ETIQA INSURANCE BERHAD
(9557 T)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
for the financial period ended 31 December 2011

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ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

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ETIQA INSURANCE BERHAD
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DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial period ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business.

There have been no significant changes in the nature of the principal activities during the financial period.

RESULTS

	RM'000
Net profit for the financial period	146,695

There were no material transfers to or from reserves or provisions during the financial period other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Company during the financial period were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid by the Company since 30 June 2011 was as follows:

	RM'000
In respect of financial period ended 31 December 2011:	
Interim dividend of 158%, net of 25% tax on 157,151,399 ordinary shares, declared on 4 November 2011 and paid on 21 December 2011	180,299

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

MAYBANK GROUP EMPLOYEES' SHARE SCHEME ("ESS")

The Maybank Group Employees' Share Scheme ("ESS") is governed by the by-laws approved by the parent's i.e. Malayan Banking Berhad's ("MBB") shareholders at an Extraordinary General Meeting held on 13 June 2011. The ESS has been implemented on 23 June 2011 and is in force for a maximum period of seven (7) years from the effective date for eligible employees and executive directors within Maybank Group.

The maximum number of ordinary shares of RM1 each in Maybank available under the ESS should not exceed 10% of the total number of issued and paid-up capital of Maybank at any point of time during the duration of the scheme.

DIRECTORS

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

Dato' Mohd Salleh Hj Harun (Chairman)
Dato' Johan bin Ariffin
Zainal Abidin bin Jamal
Damis Jacobus Ziengs
Hans J. J. De Cuyper
Mohamed Nor bin Abdul Hamid
Datuk R. Karunakaran
Loh Lee Soon

CORPORATE GOVERNANCE

The Board of Directors ("the Board") is committed in 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.

CORPORATE GOVERNANCE (CONT'D)

(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 of 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.

The Board met 3 times during the period and the attendance of the directors was as follows:

	Number of Board meetings	
	Attended	**%**
Dato' Mohd Salleh Hj Harun (Chairman)	3/3	100
Damis Jacobus Ziengs	3/3	100
Hans J. J. De Cuyper	3/3	100
Dato' Johan bin Ariffin	3/3	100
Zainal Abidin bin Jamal	2/3	67
Mohamed Nor bin Abdul Hamid	3/3	100
Datuk R. Karunakaran	3/3	100
Loh Lee Soon	3/3	100

CORPORATE GOVERNANCE (CONT'D)

(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 35 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.

The composition of the joint AC established at MAHB are as follows:

	Number of AC meetings	
	Attended	**%**
Loh Lee Soon (Chairman) Independent Non-Executive Director	2/2	100
Damis Jacobus Ziengs Non-Independent Non-Executive Director	2/2	100
Datuk Dr. Syed Othman bin Syed Hussin Alhabshi Independent Non-Executive Director	2/2	100

The AC met 2 times during the period.

CORPORATE GOVERNANCE (CONT'D)

(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 ("IC") 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 joint RMC established at MAHB are as follows:

Mohamed Nor Abdul Hamid (Chairman)
Independent Non-Executive Director

Damis Jacobus Ziengs
Non-Independent Non-Executive Director

Datuk R. Karunakaran
Independent Non-Executive Director

The RMC met 4 times during the period.

CORPORATE GOVERNANCE (CONT'D)

(f) Nomination and remuneration committee

The Company will continue to leverage on the existing Nomination and Remuneration Committee of the Board ("NRC") [which had taken effect as merged committee on 27 May 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 are as follows:

Dato' Mohd Salleh Hj Harun
Independent Non-Executive Director

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

Dato' Dr Tan Tat Wai
Independent Non-Executive Director

Zainal Abidin bin Jamal
Non-Independent Non-Executive Director

Alister Maitland
Independent Non-Executive Director

The NRC met 6 times during the period.

CORPORATE GOVERNANCE (CONT'D)

(g) Investment committee

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's 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 investment manager. It also evaluates, reviews and maintains the Investment Management Guidelines ("IMG"), based on ALCO's advice and negotiates conditions 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 MAHB.

The composition of the IC are as follows:

Dato' Sri Abdul Wahid bin Omar (Chairman) Non-Independent Non-Executive Director	
Datuk Dr. Syed Othman bin Syed Hussin Alhabshi Independent Non-Executive Director	
Hans J. J. De Cuyper Chief Executive Officer, Mayban Ageas Holdings Berhad	
Mohd Din bin Merican Chief Executive Officer, Etiqa Insurance Berhad	(resigned as CEO of EIB on 31 December 2011)
Ahmad Shahril Azuar Jimin Chief Executive Officer, Etiqa Takaful Berhad	(term of office as CEO of ETB had expired on 31 December 2011)
Datuk R. Karunakaran Independent Non-Executive Director	

The IC met 2 times during the period.

(h) Public accountability

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

CORPORATE GOVERNANCE (CONT'D)

(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 period, nor at any time during that period, 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 to be granted pursuant to the ESS of the ultimate holding company, MBB.

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 Notes 29 and 35 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 period in shares and options over shares in the ultimate holding company, Malayan Banking Berhad ("MBB") during the financial period were as follows:

	Number of Ordinary Shares of RM1 each			
	1 July 2011	**DRP***	**Sold**	**31 December 2011**
Ultimate holding company: MBB				
Direct interest:				
Dato' Mohd Salleh Hj Harun	305,981	8,801	-	314,782
Dato' Johan bin Ariffin	122,805	3,532	-	126,337
Mohamed Nor bin Abdul Hamid	10,100	290	-	10,390
Indirect interest:				
Mohamed Nor bin Abdul Hamid	22,751	-	-	22,751

DIRECTORS' INTERESTS (CONT'D)

	Number of Options over Ordinary Shares of RM0.627 Each			
	1 July 2011	Granted	Exercised	31 December 2011
Ultimate holding company: MBB				
Hans J. J. De Cuyper	200,000	-	-	200,000

* DRP = Dividend Reinvestment Plan

OTHER STATUTORY INFORMATION

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

(a) Before the statement of financial position 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 all known bad debts had been written-off 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 render:

   (i) the amount written off as bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and

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

OTHER STATUTORY INFORMATION (CONT'D)

(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.

(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 period 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 period.

(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 period which will or may affect the ability of the Company to meet its 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 period and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial period in which this report is made.

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

(g) Before the statement of financial position 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 methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") for insurers issued by Bank Negara Malaysia.

CHANGE OF FINANCIAL YEAR END

The Company changed its financial year-end from 30 June to 31 December at the beginning of the financial period to coincide with the change of financial year end of the ultimate holding company, MBB.

