799,728 | 525,647 |
| AFS reserve | | 135,758 | - |
| | | 4,767,300 | 3,749,504 |

## 14. PROVISION FOR OUTSTANDING CLAIMS

**Life fund**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Provision for outstanding claims | 32,028 | 30,754 |
| Recoverable from reinsurers | (1,091) | (1,144) |
| Net outstanding claims | 30,937 | 29,610 |

## 15. DERIVATIVE LIABILITIES

**2009**

**Life fund**

| | Maturity date | Notional amount RM'000 | Fair value RM'000 |
|---|---|---|---|
| Forward foreign exchange contracts in United States Dollars | 28 Sept 2009 | 29,454 | 1,542 |
| Forward foreign exchange contracts in United States Dollars | 07 May 2010 | 27,820 | 3,516 |
| TOTAL DERIVATIVE LIABILITIES | | 57,274 | 5,058 |

## 16. PAYABLES

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| **Other payables:** | | |
| Sundry payables and accrued liabilities | 168 | 333 |
| **(b) Life fund** | | |
| **Trade payables:** | | |
| Amount due to reinsurers | 405 | 1,142 |
| Commissions and agency expense payable | 1,712 | 1,643 |
| | 2,117 | 2,785 |

## 16. PAYABLES (CONT'D.)

**(b) Life fund (cont'd.)**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Other payables:** | | |
| Amount due to investment-linked funds | 2,672 | - |
| Premium deposits | 22,621 | 17,978 |
| Amount due to shareholders' fund | 94,030 | 41,301 |
| Sundry payables and accrued liabilities | 23,683 | 16,297 |
| | 143,006 | 75,576 |
| TOTAL PAYABLES | 145,123 | 78,361 |

## 17. DEFERRED TAX LIABILITIES/(ASSETS)

| | Shareholders' fund | | Life fund | |
|---|---|---|---|---|
| | 2010 RM'000 | 2009 RM'000 | 2010 RM'000 | 2009 RM'000 |
| At beginning of financial year (as previously stated) | 605 | 419 | 3,395 | 923 |
| Effect of adopting RBC framework - Changes to measurement of investments | 444 | - | (343) | - |
| At beginning of financial year (as restated) | 1,049 | 419 | 3,052 | 923 |
| Recognised in the income statement/revenue account (Note 22) | (376) | 186 | 16 | 2,472 |
| Recognised in AFS reserve | 2,905 | - | 13,151 | - |
| At end of financial year | 3,578 | 605 | 16,219 | 3,395 |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax shown in the balance sheet have been determined after appropriate offsetting.

## 17. DEFERRED TAX LIABILITIES/(ASSETS) (CONT'D.)

| | Shareholders' fund | | Life fund | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Presented after appropriate offsetting as follows: | | | | |
| Deferred tax liabilities | 3,716 | 699 | 17,993 | 6,061 |
| Deferred tax assets | (138) | (94) | (1,774) | (2,666) |
| | 3,578 | 605 | 16,219 | 3,395 |

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are, as follows:

**Deferred Tax Liabilities:**

**(a) Shareholders' fund**

| | AFS Reserve RM'000 | Accretion of discounts on investments RM'000 | Total RM'000 |
|---|---|---|---|
| **2010** | | | |
| At 1 July 2009 (as previously stated) | - | 699 | 699 |
| Effects of adoption of RBC framework | | | |
| - Fair value movement of investment assets | 444 | - | 444 |
| At 1 July 2009 (as restated) | 444 | 699 | 1,143 |
| Recognised in AFS reserve | 2,905 | - | 2,905 |
| Recognised in the income statement | - | (332) | (332) |
| At 30 June 2010 | 3,349 | 367 | 3,716 |
| **2009** | | | |
| At 1 July 2008 | | 490 | 490 |
| Recognised in the income statement | | 209 | 209 |
| At 30 June 2009 | | 699 | 699 |

## 17. DEFERRED TAX LIABILITIES/(ASSETS) (CONT'D.)

**Deferred Tax Liabilities (cont'd.):**

**(b) Life fund**

| | AFS Reserve RM'000 | Accelerated capital allowance on investment properties RM'000 | Accelerated capital allowance on property and equipment RM'000 | Accretion of discounts on investments RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| At 1 July 2009 (as previously stated) | - | - | 329 | 5,732 | 6,061 |
| Effects of adoption of RBC framework | | | | | |
| - Fair value movement of investment assets | (1,346) | - | - | - | (1,346) |
| At 1 July 2009 (as restated) | (1,346) | - | 329 | 5,732 | 4,715 |
| Recognised in AFS reserve | 13,151 | - | - | - | 13,151 |
| Recognised in the revenue account | - | 8 | (188) | 307 | 127 |
| At 30 June 2010 | 11,805 | 8 | 141 | 6,039 | 17,993 |
| **2009** | | | | | |
| At 1 July 2008 | - | - | 524 | 5,145 | 5,669 |
| Recognised in the revenue account | - | - | (195) | 587 | 392 |
| At 30 June 2009 | - | - | 329 | 5,732 | 6,061 |