Accordingly, the financial statements of the Company for the current financial period ended 31 December 2011 covers a six-month period compared to a twelve-month period for the previous financial year ended 30 June 2011, and therefore the comparative amounts for the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the related notes are not comparable.

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 23 February 2012.

DATO' MOHD SALLEH HJ HARUN HANS J. J. DE CUYPER

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

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

We, Dato' Mohd Salleh Hj Harun and Hans J.J. De Cuyper, being two of the directors of Etiqa Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 15 to 142 are drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and the provisions 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 31 December 2011 and of the financial performance and cash flows for the period then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 23 February 2012.

DATO' MOHD SALLEH HJ HARUN HANS J. J. DE CUYPER

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

I, Lok Hoe San, being the officer primarily responsible for the financial management of Etiqa Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 142 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 LOK HOE SAN
at Kuala Lumpur in Wilayah
Persekutuan on 23 February 2012

LOK HOE SAN

Before me,

R. VASUGI AMMAL, PJK
Commissioner for Oaths

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Independent auditors' report to the member of
Etiqa Insurance Berhad
(Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of Etiqa Insurance Berhad, which comprise the statement of financial position as at 31 December 2011, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flow for the period from 1 July 2011 to 31 December 2011, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 142.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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Independent auditors' report to the member of
Etiqa Insurance Berhad (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 Guidelines and the Companies Act 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the period from 1 July 2011 to 31 December 2011.

Report on other legal and regulatory requirements

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Nik Rahmat Kamarulzaman bin Nik Ab. Rahmar
No. 1759/02/14(J)
Chartered Accountant

Kuala Lumpur, Malaysia
23 February 2012

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	31.12.2011 RM'000	30.6.2011 RM'000
Assets:			
Property, plant and equipment	3	116,768	136,228
Investment properties	4	515,070	516,360
Prepaid land lease payments	5	20,644	20,796
Intangible assets	6	21,998	163
Investment in associate	8	152	152
Investments	9	12,521,592	12,216,293
Financing receivables	10	276,092	311,916
Reinsurance assets	11	1,437,421	1,318,371
Insurance receivables	12	278,332	289,934
Other receivables	13	170,293	164,700
Derivative assets	14	33,007	41,782
Current tax assets		97,440	97,441
Cash and bank balances		129,372	256,669
Total Assets		15,618,181	15,370,805
Equity and liabilities:			
Share capital	15	152,151	152,151
Reserves	16	1,357,445	1,403,144
Total Equity		1,509,596	1,555,295
Insurance contract liabilities	17	13,384,756	13,037,119
Deferred tax liabilities	18	75,153	79,662
Insurance payables	19	331,663	322,331
Other payables	20	261,192	332,772
Current tax liabilities		55,821	43,626
Total Liabilities		14,108,585	13,815,510
Total Equity and Liabilities		15,618,181	15,370,805

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	Note	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Operating revenue	21	1,537,708	2,504,386
Gross earned premiums	22(a)	1,309,151	1,928,008
Premiums ceded to reinsurers	22(b)	(359,888)	(621,234)
Net earned premiums		949,263	1,306,774
Fee and commission income	23	27,703	68,064
Investment income	24	294,347	488,938
Realised gains	25	100,728	179,091
Fair value gains	26	38,413	110,236
Other operating revenue/(expenses)	27	17,166	(34,144)
Other revenue		478,357	812,185
Gross benefits and claims paid	28(a)	(701,565)	(1,506,094)
Claims ceded to reinsurers	28(b)	75,877	241,102
Gross change to contract liabilities	28(c)	(504,511)	(232,461)
Change in contract liabilities ceded to reinsurers	28(d)	179,875	191,220
Net benefits and claims		(950,324)	(1,306,233)
Management expenses	29	(146,311)	(232,811)
Fee and commission expenses	30	(104,831)	(197,997)
Other expenses		(251,142)	(430,808)
Profit before taxation		226,154	381,918
Taxation	31	(79,459)	(82,899)
Net profit for the period/year		146,695	299,019
Earnings per share (sen)	32		
Basic		96.41	196.53

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	Note	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Net profit for the period/year		146,695	299,019
Other comprehensive income:			
Net (loss)/gain on AFS financial assets			
- Gain on fair value changes		4,866	58,524
- Transfer to profit or loss upon disposal		(19,045)	(41,992)
Tax effect relating to components of other comprehensive income	31	3,779	(2,938)
		(10,400)	13,594
(Loss)/gain on foreign currency translation		(1,695)	14,464
Other comprehensive income for the period/year, net of tax		(12,095)	28,058
Total comprehensive income for the period/year		134,600	327,077

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

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ETIQA INSURANCE BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

		<------ Attributable to owners					------>
		<------ Non-distributable			------	Distributable	
	Note	Share Capital RM'000	Share Premium RM'000	Available-for-Sale Reserve RM'000	Other Reserves (Note 16) RM'000	Retained Profits RM'000	Total Equity RM'000
At 1 July 2011		152,151	17,728	61,978	14,519	1,308,919	1,555,295
Total comprehensive income for the period		-	-	(10,400)	(1,695)	146,695	134,600
Transfer from revaluation reserves upon disposal		-	-	-	(240)	240	-
Transaction with owner							
Dividend on ordinary shares	41	-	-	-	-	(180,299)	(180,299)
At 31 December 2011	16	152,151	17,728	51,578	12,584	1,275,555	1,509,596

ETIQA INSURANCE BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011 (CONT'D)

		<---- Attributable to owners					---->
		<---- Non-distributable			---->	Distributable	
		Share Capital	Share Premium	Available-for-Sale Reserve	Other Reserves (Note 16)	Retained Profits	Total Equity
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2010		152,151	17,728	36,681	55	1,009,900	1,216,515
Transfer from Sri MLAB (Note 36)		-	-	11,703	-	-	11,703
Total comprehensive income for the year		-	-	13,594	14,464	299,019	327,077
At 30 June 2011	16	152,151	17,728	61,978	14,519	1,308,919	1,555,295

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

ETIQA INSURANCE BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	226,154	381,918
Adjustments for:		
Depreciation of property, plant and equipment	7,955	6,762
Amortisation of intangible assets	1,976	129
Gain from disposal of investment property	(69)	-
Fair value gain on investment	(53,528)	(94,888)
Fair value gain on investment property	(40)	(27,030)
Amortisation of prepaid land lease payments	152	252
Accretion of discounts	(14,982)	(31,344)
Gain on disposal of property, plant and equipment	-	(180)
Gain on disposal of prepaid land lease payments	-	(70)
(Gain)/loss on foreign exchange	(14,826)	7,411
(Write back)/allowance of impairment of insurance receivables	(2,904)	22,795
Bad debt written off/(recovered)	2,340	(388)
Net gain on disposal of investments	(100,659)	(178,841)
Interest income	(237,700)	(386,000)
Impairment on investments	15,155	11,682
Impairment of property, plant and equipment	-	37
Impairment of prepaid land lease payments	-	13
Gross dividend income	(28,138)	(43,946)
Rental income	(16,127)	(31,707)
Loss from operations before changes in operating assets and liabilities	(215,241)	(363,395)
Changes in working capital:		
Increase in reinsurance assets	(119,050)	(271,860)
Decrease in insurance receivables	15,681	451
(Increase)/decrease in other receivables	(6,812)	9,114
Decrease in loans	35,664	177
Decrease in amounts due to related parties	8,650	2,075
(Decrease)/increase in other payables	(76,075)	96,627
Increase in insurance contract liabilities	438,721	322,095
Increase/(decrease) in insurance payables	11,730	(36,115)

ETIQA INSURANCE BERHAD
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STATEMENT OF CASH FLOWS (CONT'D)
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)		
Changes in working capital: (Cont'd)		
Increase in LAR	(151,996)	(41,746)
Interest income received	237,864	399,229
Dividend income received	27,488	42,380
Rental income received	10,321	34,467
Foreign exchange fluctuation	(1,695)	14,463
Cash generated from operations	215,250	207,962
Tax paid	(60,070)	(59,235)
Net cash generated from operating activities	155,180	148,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investments	1,781,317	2,246,656
Purchase of investments	(1,872,584)	(1,981,094)
Proceeds from sale of property, plant and equipment	4,772	425
Proceeds from sale of prepaid land lease payments	-	576
Proceeds from sale of investment property	1,400	-
Purchase of property, plant and equipment	(13,488)	(8,362)
Purchase of Sri MLAB net assets (Note 36)	-	(285,888)
Purchase of intangible assets	(3,595)	-
Net cash used in investing activities	(102,178)	(27,687)
CASH FLOWS FROM FINANCING ACTIVITY		
Dividend paid	(180,299)	-
Net cash used in financing activity	(180,299)	-
Net (decrease)/increase in cash and cash equivalents	(127,297)	121,040
Cash and cash equivalents at beginning of period/year	256,669	104,181
Transfer from Sri MLAB (Note 36)	-	31,448
Cash and cash equivalents at end of period/year	129,372	256,669
Cash and cash equivalents comprise:		
Cash and bank balances:		
General insurance and shareholder's funds	88,044	177,737
Life insurance fund	41,328	78,932
	129,372	256,669

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

1. CORPORATE INFORMATION

The principal activities of the Company include the underwriting of general and life insurance businesses.

There have been no significant changes in the nature of the principal activities during the six months financial period from 1 July 2011 to 31 December 2011.

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

The holding and ultimate holding companies of the Company are Mayban Ageas Holdings Berhad ("MAHB") and Malayan Banking Berhad ("MBB") respectively, both of which are incorporated in Malaysia. MBB is a licensed commercial bank listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial year end of the Company was changed from 30 June to 31 December to coincide with the change of financial year end of the ultimate holding company, MBB. Accordingly, the financial statements of the Company for the current financial period ended 31 December 2011 covers a six-month period compared to a twelve-month period for the previous financial year ended of 30 June 2011, and therefore the comparative amounts for the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the related notes are not comparable.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 23 February 2012.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Company have been prepared in accordance with Guidelines and the Companies Act, 1965 in Malaysia, the Insurance Act, 1996 and Financial Reporting Standards ("FRSs") as modified by Bank Negara Malaysia ("BNM"). Such modification is described in Note 17 of the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of Preparation (Cont'd)

At the beginning of the current financial period, the Company had fully adopted the new and revised FRSs, Issues Committee ("IC") Interpretations, Amendments to FRSs in Malaysia and Technical Release which are mandatory for financial periods beginning on or after 1 July 2011 as described fully in Note 2.3.

The financial statements of the Company have also been prepared on a historical cost basis, except as disclosed in the accounting policies below.

The Company has met the minimum capital requirements as prescribed by RBC Framework issued by BNM as at the date of the statement of financial position.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

The financial statements are presented in Ringgit Malaysia ("RM") and rounded to the nearest thousand (RM'000) unless otherwise indicated.

2.2 Summary of Significant Accounting Policies

(a) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate assets, 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 profit or loss during the financial period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(a) Property, Plant and Equipment and Depreciation (Cont'd)

Subsequent to initial recognition, property, plant and equipment, except certain land and buildings, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land has an unlimited useful life and therefore, is not depreciated.

Work-in-progress are also not depreciated as these assets are not available for use.

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

Depreciation on property, plant 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:

Buildings on freehold land	2%
Furniture, fittings, equipment and renovations	20% - 25%
Computers and peripherals	25%
Electrical and security equipment	10%
Motor vehicles	25%

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

An item of property, plant 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, and the net carrying amount is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(b) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for 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.

Gain or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the financial 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 rental income or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to self-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from self-occupied property to investment property, the property is accounted for in accordance with the accounting policy for property, plant and equipment set out in Note 2.2(a) up to the date of change in use.

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 profit or loss in the financial year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(c) 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 and 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 risk and rewards are classified as operating leases with the following exceptions:

- 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; and

- Land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of the building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(c) Leases (Cont'd)

(ii) Finance Leases - The Company as Lessee (Cont'd)

Buildings held under finance lease are recognised as assets in the statement of financial position 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 Lessor

Assets leased out under operating leases are presented on the statement of financial position according to the nature of the assets. Rental income from operating lease is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised on a straight-line basis on the lease term.

(iv) Operating Leases - The Company as Lessee

Operating lease payments are recognised as an 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 buildings elements in proportion to the relative fair values for leasehold interests in the land and building 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)

(d) Intangible Assets

Other intangible assets include software development cost and computer software. 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 any 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 are 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 date of the statement of financial position.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if 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.

(i) Software development costs

Software development in progress are tested for impairment annually and represent development expenditure on software. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. When development is complete and the asset is available for use, it is reclassified to computer software and amortisation of the asset begins. During the period of which the asset is not yet in use, it is tested for impairment annually.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(d) Intangible Assets (Cont'd)

(ii) Computer software

The useful lives of computer software are amortised using the straight line method over their estimated useful lives of 2-5 years. Impairment is assessed whenever there is indication of impairment and the amortisation period and method are also reviewed at least at each date of the statement of financial position.