## 17. DEFERRED TAX LIABILITIES/(ASSETS) (CONT'D.)

**Deferred Tax Assets:**

**(a) Shareholders' fund**

| | Provision for investments RM'000 | Amortisation of premium on investments RM'000 | Total RM'000 |
|---|---|---|---|
| **2010** | | | |
| At 1 July 2009 | - | (94) | (94) |
| Recognised in the income statement | - | (44) | (44) |
| At 30 June 2010 | - | (138) | (138) |
| **2009** | | | |
| At 1 July 2008 | (6) | (65) | (71) |
| Recognised in the income statement | 6 | (29) | (23) |
| At 30 June 2009 | - | (94) | (94) |

**(b) Life fund**

| | Assets expensed off RM'000 | Provision for investments RM'000 | Amortisation of premium on investments RM'000 | Total RM'000 |
|---|---|---|---|---|
| **2010** | | | | |
| At 1 July 2009 (as previously stated) | - | (1,838) | (828) | (2,666) |
| Effects of adoption of RBC framework | | | | |
| - Fair value movement of investment assets | - | 1,003 | - | 1,003 |
| | - | (835) | (828) | (1,663) |
| Recognised in the revenue account | (2) | (517) | 408 | (111) |
| At 30 June 2010 | (2) | (1,352) | (420) | (1,774) |
| **2009** | | | | |
| At 1 July 2008 | (5) | (2,061) | (2,680) | (4,746) |
| Recognised in the revenue account | 5 | 223 | 1,852 | 2,080 |
| At 30 June 2009 | - | (1,838) | (828) | (2,666) |

## 18. OPERATING REVENUE

| | Shareholders' fund | | Life fund | | Total | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Investment-linked units created (Note 24B) | - | - | 141,684 | 100,335 | 141,684 | 100,335 |
| Ordinary life business gross premiums | - | - | 1,086,490 | 696,492 | 1,086,490 | 696,492 |
| Investment income: | | | | | | |
| Investment-linked funds (Note 24F) | - | - | 50,339 | 73,497 | 50,339 | 73,497 |
| Others (Note 19) | 10,937 | 9,751 | 208,396 | 183,096 | 219,333 | 192,847 |
| | 10,937 | 9,751 | 1,486,909 | 1,053,420 | 1,497,846 | 1,063,171 |

## 19. INVESTMENT INCOME

| | 2010 | 2009 |
|---|---|---|
| | RM'000 | RM'000 |
| **(a) Shareholders' fund** | | |
| Gross dividend income from: | | |
| Shares quoted in Malaysia | 945 | 428 |
| Unit and property trusts quoted in Malaysia | 181 | 69 |
| Interest income | 7,637 | 7,189 |
| Rental income | 1,601 | 1,556 |
| Accretion of discounts net of amortisation of premiums | 573 | 509 |
| | 10,937 | 9,751 |
| **(b) Life fund** | | |
| Gross dividend income from: | | |
| Shares quoted in Malaysia | 8,025 | 6,544 |
| Shares quoted outside Malaysia | 143 | 491 |
| Unit and property trusts quoted in Malaysia | 2,651 | 2,441 |
| Unquoted unit trusts outside Malaysia | 3 | 17 |
| Interest income | 167,193 | 145,486 |
| Rental income | 6,422 | 6,245 |
| Accretion of discounts net of amortisation of premiums | 23,713 | 21,872 |
| Others | 246 | - |
| | 208,396 | 183,096 |
| Total | 219,333 | 192,847 |

## 20. OTHER INCOME/(EXPENDITURE) (NET)

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Net gain on disposal of AFS investments | 2,876 | 454 |
| Writeback of diminution in value of investments | - | 22 |
| Bad debts recovered | 5 | 78 |
| Provision for doubtful debts | (5) | (51) |
| Others | (525) | (463) |
| | 2,351 | 40 |
| **(b) Life fund** | | |
| Net gain/(loss) on disposal of AFS investments | 26,593 | (46,922) |
| Realised foreign exchange loss | (1) | (738) |
| Unrealised foreign exchange (loss)/gain | (1,544) | 6,406 |
| Unrealised gain/(loss) on derivatives | 5,059 | (4,698) |
| Loss on disposal of derivatives | (2,404) | - |
| Impairment of AFS investments | (6,472) | - |
| Writeback of diminution in value of investments | - | 33,880 |
| Bad debts recovered | 37 | 4,358 |
| Provision for doubtful debts | (6) | (1,340) |
| Gain on disposal of property and equipment | 2 | - |
| Fair value on investment property | 30 | - |
| Investment-linked management fee income | 17,639 | 29,007 |
| Others | (2,827) | (1,633) |
| | 36,106 | 18,320 |

## 21. MANAGEMENT EXPENSES

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Depreciation of property and equipment | 646 | 647 |
| Amortisation of prepaid land lease payments | 31 | 31 |
| Maybank Group ESOS expense | - | 1 |
| Portfolio management fees | 379 | 313 |
| Others | 5 | - |
| | 1,061 | 992 |