(e) Investment In Associate And Basis of Non-Consolidation

An associate is an entity in which the Company has significant influence and that is neither a subsidiary nor an interest in a joint-venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint-control over those policies.

In the Company's financial statements, investment in associate is stated at cost less impairment losses. On disposal of such investment, the difference between the net disposal proceeds and their carrying amount is included in profit or loss.

As permitted under FRS128: Investments in Associate, the investment in associate has not been accounted for under the equity method because the ultimate holding company, Malayan Banking Berhad ("MBB") produces financial statements that comply with approved FRS in Malaysia that are available for public use.

(f) Financial Assets

Financial assets are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Company determine the classification of its financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("LAR") and available-for-sale financial assets ("AFS").

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

(i) Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

For financial assets designated at FVTPL, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or losses on financial assets at FVPTL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVTPL are recognised separately in profit or loss as part of other losses or other income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

(ii) LAR

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as LAR. For the accounting policies with respect to insurance receivables and reinsurance assets, refer to Note 2.2(r) and Note 2.2(j) respectively.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(iii) AFS financial assets

AFS financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the two preceding categories.

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 other comprehensive income except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(f) Financial Assets (Cont'd)

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gains or losses that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commit to purchase or sell the asset.

(g) Fair value of Financial Assets at FVTPL and AFS

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

For financial assets 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 prices in an active market and whose fair value cannot be reliably measured are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(g) Fair value of Financial Assets at FVTPL and AFS (Cont'd)

For financial assets where there is no active market such as unquoted fixed income securities i.e. unquoted bonds, MGS, GII, government guaranteed bonds, Khazanah bonds, fair values are determined by reference to indicative bid prices obtained from Bondweb. In case of defaulted or bad bond there will be internal valuation done to determine the fair value of the bond. The fair values of structured deposits are based on latest market prices obtained from the respective issuer. The market value of NCDs are determined by reference to BNM's Interest Rate Swap.

In case of defaulted or other bonds, where such indicative prices are not available, an internal valuation is performed by qualified personnel to determine the fair value of the bonds.

Over-the-counter derivatives comprise forward foreign exchange contracts, currency on swap contracts and options. They are revalued at each reporting date based on valuations provided by the financial institutions in accordance with market convention.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value which 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(h) Impairment of insurance receivables and financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) Insurance receivables

To determine whether there is objective evidence that an impairment loss on insurance receivables has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Insurance receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If such evidence exists, the amount of impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The impairment loss is recognised in profit or loss.

Impairment losses on insurance receivables are recognised as a reduction against the carrying amount of those receivables through the use of an allowance account. When an insurance receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(h) Impairment of insurance receivables and financial assets(Cont'd)

(ii) AFS financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment losses previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increases in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

Unquoted equity securities carried at cost

If there is objective evidence that an impairment loss on financial asset carried at cost has been incurred, the carrying amount will be written down to the recoverable amount. Such impairment losses are not reversed in subsequent periods.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(h) Impairment of insurance receivables and financial assets (Cont'd)

(ii) AFS financial assets (Cont'd)

Loans and receivables

Loans and receivables are impaired and impairment losses are incurred only if there is objective evidence of impairment loss as a result of the occurrence of loss event(s) after initial recognition. An impairment loss is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

(i) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Company makes an estimate of the asset's recoverable amount.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(j) Reinsurance

The Company cedes insurance risk in the normal course of their business. Ceded reinsurance arrangements do not relieve the Company from their obligations to policyholders. For both ceded and assumed reinsurance, premiums, claims and benefits paid or payable are presented on a gross basis.

Reinsurance arrangements, entered into by the Company, that meet the classification requirements of insurance contracts as described in Note 2.2(k) are accounted for as noted below. Arrangements that do not meet these classification requirements are accounted for as financial assets.

Reinsurance assets represent amounts recoverable from reinsurers for insurance contract liabilities which have yet to be settled at the reporting date. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the underlying insurance contract and the terms of the relevant reinsurance arrangements.

At each reporting date, or more frequently, the Company assesses whether objective evidence exists that reinsurance assets are impaired. Objective evidence of impairment for reinsurance assets are similar to those noted for insurance receivables as described in Note 2.2(h)(i). If any such evidence exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(k) Product Classification

The Company issues contracts that contain insurance risk or both insurance and financial risks.

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

An insurance contract is a contract under which an entity has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company defines whether significant insurance risk has been accepted by comparing benefits paid or payable on the occurence of an insured event against benefits paid or payable if the insured event does not occur. If the ratio of the former exceeds the latter by 5% or more, the insurance risk accepted is deemed to be significant.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Based on this definition, all policies issued by the Company are considered insurance contracts as at the reporting date.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(k) Product Classification (Cont'd)

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

(a) likely to be a significant portion of the total contractual benefits; and

(b) whose amount or timing is contractually at the discretion of the issuer; and

(c) contractually based on the:

  (i) performance of a specified pool of contracts or a specified type of contract; or

  (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

  (iii) the profit or loss of the company, fund or other entity that issues the contract.

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise their discretion as to the quantum and timing of their payment to contract holders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, are held within insurance contract liabilities as at the end of the reporting period.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(k) Product Classification (Cont'd)

When an insurance contract contains both a financial risk (or deposit) component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying components are required to be unbundled unless all obligations and rights arising from the deposit component has already been accounted for. Any premiums or contributions relating to the insurance risk component are accounted for on the same bases as insurance and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts. As at the reporting date, all obligations and rights arising from the deposit components in contracts issued by the Company are accounted for as insurance contract liabilities. Accordingly, the Company has opted not to unbundle these insurance contracts.

(l) Premium income

Premiums represent consideration paid for an insurance contract and is accounted for as follows:

(i) General insurance business

Premium income is recognised in a financial period in respect of risks assumed during that particular financial period. Premiums from direct business are recognised during the financial period upon the issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the reporting date are accrued at that date.

Inward facultative reinsurance premiums are recognised in the financial period in respect of the facultative risks accepted during that particular financial period, as in the case of direct policies, following the individual risks' inception dates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(l) Premium income (Cont'd)

(i) General insurance business (Cont'd)

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

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

(ii) Life insurance business

Premium income is recognised as soon as the amount of the premium can be reliably measured. Initial premium is recognised from inception date and subsequent premium is recognised when it is due. At the end of the financial period, all due premiums are accounted for to the extent that they can be reliably measured.

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

Net 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 profit or loss. Net creation of units is recognised on a receipt basis.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(m) General insurance contract liabilities

Insurance contract liabilities are recognised and measured in accordance with the terms and conditions of the respective insurance contracts and are also based on regulatory guidelines, specifically, the Framework issued by BNM.

The insurance contract liabilities of the Company comprises claim liabilities and premium liabilities.

(i) Claim liabilities

Claim liabilities represent the Company's obligations, whether contractual or otherwise, to make future payments in relation to all claims that have been incurred as at reporting date. Claim liabilities are the estimated cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and other recoveries. Claim liabilities comprise of liabilities for outstanding claims - being the cost of claims incurred and reported to the Company - as well as a reserve for claims incurred but not reported ("IBNR") and a provision of risk margin for adverse deviation ("PRAD") calculated at at above 75% confidence level at the overall fund level.

The claims liabilities are determined based upon the analysis performed by the Qualified Actuary, using a range of actuarial claims projection techniques based on, amongst others, actual claims development patterns. The liability is not discounted for the time value of money.

(ii) Premium liabilities

Premium liabilities represent the Company's future obligations on insurance contracts as represented by premiums received for risks that have not yet expired. The movement in premium liabilities is released over the term of the insurance contracts and is recognised as premium income.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(m) General insurance contract liabilities (Cont'd)

(ii) Premium liabilities (Cont'd)

In accordance with the valuation requirements of the RBC Framework, premium liabilities are reported at the higher of the aggregate of the unearned premium reserves ("UPR") for all lines of business or the best estimate value of the reinsurer's unexpired risk reserves ("URR") at the end of the financial year and a PRAD calculated at the overall fund level. The URR is set at 75% level of sufficiency.

- **Unearned premium reserves ("UPR")**

  The short term UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of policies at the end of the financial period. In determining the UPR as at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium is used as follows:

  - 25% method for marine cargo and aviation cargo, and transit business

  - 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM.

  - 1/8th method for all classes of overseas business with a deduction of 20% for commission.

  - Non-annual policies are time-apportioned over the period of the risks after deducting the commission, that relate to the unexpired periods of policies at the end of the financial period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(m) General insurance contract liabilities (Cont'd)

(ii) Premium liabilities (Cont'd)

- **Unexpired risk reserves ("URR")**

  The URR is prospective estimate of the expected future payments arising from future events insured under policies in force as at the reporting date and also includes allowance for expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and expected future premiums. URR is estimated via an actuarial valuation performed by a qualified actuary.

(n) Life insurance contract liabilities

Life insurance contract liabilities are determined in accordance with BNM’s RBC Framework for insurers. All life insurance liabilities have been valued using a prospective actuarial valuation based on the sum of the present value 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 of guaranteed benefits are determined using best estimate assumptions with an appropriate allowance for PRAD from expected experience such that an overall level of sufficiency of policy reserves at the 75% confidence level is secured. For participating business, the higher of the guaranteed benefit liabilities or the total benefit liabilities at fund level is taken. In the total benefit liabilities computation, the expected cash flows of total guaranteed and non-guaranteed benefits are determined using best estimate assumptions together with the assumption that the current bonus rate to policyholders will be maintained.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(n) Life insurance contract liabilities (Cont'd)

The liabilities in respect of the non-unit component of an investment-linked policy have been valued at the risk-free discount rate by projecting future cash flows to ensure that all future outflows can be met at the product level without recourse to additional finance or capital support at any future time during the duration of the investment-linked policy. The value of the unit component is the net asset value of the fund.

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

For yearly renewable policies covering death or survival contingencies, the liabilities have been valued on an unexpired risk basis.

For yearly renewable policies covering other contingencies such as medical benefits, it comprises best estimate premium and claim liabilities with appropriate PRAD.

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originating from margins of adverse deviation on run-off contracts, are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off.

The RBC Framework for Insurers issued by BNM meets the Liability Adequacy Test requirements stipulated under FRS 4.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(o) Liability adequacy test

At each reporting date, the Company reviews all insurance contract liabilities to ensure that the carrying amount of the liabilities is sufficient or adequate to cover the obligations of the Company, contractual or otherwise, with respect to insurance contracts issued. In performing this review, the Company discounts all contractual cash flows and compares this against the carrying value of insurance contract liabilities. Any deficiency is recognised in profit or loss.

The estimation of claim liabilities and premium liabilities performed at reporting date is part of the liability adequacy tests performed by the Company. Based on this, all insurance contract liabilities as at reporting date are deemed to be adequate.

(p) Benefits and Claims expenses

(i) General insurance business

Claims expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by the policyholders. They include direct and indirect claims and settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(p) Benefits and Claims expenses (Cont'd)

(ii) Life insurance business

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

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

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

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

(q) Commission Expenses and Acquisition Costs

(i) General insurance business

The gross cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

(ii) Life insurance business

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(r) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that an insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. Objective evidence of impairment for insurance receivable and the determination of consequential impairment losses are as described in Note 2.2(h).

Insurance receivables are derecognised when the derecognition criteria for financial assets, as described in Note 2.2(f), have been met.

(s) 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 Income

Interest income is recognised using the effective interest method.

(ii) Dividend Income

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(s) Other Revenue Recognition (Cont'd)

(iii) Rental Income

Rental income is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis.

(t) Fee and commission income

Insurance contract policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then, they are deferred and recognised over those future periods.

Management fee income earned from the investment-linked business is recognised on an accrual basis based on the net asset value of the investment-linked funds.

(u) Employee Benefits

(i) Short-term Benefits

Wages, salaries, bonuses and social security contributions ("SOCSO") are recognised as an expense in the period in which the associated services are rendered by employees. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(u) Employee Benefits (Cont'd)

(ii) Defined Contribution Plans

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 profit or loss as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF") and foreign branches of a subsidiary makes contributions to that country's statutory pension scheme, the Singapore Central Provident Fund ("CPF") and Brunei Tabung Amanah Pekerja ("TAP").

(iii) Share-based Compensation

ESS

The ESS is an equity-settled share-based compensation plan that allows the Directors and employees to acquire shares of MBB. The total fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the amount due to MBB over the vesting period and taking into account the probability that the options will vest. The fair value of 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 assumptions about the number of options that are expected to become exercisable on vesting date.