## 21. MANAGEMENT EXPENSES (CONT'D.)

### (b) Life fund

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Staff costs: | 1,129 | 7,345 |
| Basic salary | 980 | 4,709 |
| EPF | 18 | 734 |
| Short-term accumulating compensated absences | 7 | (48) |
| SOCSO | 8 | 68 |
| Bonus, allowances and other staff related costs | 116 | 1,882 |
| Directors' remuneration: | | |
| Fees payable to: | 155 | 153 |
| MBB | 35 | 31 |
| MFHB | 25 | 25 |
| Fortis Insurance Int. NV | 25 | 25 |
| Other directors | 70 | 72 |
| Other emoluments paid and payable to: | 32 | 29 |
| MBB | 7 | 7 |
| MFHB | 5 | 4 |
| Fortis Insurance Int. NV | 5 | 4 |
| Other directors | 15 | 14 |
| Auditors' remuneration fees: | | |
| - current year | 190 | 180 |
| Others | 120 | 108 |
| Tax consultancy fees | 10 | 8 |
| Office rental | 631 | 643 |
| Depreciation of property and equipment | 3,894 | 3,940 |
| Amortisation of prepaid land lease payments | 124 | 125 |
| Amortisation of intangible assets | 8 | 134 |
| Office maintenance and facilities expenses | 1,708 | 1,538 |
| Portfolio management fees | 9,441 | 10,178 |
| Other management fees | 15,043 | 8,975 |
| Other expenses | 8,847 | 10,610 |
| | 41,332 | 43,966 |

## 21. MANAGEMENT EXPENSES (CONT'D.)

### (b) Life fund (cont'd.)

The number of directors whose total remuneration received from the Company during the financial year that fell within the following bands, is analysed below:

| | Number of Directors 2010 | 2009 |
|---|---|---|
| Non-executive directors | | |
| Below RM50,000 | 8 | 9 |

## 22. TAXATION

The domestic income tax for shareholders' funds is calculated based on the corporate tax rate of 25% (2009: 25%) of the estimated assessable profit for the financial year.

The income tax for life funds is calculated based on the statutory rate of 8% (2009: 8%) of the estimated assessable surplus for the financial year.

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Income tax: | | |
| Current financial year's provision | 19,415 | 9,435 |
| Over provision of taxation in prior financial years | - | (3,598) |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences (Note 17) | (376) | 186 |
| Tax expense for the financial year | 19,039 | 6,023 |

## 22. TAXATION (CONT'D.)

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(b) Life fund** | | |
| Income tax: | | |
| Current financial year's provision | 17,279 | 7,791 |
| Under provision of taxation in prior financial years | 1,578 | 1,203 |
| Tax equalisation | (573) | - |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences (Note 17) | 16 | 2,472 |
| Tax expense for the financial year | 18,300 | 11,466 |

The corporate income tax rate for the year of assessment 2009 (for financial year ending 2009) and subsequent years of assessment has been reduced to 25% as gazetted in the Finance Act 2007. No changes have been proposed to the income tax rate for life fund, which is currently at 8%.

In view of this, the Company have computed the deferred tax for shareholders' fund based on the reduced corporate tax rate of 25%.

A reconciliation of income tax expenses applicable to profit/surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is, as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Profit before taxation | 105,227 | 51,199 |
| Taxation at Malaysian statutory tax rate of 25% (2009: 25%) | 26,307 | 12,800 |
| Income not subject to tax | (7,556) | (3,465) |
| Expenses not deductible for tax purposes | 288 | 286 |
| Over provision in prior financial years | - | (3,598) |
| Tax expense for the financial year | 19,039 | 6,023 |

## 22. TAXATION (CONT'D.)

### (b) Life fund

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Surplus before taxation | | |
| - Life business | 981,792 | 594,593 |
| - Investment-linked funds (Note 24B) | (990,786) | (750,980) |
| | (8,994) | (156,387) |
| Taxation at Malaysian tax rate of 8% (2009: 8%) | (719) | (12,511) |
| Income not subject to tax | (98,887) | (65,155) |
| Expenses not deductible for tax purposes | 127,038 | 94,945 |
| Utilisation of previously unrecognised tax losses | (1,103) | (895) |
| Under provision in prior financial years | 1,146 | 1,088 |
| Tax expense for the financial year | | |
| - Life business | 18,300 | 11,466 |
| - Investment-linked funds (Note 24I) | 9,175 | 6,006 |
| | 27,475 | 17,472 |

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act, 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credits under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

Due to the changes in the single tier system, any distribution of dividend-in-specie in respect of the ordinary shareholdings would be regarded as single tier dividend. The Section 108 accounts and tax exempt account will not be affected. There will be parallel existence of single tier system and imputation system until 31 December 2013.

## 22. TAXATION (CONT'D.)

### (b) Life fund (cont'd.)

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 30 June 2010 and 2009, to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act, 2007. As at 30 June 2010, the Company has sufficient credits in the Section 108 balance to pay franked dividends amounting to RM85,052,421 (2009: RM162,052,421) out of its retained earnings. If the balance of the retained earnings of RM86,881,037 (2009:RM19,769,003) were to be distributed as dividends, the Company may distribute such dividends under the single tier system.

Previously, investment income and gains from disposal of investments from the Life Fund was taxed twice, once at tax rate of 8% in the Life Fund and again at a tax rate of 25% (2008:26%) when the surplus from Life Fund was transferred to the Shareholders' Fund. In Budget 2008 which was enacted via 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 the 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.

## 23. EARNINGS PER SHARE

Basic earnings per share of the Company are calculated by dividing the profit for the financial year, by the number of ordinary shares in issue, during the financial year.

| | 2010 | 2009 |
|---|---|---|
| Net profit for the financial year (RM'000) | 86,188 | 45,176 |
| Number of shares in issue ('000) | 100,000 | 100,000 |
| Basic/diluted earnings per shares (sen) | 86.2 | 45.2 |

The Company has no potential dilutive ordinary shares in issue as at balance sheet date and therefore, diluted earnings per share has not been presented.