At each reporting date, MBB revises its estimates of the number of options that are expected to become exercisable over the vesting period. Settlement with the ultimate holding company in respect of the arrangement of the scheme is by cash over the vesting period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(u) Employee Benefits (Cont'd)

(iii) Share-based Compensation (Cont'd)

Restricted share units ("RSU")

Senior management personnel of the MBB are entitled to performance-based restricted shares as consideration for services rendered. The RSU may be settled by way of issuance and transfer of new MBB shares or by cash at the absolute discretion of the ESS Committee. The total fair value of RSU granted to senior management employees is recognised as an employee cost with a corresponding increase in the reserve within the MBB’s equity over the vesting period and taking into account the probability that the RSU will vest. The fair value of RSU is measured at grant date, taking into account, the market vesting conditions upon which the RSU were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be awarded on the vesting date.

(v) Foreign Currencies

(i) Functional and Presentation Currency

The financial statement of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional and presentation currency.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(v) Foreign Currencies (Cont'd)

(ii) Foreign Currency Transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Company’s net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Company on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss 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)

(v) Foreign Currencies (Cont'd)

(iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency ("RM") of the Company's financial statements are translated into RM as follows:

- assets and liabilities of foreign operations presented are translated at the closing rate prevailing as at the date of the statement of financial position.

- income and expenses for income statement are translated at average exchange rates for the year, which approximate the exchange rates at the dates of the transactions.

- all resulting exchange differences are taken directly to other comprehensive income through foreign currency translation reserve.

On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

The principal exchange rate for every unit of foreign exchange currency ruling at date of the statement of financial position used for translation of foreign operation is as follows:

	31.12.2011	**30.6.2011**
Singapore Dollar	2.44	2.46
Brunei Dollar	2.44	2.46
US Dollar	3.18	3.02

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(w) Income Tax

Income tax on the profit or loss for the financial year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit and surplus for the financial year and is measured using the tax rates that have been enacted at the date of the statement of financial position.

Deferred tax is provided for, using the liability method on temporary differences at the date of the statement of financial position 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 goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit 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 date of the statement of financial position. Deferred tax is recognised as income or expense and included in the profit or loss for the period, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised 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 net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(x) Financial Liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of FRS 139, are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

During the financial period and as at the reporting date, the Company did not classify any of its financial liabilities at FVTPL.

The Company's financial liabilities include payables, loans and borrowings. Payables are recognised initially at fair value plus directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method.

Loan and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Company has a conditional right to defer settlement of the liability for at least 12 months after the reporting date.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(y) Insurance Payables

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

(z) Cash and Cash Equivalents

Cash and cash equivalents comprise of cash and bank balances. The statement of cash flows has been prepared using the indirect method.

(za) 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.

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs

The accounting policies adopted by the Company are consistent with those of the previous financial year except for the adoption of the following FRSs, Amendments to FRSs, IC Interpretation and Technical Release:

Amendments to FRS 1 *Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First-time Adopters*
Amendments to FRS 2 *Group Cash-settled Share-based Payment Transactions*
Amendments to FRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
Amendments to FRS 7 *Improving Disclosures about Financial Instruments*
IC Interpretation 4 *Determining whether an Arrangement contains a Lease*
IC Interpretation 18 *Transfers of Assets from Customers*
IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
Amendments to IC Interpretation 14 *Prepayments of a Minimum Funding Requirements*
TR *i* -4 *Shariah Compliant Sale Contracts*
Amendments to FRSs contained in the document entitled Improvements to FRSs (2010)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Changes in accounting policies and effects arising from adoption of new and revised FRSs (Cont'd)

Adoption of the FRSs, Amendments to FRSs, IC Interpretations and Technical Release above did not have any significant effect on the financial performance or position of the Company except for those discussed below:

(a) Amendments to FRS 7 Improving Disclosures about Financial Instruments

Disclosures on fair value and liquidity have been enhanced upon the adoption of this amendment. In particular, financial instruments measured at fair value are disclosed by class in a three-level fair value measurement hierarchy, with specific disclosures related to transfers between levels in the hierarchy and detailed disclosures on level three of the fair value hierarchy. Certain disclosures on liquidity are also modified. The adoption of this amendment resulted in additional disclosures relating to fair value of financial instruments for the Company. It did not result in any financial impact to the Company.

2.4 Changes in Accounting Framework

On 19 November 2011, the Malaysian Accounting Standards Board ("MASB") issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards ("MFRS Framework").

The Company will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the year ending 31 December 2012. In presenting its first MFRS financial statements, the Company may be required to restate the comparative financial statements to amounts reflecting the application of the MFRS Framework. The majority of the adjustments (if any) required on transition will be made, retrospectively, against opening retained profits.

Nevertheless, the adoption of the MFRS Framework is not expected to have any significant impact on the financial statements of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant Accounting Estimates and Judgements

(a) Critical judgements made in applying accounting policies

The preparation of financial statements in conformity with FRSs require management to exercise judgement on the use of estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving higher degree of judgement and complexity, are disclosed as below:

(i) Classification between Investment Properties and Property, Plant and Equipment

The Company had developed certain criteria based on FRS 140 in making judgement whether a property qualifies to be classified as an investment property. Investment properties are property held to earn rental income or for capital appreciation or both.

Some properties comprise a portion that is held to earn rental income or for capital appreciation and another portion that is held for use in the production or supply of good or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a 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 purposes.

(ii) Impairment of Available-for-Sale Assets

Significant judgement is required to assess impairment for Available-for-Sale 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant Accounting Estimates and Judgments (Cont'd)

(a) Critical judgements made in applying accounting policies (Cont'd)

(iii) Impairment of Receivables

The Company assesses at each reporting date whether there is any objective evidence that a receivable is impaired. To determine whether there is objective evidence of impairment, the Company complies with BNM's Guidelines on Financial Reporting for Insurers (BNM/RH/GL003-28). According to the Guidelines, objective evidence of impairment is deemed to exist where the receivables that are individually assessed for impairment is past due for more than 90 days or 3 months. Other factors considered by the Company are probability of insolvency or significant financial difficulties of the receivables and default or significant delays in payments.

(b) Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at reporting 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, Plant and Equipment

The cost of a building's plant 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 plant and 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 that every 3 years. Periodic intervening valuations on the investment properties are performed by internal professional valuer.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant Accounting Estimates and Judgments (Cont'd)

(b) Key Sources of Estimation Uncertainty (Cont'd)

(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 date of the statement of financial position, 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 their recoverable amount.

(iv) Uncertainty in accounting estimates for General Insurance business

The principal uncertainty in the general business arises from the technical provisions which include the premium liabilities and claim liabilities. The bases of valuation of these liabilities is explained in Note 2.2(m).

The estimation basis for unearned premium reserves are explained in the related accounting policy statement, whilst claim liabilities comprise provision for outstanding claims. Generally, claim liabilities are determined based upon historical claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions, economic conditions and claims handling procedure. It is certain that actual, future contribution and claim liabilities will not enactly develop as projected and they vary from the projections.

The estimates of the premium liabilities and claim liabilities are therefore sensitive to various factors and uncertainties. The establishment of technical provisions is an inherently uncertain process and, is a consequence of this uncertainty, the eventual settlement of contribution and claims liabilities may vary from the initial estimates.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as inflation, judicial interpretations, legislative changes and claims handling procedures.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Significant Accounting Estimates and Judgments (Cont'd)

(b) Key Sources of Estimation Uncertainty (Cont'd)

(v) Valuation of Life Insurance Liabilities

There are several sources of uncertainty that need to be considered in the estimation of life insurance liabilities.

The main assumptions used relate to mortality, morbidity, longevity, expenses, withdrawal rates and discount rates.

These estimates are adjusted when appropriate to reflect the Company's unique risk exposures, provide the basis for the valuation of future policy benefits payable.

(vi) 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 date of the statement of financial position. While management's estimates on the realisation and settlement of temporary differences are based on the available information at the date of statement of financial position, 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 profit or loss in the period in which actual realisation and settlement occurs.

Deferred tax assets are recognised for all allowances of impairment 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.

3. PROPERTY, PLANT AND EQUIPMENT

31.12.2011	Properties # RM'000	Furniture & fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Electrical and security equipment RM'000	Motor vehicles RM'000	Renovation & building-in progress RM'000	Total RM'000
Cost							
At 1 July 2011	121,660	103,910	97,906	18,621	1,124	27,899	371,120
Additions	-	6,669	756	2,758	-	3,305	13,488
Disposals	-	(1,383)	(310)	-	-	(3,091)	(4,784)
Reclassification	-	(7,942)	79	7,721	-	(20,093)	(20,235)
Translation differences	(17)	(12)	(5)	-	(3)	-	(37)
At 31 December 2011	121,643	101,242	98,426	29,100	1,121	8,020	359,552
Accumulated Depreciation and Impairment Losses							
At 1 July 2011	30,438	87,496	97,557	18,609	792	-	234,892
Charge/(reversal) for the period	1,109	6,444	(24)	360	66	-	7,955
Disposals	-	(27)	(3)	-	-	-	(30)
Reclassification	-	(7,602)	-	7,602	-	-	-
Translation differences	(12)	(15)	(4)	-	(2)	-	(33)
At 31 December 2011	31,535	86,296	97,526	26,571	856	-	242,784
Net Book Value	90,108	14,946	900	2,529	265	8,020	116,768

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

30.6.2011	Properties # RM'000	Furniture & fittings, equipment and renovations RM'000	Computers and peripherals RM'000	Electrical and security equipment RM'000	Motor vehicles RM'000	Renovation & building-in progress RM'000	Total RM'000
Cost							
At 1 July 2010	65,653	70,883	89,842	-	749	30,177	257,304
Additions	-	4,273	184	12	12	3,881	8,362
Disposals	(430)	(231)	(17)	-	-	-	(678)
Reclassification	-	5,428	-	-	-	(5,428)	-
Transfer from/(to):							
- Sri MLAB (Note 36)	56,284	23,789	7,873	18,609	322	-	106,877
- Others	-	(200)	-	-	-	(731)	(931)
Translation differences	153	(32)	24	-	41	-	186
At 30 June 2011	121,660	103,910	97,906	18,621	1,124	27,899	371,120
Accumulated Depreciation and Impairment Losses							
At 1 July 2010	17,577	62,211	89,501	-	335	-	169,624
Charge for the year	1,842	4,318	183	310	109	-	6,762
Disposals	(185)	(230)	(17)	-	-	-	(432)
Transfer from:							
- Sri MLAB (Note 36)	11,070	21,255	7,873	18,299	322	-	58,819
Provision for impairment	37	-	-	-	-	-	37
Translation differences	97	(58)	17	-	26	-	82
At 30 June 2011	30,438	87,496	97,557	18,609	792	-	234,892
Net Book Value	91,222	16,414	349	12	332	27,899	136,228

ETIQA INSURANCE BERHAD
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3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Properties consist of :

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
31.12.2011				
Cost				
At 1 July 2011	3,620	8,010	110,030	121,660
Translation differences	-	-	(17)	(17)
At 31 December 2011	3,620	8,010	110,013	121,643
Accumulated Depreciation and Impairment Losses				
At 1 July 2011	-	4,701	25,737	30,438
Charge for the period	-	9	1,100	1,109
Reclassification	-	528	(528)	-
Translation differences	-	-	(12)	(12)
At 31 December 2011	-	5,238	26,297	31,535
Net Book Value	3,620	2,772	83,716	90,108

3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Properties consist of :

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
30.6.2011				
Cost				
At 1 July 2010	3,620	8,010	54,023	65,653
Disposal	-	-	(430)	(430)
Transfer from:				
- Sri MLAB (Note 36)	-	-	56,284	56,284
Translation differences	-	-	153	153
At 30 June 2011	3,620	8,010	110,030	121,660
Accumulated Depreciation and Impairment Losses				
At 1 July 2010	-	4,682	12,895	17,577
Charge for the year	-	-	1,842	1,842
Disposal	-	-	(185)	(185)
Transfer from:				
- Sri MLAB (Note 36)	-	-	11,070	11,070
Impairment losses	-	19	18	37
Translation differences	-	-	97	97
At 30 June 2011	-	4,701	25,737	30,438
Net Book Value	3,620	3,309	84,293	91,222

4. INVESTMENT PROPERTIES

	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Total RM'000
31.12.2011			
At 1 July 2011	398,570	117,790	516,360
Disposal	(1,330)	-	(1,330)
Reclassification	1,060	(1,060)	-
Fair value adjustment	40	-	40
At 31 December 2011	398,340	116,730	515,070
30.6.2011			
At 1 July 2010	371,310	117,770	489,080
Fair value adjustment	27,010	20	27,030
Transfer from:			
- Sri MLAB (Note 36)	250	-	250
At 30 June 2011	398,570	117,790	516,360

Investment properties are stated at fair value in accordance with the policies as described in Note 2.2 (b).