## 24. INVESTMENT-LINKED FUNDS

### A. BALANCE SHEETS AS AT 30 JUNE 2010

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| **ASSETS** | | |
| Investments (Note C) | 1,424,151 | 2,463,521 |
| Derivative assets (Note D) | 26,902 | 12,323 |
| Amount due from stockbrokers | 5,860 | 3,897 |
| Amount due from life fund | 2,672 | - |
| Sundry receivables | 8,822 | 12,289 |
| Deferred tax assets | 4,501 | 5,347 |
| Cash and bank balances | 274 | 179,730 |
| **Investment-linked funds assets** | 1,473,182 | 2,677,107 |
| | | |
| **LIABILITIES** | | |
| Provision for outstanding claims | - | 177,317 |
| Derivative liabilities (Note E) | - | 407 |
| Amount due to stockbrokers | 9,128 | 3,791 |
| Amount due to life fund | 6,286 | 39,453 |
| Sundry payables | 169 | 185 |
| Tax payable | 5,475 | 3,817 |
| Deferred tax liabilities | 3,743 | 3,795 |
| **Investment-linked funds liabilities** | 24,801 | 228,765 |
| | | |
| **Unitholders' investment-linked funds** | 1,448,381 | 2,448,342 |
| | | |
| **REPRESENTED BY:** | | |
| | | |
| **Unitholders' accounts** | 1,448,381 | 2,448,342 |
| | 1,448,381 | 2,448,342 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

## B. INCOME STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Units created (net) (Note 18) | 141,684 | 100,335 |
| Investment income (Note F) | 50,339 | 73,497 |
| Other income (Note G) | 267,581 | 162,161 |
| Other outgo (Note H) | (1,450,390) | (1,086,973) |
| Deficit before taxation | (990,786) | (750,980) |
| Taxation (Note I) | (9,175) | (6,006) |
| Deficit for the financial year after taxation | (999,961) | (756,986) |
| Fund at beginning of financial year | 2,448,342 | 3,205,328 |
| Fund at end of financial year | 1,448,381 | 2,448,342 |

## C. INVESTMENTS

**Held-for-trading ("HFT")**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| MGS, at cost | 14,991 | - |
| Unrealised gains | 189 | - |
| | 15,180 | - |
| GII, at cost | 18,515 | - |
| Unrealised gains | 65 | - |
| | 18,580 | - |
| Quoted in Malaysia: | | |
| Shares and warrants of corporation, at cost | 200,506 | 159,181 |
| Unrealised gains | 39,182 | 11,176 |
| At market value | 239,688 | 170,357 |
| Quoted outside Malaysia: | | |
| Shares of corporation, at cost | 7,394 | 14,322 |
| Unrealised losses | (720) | (3,031) |
| At market value | 6,674 | 11,291 |
| Preference shares of a corporation, at cost | - | 7 |
| Unrealised gains | - | 2 |
| At market value | - | 9 |
| Exchange-traded fund/Closed-end funds, at cost | 490 | 309 |
| Unrealised gains | 21 | 82 |
| At market value | 511 | 391 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

## C. INVESTMENTS (CONT'D.)

**Held-for-trading ("HFT")**

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Quoted outside Malaysia (cont'd.): | | |
| Unit and property trusts, at cost | 20,278 | - |
| Unrealised gains | 1,866 | - |
| At market value | 22,144 | - |
| Unquoted in Malaysia: | | |
| Preference shares of a corporation, at cost | - | 2,843 |
| Unrealised losses | - | (1,492) |
| At market value | - | 1,351 |
| NCD/NICD, at cost | 144,709 | 1,046,459 |
| Unrealised gains | 7,343 | 94,102 |
| At market value | 152,052 | 1,140,561 |
| Corporate bonds, at cost | 655,455 | 791,722 |
| Unrealised losses | (2,769) | (10,278) |
| At market value | 652,686 | 781,444 |
| Government guaranteed bonds, at cost | 6,746 | 6,746 |
| Unrealised losses | (220) | (312) |
| At market value | 6,526 | 6,434 |
| Fixed and call deposits with: | | |
| Licensed commercial banks | 79,890 | 279 |
| Investment banks | - | 66,501 |
| | 79,890 | 66,780 |
| Unquoted outside Malaysia: | | |
| Unit trusts | 265 | 453 |
| Foreign notes, at cost | 242,364 | 298,729 |
| Unrealised losses | (12,409) | (14,279) |
| At market value | 229,955 | 284,450 |
| Total | 1,424,151 | 2,463,521 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

## C. INVESTMENTS (CONT'D.)

### (i) The remaining maturity of investments as at balance sheet date is, as follows:

| | < 1 year RM'000 | 1 to <3 years RM'000 | 3 to 5 years RM'000 | > 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|---|
| **2010** | | | | | |
| MGS | - | - | 15,180 | - | 15,180 |
| GII | - | - | 18,580 | - | 18,580 |
| NCD/NICD | 39,447 | 112,605 | - | - | 152,052 |
| Unquoted corporate bonds | 81,874 | 267,118 | 90,586 | 213,108 | 652,686 |
| Government guaranteed bonds | - | - | 6,526 | - | 6,526 |
| Foreign notes | - | 229,955 | - | - | 229,955 |
| Fixed and call deposits with: | | | | | |
| Licensed commercial banks | 79,890 | - | - | - | 79,890 |
| **2009** | | | | | |
| NCD/NICD | 890,174 | 156,285 | - | - | 1,046,459 |
| Unquoted corporate bonds | 117,912 | 228,300 | 220,926 | 224,584 | 791,722 |
| Government guaranteed | | | | | - |
| bonds | - | - | 6,746 | - | 6,746 |
| Foreign notes | - | 298,729 | - | - | 298,729 |
| Fixed and call deposits with: | | | | | |
| Licensed commercial banks | 279 | - | - | - | 279 |
| Investment banks | 66,501 | - | - | - | 66,501 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

## C. INVESTMENTS (CONT'D.)

**(ii) The weighted average rates of return of investments at the balance sheet date were, as follows:**

| | 2010<br>%<br>per annum | 2009<br>%<br>per annum |
|---|---|---|
| MGS | 3.75 | - |
| GII | 3.47 | - |
| NCD/NICD | 2.55 | 3.77 |
| Unquoted corporate bonds | 4.74 | 4.79 |
| Government guaranteed bonds | 3.13 | 3.13 |
| Fixed and call deposits with: | | |
| Licensed commercial banks | 2.71 | 0.70 |
| Investment banks | - | 1.80 |

## D. DERIVATIVE ASSETS

| | Cost<br>RM'000 | Notional Amount<br>RM'000 | Fair Value<br>RM'000 |
|---|---|---|---|
| **2010** | | | |
| Options | 26,076 | - | 5,082 |
| Currency on swap contract | - | 297,810 | 20,973 |
| Forward foreign exchange contract | - | 12,829 | 847 |
| Total | 26,076 | 310,639 | 26,902 |
| **2009** | | | |
| Options | 87,419 | - | 8,155 |
| Currency on swap contract | - | 314,184 | 4,168 |
| Total | 87,419 | 314,184 | 12,323 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

### E. DERIVATIVE LIABILITIES

| | Cost RM'000 | Notional Amount RM'000 | Fair Value RM'000 |
|---|---|---|---|
| **2009** | | | |
| Forward foreign exchange contract | - | 23,669 | 407 |
| Total | - | 23,669 | 407 |

### F. INVESTMENT INCOME

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| Gross dividends from: | | |
| Shares quoted in Malaysia | 6,086 | 7,273 |
| Shares quoted outside Malaysia | 415 | 610 |
| Unit and property trusts quoted in Malaysia | - | 69 |
| Unquoted unit trusts outside Malaysia | - | 8 |
| Interest income | 43,834 | 65,537 |
| Others | 4 | - |
| | 50,339 | 73,497 |

### G. OTHER INCOME

| | | |
|---|---|---|
| Gain on disposal of investments | 134,603 | 45,636 |
| Gain on disposal of derivatives | 874 | - |
| Unrealised gain on investments | 54,219 | 86,620 |
| Unrealised foreign exchange gain | - | 29,897 |
| Unrealised gain on derivatives | 77,885 | - |
| Others | - | 8 |
| | 267,581 | 162,161 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

### H. OTHER OUTGO

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Benefits paid and payable: | | |
| Death | 3,820 | 6,248 |
| Surrender | 126,946 | 178,865 |
| Maturity | 1,094,672 | 700,814 |
| Others | 13,009 | 11,235 |
| Loss on disposal of investments | 6,234 | 28,182 |
| Loss on disposal of derivatives | 59,619 | 7,266 |
| Unrealised loss on investments | 98,888 | 46,211 |
| Realised foreign exchange loss | 486 | 718 |
| Unrealised foreign exchange loss | 22,812 | - |
| Unrealised loss on derivatives | 3,089 | 74,610 |
| Auditors' remuneration | 44 | 46 |
| Investment-linked management charge | 17,639 | 29,007 |
| Others | 3,132 | 3,771 |
| | 1,450,390 | 1,086,973 |

### I. TAXATION

| | 2010<br>RM'000 | 2009<br>RM'000 |
|---|---|---|
| Income tax: | | |
| Current year's provision | 9,343 | 7,360 |
| Over provision of taxation in prior financial years | (432) | (115) |
| Tax equalisation | (530) | (895) |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | 794 | (344) |
| Tax expense for the financial year | 9,175 | 6,006 |

## 24. INVESTMENT-LINKED FUNDS (CONT'D.)

### I. TAXATION (CONT'D.)

The Malaysian tax charge on the investment-linked life insurance business is based on the method prescribed under the Income Tax Act, 1967 for life business.

The deferred tax (assets)/liabilities of the respective individual funds are in respect of unrealised capital (losses)/gains of the investment-linked funds.

## 25. SEGMENT INFORMATION ON CASH FLOW

| | Shareholders' fund RM'000 | Life fund RM'000 | Total RM'000 |
|---|---|---|---|
| **2010** | | | |
| Cash flows from: | | | |
| Operating activities | 85,011 | (173,518) | (88,507) |
| Investing activities | - | (11) | (11) |
| Financing activities | (85,000) | - | (85,000) |
| | 11 | (173,529) | (173,518) |
| Net increase/(decrease) in cash and cash equivalents | 11 | (173,529) | (173,518) |
| At beginning of financial year | 22 | 187,580 | 187,602 |
| At end of financial year | 33 | 14,051 | 14,084 |
| **2009** | | | |
| Cash flows from: | | | |
| Operating activities | (251) | 172,820 | 172,569 |
| Investing activities | - | (636) | (636) |
| | (251) | 172,184 | 171,933 |
| Net (decrease)/increase in cash and cash equivalents | (251) | 172,184 | 171,933 |
| At beginning of financial year | 273 | 15,396 | 15,669 |
| At end of financial year | 22 | 187,580 | 187,602 |

## 26. SIGNIFICANT RELATED PARTY DISCLOSURES

(i) Significant transactions of the Company with related parties during the financial year were, as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Transactions with the ultimate holding company: | | |
| Commissions and fee expense | (59) | (47) |
| Interest income/(expense) | 608 | (148) |
| Rental income | 7 | 14 |
| Transactions with the holding company: | | |
| Rental income | 1 | 7 |
| Transactions with other related companies within MBB group: | | |
| General insurance premium expense | (14) | (11) |
| Interest income | 9 | 693 |
| Rental income | 1,495 | 1,444 |
| Insurance recovery | 3 | - |
| Portfolio management fees | (379) | (313) |
| **(b) Life fund** | | |
| Transactions with the ultimate holding company: | | |
| Gross insurance premium income | - | 893 |
| Interest income | 15,175 | 6,825 |
| Commissions and fee expense | (38,593) | (34,959) |
| Dividend income | 365 | 192 |
| Rental income | 29 | 56 |

## 26. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(i) Significant transactions of the Company with related parties during the financial year were, as follows (cont'd.):

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(b) Life fund (cont'd.)** | | |
| Transactions with the holding company: | | |
| Gross insurance premium income | - | (1) |
| Rental income | 3 | 26 |
| Transactions with other related companies within MBB group: | | |
| Gross insurance premium income | - | 35 |
| Insurance premium expense | (366) | (516) |
| Interest income | 28 | 6,616 |
| Rental income | 5,980 | 5,779 |
| Insurance recovery | 137 | 27 |
| Rental expense | (541) | (541) |
| Portfolio management fees | (9,352) | (9,965) |

(ii) Included in the balance sheets of the Company are amounts due from/(to) related companies represented by the following:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund** | | |
| Amount due from/(to) the ultimate holding company: | | |
| Bank balances | 32 | 22 |
| Fixed and call deposits | 13,098 | - |
| Sundry receivables | 3 | 3 |
| Sundry payables | (4) | (5) |

## 26. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(ii) Included in the balance sheets of the Company are amounts due from/(to) related companies represented by the following (cont'd.):

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **(a) Shareholders' fund (cont'd.)** | | |
| Amount due from/(to) other related companies within MBB group: | | |
| Fixed and call deposits | - | 55,072 |
| Sundry receivables | 62 | 89 |
| Sundry payables | (96) | (85) |
| **(b) Life fund** | | |
| Amount due from/(to) the ultimate holding company: | | |
| Bank balances | 13,980 | 185,519 |
| Corporate bonds | 190,020 | 125,068 |
| NCD | 267,491 | 275,101 |
| Structured deposits | 26,676 | 30,000 |
| Fixed and call deposits | 388,756 | 279 |
| Income due and accrued | 2,530 | 2,312 |
| Sundry receivables | 127 | 64 |
| Commissions payable | (2,095) | (1,789) |
| Sundry payables | (117) | (543) |
| Amount due from/(to) the holding company: | | |
| Sundry receivables | 9 | 1 |
| Sundry payables | (442) | (397) |
| Amount due from/(to) other related companies within MBB group: | | |
| Fixed and call deposits | - | 225,221 |
| Income due and accrued | - | 11 |
| Sundry receivables | 1,302 | 493 |
| Sundry payables | (4,462) | (4,226) |

## 26. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D.)

(iii) The remuneration of the key management during the year are, as follows:

**Key management personnel compensation**

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| **Short-term employee benefits** | | |
| - Fees | 155 | 153 |
| - Salaries, allowances and bonuses | 394 | 419 |
| - Contribution to Employees Provident Fund (EPF) | 58 | 59 |
| - Others | 40 | 1 |
| | 647 | 632 |

The movement in share options in Maybank Group ESOS held by key management personnel is, as follows:

| | 2010 RM'000 | 2009 RM'000 |
|---|---|---|
| At 1 July | 89,800 | 64,300 |
| Right issue | - | 25,500 |
| Lapsed | (89,800) | - |
| At 30 June | - | 89,800 |

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company are the directors and officer-in-charge.

## 27. RISK MANAGEMENT POLICIES

The Company's risk management policies seek to ensure that adequate financial resources are available for the development of the Company’s businesses taking into account its various risks. The overall objective is, to safeguard the interests of all its stakeholders. Risk management at Mayban Fortis Group ("MFHG") is therefore, organised both centrally and on a business/functional unit basis. As the first line of defence, the Company is responsible for the day-to-day management of risks inherent in their business activities. The Central Risk Management ("CRM") at MFHG acts as a risk control and coordinating unit whose responsibility includes the establishment of a risk management framework, the formulation and implementation of risk and capital management guidelines and the development of tools and methodologies for risk identification, measurement, monitoring, control and pricing. As such, CRM becomes the second line of defence and assumes the role of an oversight function. It provides risk management guidance, support and advice across the Group. The internal auditors of Maybank Group, acting as the third line of defence, provide an independent assurance on the effectiveness of the risk management framework and practices. This three-level approach is consistent with Maybank Group's approach.

### A. Types of Risk

Risks can arise in all business activities, operational areas, processes, systems and also from external events. Assessing the risk situation of MFHG's businesses therefore, requires a holistic, enterprise-wide approach. The scope of risk management at MFHG includes the strategic and reputational risks which come under the purview of the Risk Management Committee ("RMC") and the Boards. The risk management approach and practices at MFHG are in accordance to the three pillars of risks and are in line with the Maybank Group's approach and practices. The three pillars are the Insurance Risk, Financial Risk and Operational Risk.

#### (i) Insurance business risk

Insurance Risk relates to the risks inherent in the business activities of an insurer. Such risks include pricing risk, premium/benefits risk, premium/claims risk, claims/actuarial reserve risk, reinsurance risk and solvency risk. Premium/benefits risk in the life and health insurance is the risk of having to pay, from a premium that is fixed for many years at a constant level, benefits that can be affected by intervening trends before they become due. In the case of non-life insurance, the premium/claims risk is the risk of having to pay, from premiums fixed in advance, claims and benefits whose scope is uncertain at the time the premium is fixed.

## 27. RISK MANAGEMENT POLICIES (CONT'D.)

### A. Types of Risk (cont'd.)

#### (i) Insurance business risk (cont'd.)

Reinsurance risk can arise from the underwriting of direct or reinsurance businesses in relation to reinsurers, retrocessionaires, cedants and brokers. Solvency risk relates to the ability of an insurance operator to fulfil its obligations under all contracts. Therefore, special attention is given to the adequacy of the actuarial reserves, the claims reserves and the margin of solvency. For this purpose, the Appointed Actuary carries out financial investigations and makes an assessment on the adequacy of pricing, capital and reserves on a regular basis in accordance with BNM's and actuarial guidelines.

#### (ii) Financial risk

Financial Risk includes market, credit, liquidity, asset-liability matching ("ALM") and currency risks. Market risk involves potential losses in the value of invested capital as a result of changes in market prices, due to fluctuations in interest rates/rates of return or profits, share prices, exchange rates, property prices and their respective derivatives. Credit risk arises when a borrower or counterparty is no longer able to honour the debts. The risks from defaults can arise from the portfolio of assets, particularly bonds and other fixed income securities. ALM risk relates to the non-parallel movement of the present values of assets and liabilities following a change in interest rate. It is also called the interest rate risk. The resulting value gap is mainly due to the differences in the cash-flow profiles of assets and liabilities, including their duration and convexity. ALM risk mainly arises in the life insurance funds. Liquidity risk is the risk that funds may not be available when required, which may lead to forced sale of assets. Currency risk involves potential losses in value of invested assets if the assets are invested into non-Ringgit denominated financial instruments.

#### (iii) Operational risk

Operational Risk covers a wide range of risks other than the Insurance and Financial Risks. It is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This broad definition includes legal risk, but excludes strategic and reputational risks. The approach and methodology used to identify, assess, mitigate and control the operational risks and the management of business continuity risks in the event of disasters are in accordance to the Maybank Group's risk framework and practices.

## 27. RISK MANAGEMENT POLICIES (CONT'D.)

### B. Monitoring and Controlling Risks

Having classified the different types and categories of risks, it is important that risks are continuously identified, monitored, mitigated and controlled. The applications of consistent approach and methodology throughout MFHG have become the focal point of interest to the Management, RMC and Boards of MFHG companies. In essence, they can be described as follows:

#### (i) Insurance risk

Comprehensive underwriting and claims guidelines and limits have been established to clearly regulate the responsibility and accountability for the whole process of conducting insurance, reinsurance, takaful and retakaful contracts. The guidelines spell out who may accept what risks and up to what amounts. They are regularly monitored for compliance and updated to reflect current requirements. To further control the underwriting, claim and reserve adequacy risks, the actuarial department regularly assesses the adequacy of insurance pricing, reserves and technical provisions. In addition, CRM monitors the risk-return evolution of the business results and whether the business creates or destroys value.

The risks of defaults by reinsurance operators are reduced by selecting only reinsurance operators with reputable securities or those that have been awarded with at least an "A" rating by internationally recognised rating agencies. Additionally, provisions for known and unknown liabilities arising from the insurance contracts are computed for life business using prudent and generally accepted actuarial principles and methods.

#### (ii) Financial risk

In order to manage the enterprise-wide financial risks, the Asset-Liability Management Committee ("ALCO") has been established. ALCO is responsible for advising the Investment Committee ("IC"), RMC and the Board of Directors on financial and investment-related risks. It is responsible, among others, for formulating the investment management guidelines on market, counterparty and concentration risks in the fixed income, equity, property investments and derivatives, taking into account BNM's regulations and market trends. In addition, ALM studies, based on stress tests of the impact of alternative investment strategies on solvency, revenue and balance sheet values are performed for every investment portfolio separately, taking into account the characteristics of the liabilities and translated into a specific investment management mandate. The investment management guidelines and the portfolio-specific mandates are submitted to the IC, RMC and the Boards for review and approval. ALCO and CRM will then monitor the compliance with the approved mandates.

## 27. RISK MANAGEMENT POLICIES (CONT'D.)

### B. Monitoring and Controlling Risks (cont'd.)

#### (ii) Financial risk (cont'd.)

In managing credit risk, credit limits are imposed where ALCO sets forth the maximum credit exposures which the MFHG is willing to assume over specified periods. They relate to products, conditions of the exposure and other factors.

#### (iii) Operational risk

An ongoing process of implementing a comprehensive framework for identifying, monitoring and controlling operational risks has been put in place. In the process, operational loss data is collected and analysed using an approach similar to the requirements of Bank for International Settlement Capital Accord II ("Basel II") and consistent with Maybank Group's operational risk framework and practices. Key risk indicators, i.e. advanced warning signals, and their respective responses and mitigating actions are regularly compiled for deliberation at the Management and RMC meetings.

In practice, risk control self assessment scorecards, and risk responses and mitigation plans are maintained by the respective risk-taking units in order to continuously identify, manage, mitigate and control their operational risks. To inculcate an appropriate risk management culture, risk communication programmes are regularly carried out by CRM with the objective to create in-depth risk awareness and to embed good risk management practices among all staff of MFHG of possible risks and to avoid the common fallacy of equating risk-awareness with being risk-averse.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (i) Cash and Cash Equivalents and Other Receivables/Payables

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

In the opinion of the directors, no disclosure of fair value is made for inter-company balances as it is not practical to determine their fair values with sufficient reliability given that these balances have no fixed terms of repayment.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D.)

### (ii) Investments

Investments as at 30 June 2010 have been accounted for in accordance with the accounting policies as disclosed in Note 2.2(h). The comparison between the carrying amounts and market values of investments as at 30 June 2009 are as disclosed in Note 8 to the financial statements.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices for assets at the close of business on the balance sheet date.

For investments in quoted unit and real estate investment trusts, fair value is determined by reference to published prices. Investments in equity that do not have quoted market price in an active market and whose fair value cannot be reliably measured will be stated at cost.

For financial instruments where there is no active market such as unquoted fixed income securities i.e. unquoted bonds, MGS, GII, government guaranteed bonds, Khazanah bonds, the fair values are determined by reference to indicative prices obtained from Bondweb. The fair values of structured deposits are based on latest market prices obtained from financial institutions. NCDs and NICDs are valued at the lower of the face value or market value, in the aggregate for all such NCD/NICDs. The market value of NCD/NICDs are determined by reference to BNM Interest Rate Swap.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit/placement.

## 29. CURRENCY

All amounts are stated in Ringgit Malaysia, unless otherwise stated.

## 30. SIGNIFICANT EVENTS

a) Repayment of capital to the shareholders of the Company via a selective capital repayment ("SCR") and special distribution.

On 10 May 2010, the Company completed the following SCR and special distribution to all shareholders of the Company other than Mayban Fortis Holdings Berhad ('MFHB"):-

i. a SCR amounting to RM8,000,000; and

ii. a special distribution by way of gross dividend payment of RM102,666,666.67 less 25% of tax, amounting RM77,000,000 from the distributable retained profits of the Company.

## 30. SIGNIFICANT EVENTS (CONT'D.)

a) Repayment of capital to the shareholders of the Company via a selective capital repayment ("SCR") and special distribution.(cont'd.)

The Company became a wholly-owned subsidiary of MFHB subsequent to the capital repayment on 10 May 2010.

The High Court of Malaya approved the repayment of capital on 3 May 2010.

b) Bonus shares issue by the Company.

Immediately after completion of the event disclosed in Note (a), the Company undertook a bonus share issue of 8,000,000 new ordinary shares of RM1.00 each at par value, on the basis of eight bonus shares for every 92 existing ordinary shares of RM1.00 each held in the Company.

c) Transfer of Etiqa Life International (Labuan) Ltd ("ELIL") by the Company to MFHB via a Dividend-in-Specie.

On 30 June 2010, the Company distributed a special single-tier exempt dividend-in-specie amounting to RM11,075,950 to MFHB, which comprises of the wholly issued and paid-up capital of ELIL of 3,500,000 shares. The Company transferred the business assets, liabilities and insurance business of ELIL as a going concern to its holding company, MFHB. As a result, ELIL became a wholly-owned direct subsidiary of MFHB. BNM and the Labuan Financial Services Authority had approved the distribution of the dividend-in-specie and the transfer of ELIL on 14 June 2010 and 29 June 2010 respectively.

For the financial year ended 30 June 2010, the results of ELIL are consolidated at its holding company, MFHB.

## 31. SUBSEQUENT EVENT

During the financial year, the Company had sought approval from BNM on the proposed transfer of its business to Etiqa Insurance Berhad ("EIB") under a scheme made pursuant to Part XI of the Insurance Act, 1996, at a purchase consideration equivalent to the net book value of the business of the Company as at the transfer date.

BNM had, through its letter dated 30 July 2010, approved the said proposal. The Company will make an application to the High Court of Malaya for the proposed business transfer. After the completion of the proposed transfer of business to EIB, the Company will surrender its life insurance licence to BNM.