5. PREPAID LAND LEASE PAYMENTS

	31.12.2011 RM'000	3.06.2011 RM'000
Cost		
At 1 July 2011/2010	24,018	11,406
Disposal	-	(584)
Transfer from:		
- Sri MLAB (Note 36)	-	13,196
At 31 December 2011/30 June 2011	24,018	24,018
Accumulated amortisation and impairment		
At 1 July 2011/2010	3,222	1,509
Amortisation for the year	152	252
Disposal	-	(78)
Impairment loss	-	13
Transfer from:		
- Sri MLAB (Note 36)	-	1,526
At 31 December 2011/30 June 2011	3,374	3,222
Net book value	20,644	20,796

6. INTANGIBLE ASSETS

	Computer Software	
	31.12.2011 RM'000	30.6.2011 RM'000
Cost		
At 1 July 2011/2010	43,161	34,713
Additions	3,595	-
Reclassification	20,282	-
Transfer from Sri MLAB (Note 36)	-	8,448
Translation difference	(4)	-
At 31 December 2011/30 June 2011	67,034	43,161
Accumulated Amortisation		
At 1 July 2011/2010	42,998	34,428
Amortisation for the period/year	1,976	129
Reclassification	47	-
Adjustment	18	-
Transfer from Sri MLAB (Note 36)	-	8,448
Translation difference	(3)	(7)
At 31 December 2011/30 June 2011	45,036	42,998
Net Book Value	21,998	163

7. INVESTMENT IN SUBSIDIARY

	31.12.2011	30.6.2011
Unquoted shares, at cost	RM1	RM1
No. of shares	1	1

Name of company	Principal activity	Effective interest (%) 31.12.2011	30.6.2011
Double Care Sdn Bhd ("DCSB") (Incorporated in Malaysia)	Dormant	100.00	100.00

On 26 October 2009, the Company has passed a Special Resolution to commence winding up of DCSB. The winding up will be completed upon obtaining the final tax clearance from the Inland Revenue Board.

8. INVESTMENT IN ASSOCIATE

	31.12.2011 RM'000	30.6.2011 RM'000
Unquoted shares, at cost	152	152

Name of company	Principal activity	Effective interest (%) 31.12.2011	30.6.2011
Asian Forum Inc. (Incorporated in Federal Territory of Labuan, Malaysia)	Offshore captive insurance	33.33	33.33

The summarised financial information of the associate is as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Assets and liabilities		
Current assets	18,355	17,471
Total assets	18,355	17,471
Current liabilities	12,976	11,868
Non-current liabilities	63	150
Total liabilities	13,039	12,018
Share of net assets @ 33.33%	1,772	1,818
Results		
(Loss)/profit after tax	(409)	251
Share of (loss)/profit @ 33.33%	(136)	84

The financial year end of the associate is 31 December. For the purposes of the disclosures above, the audited financial statements of the associate and its management financial statements for the 9-months and 3-months period ended 30 September 2011 and 31 March 2011, respectively were used. There are no significant differences expected should the results or financial position at 31 December 2011 and 30 June 2011 have been applied.

9. INVESTMENTS

	31.12.2011 RM'000	30.6.2011 RM'000
Malaysian government papers	611,682	602,846
Singapore government securities	62,756	57,000
Debt securities	7,792,532	7,398,197
Equity securities	1,605,186	1,719,509
Unit and property trust funds	79,989	56,410
Structured deposits	342,704	330,671
Negotiable certificate of deposits	526,588	716,159
Foreign notes	221,790	209,132
Deposits with financial institutions	1,278,365	1,126,369
	12,521,592	12,216,293

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

	31.12.2011 RM'000	30.6.2011 RM'000
Available-for-sale ("AFS")	2,499,681	2,478,213
Fair value through profit and loss ("FVTPL")		
- designated upon initial recognition	7,686,525	7,497,587
- held for trading ("HFT")	1,057,021	1,114,124
Loan and receivables ("LAR")	1,278,365	1,126,369
	12,521,592	12,216,293

The carrying value of investments maturing after 12 months are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
AFS	1,128,179	1,004,235
FVTPL		
- designated upon initial recognition	7,375,967	7,164,371
- HFT	378,599	313,320
LAR	-	1,000
	8,882,745	8,482,926

9. INVESTMENTS (CONT'D)

	31.12.2011 RM'000	30.6.2011 RM'000
(a) Available-for-Sale ("AFS")		
Fair value		
Malaysian government papers	77,182	84,740
Singapore government securities	62,756	57,000
Debt securities:		
Quoted outside Malaysia	40,140	42,243
Unquoted in Malaysia	900,757	789,266
Unquoted outside Malaysia	20,004	22,827
Equity securities:		
Quoted in Malaysia	1,137,563	1,246,690
Quoted outside Malaysia	72	71
Unquoted in Malaysia	105,842	105,842
Unquoted outside Malaysia	4,414	5,078
Unit and property trust funds:		
Quoted in Malaysia	24,800	8,066
Quoted outside Malaysia	25,690	11,114
Unquoted in Malaysia	4,302	4,302
Unquoted outside Malaysia	3,561	10,902
Structured deposits	56,507	54,308
Negotiable certificate of deposits	36,091	35,764
Total AFS financial assets	2,499,681	2,478,213

(b) Fair Value Through Profit and Loss

	31.12.2011 RM'000	30.6.2011 RM'000
(i) Designated upon initial recognition		
Fair value		
Malaysian government papers	521,454	512,033
Debt securities:		
Unquoted in Malaysia	6,403,809	6,144,931
Structured deposits	286,198	276,363
Negotiable certificate of deposits	475,064	564,260
	7,686,525	7,497,587

9. INVESTMENTS (CONT'D)

(b) Fair Value Through Profit and Loss (Cont'd)

(ii) HFT

	31.12.2011 RM'000	30.6.2011 RM'000
Fair value		
Malaysian government papers	13,045	6,072
Debt securities:		
Unquoted in Malaysia	427,822	398,931
Equity securities		
Quoted in Malaysia	357,295	361,829
Unit and property trust funds:		
Quoted in Malaysia	1,134	-
Quoted outside Malaysia	20,502	22,025
Negotiable certificate of deposits	15,433	116,135
Foreign notes	221,790	209,132
	1,057,021	1,114,124
Total FVTPL financial assets	8,743,546	8,611,711

(c) Loans and receivables ("LAR")

	31.12.2011 RM'000	30.6.2011 RM'000
Fair value		
Fixed and call deposits with:		
Licensed banks	991,892	841,248
Others	286,473	285,121
Total LAR financial assets	1,278,365	1,126,369
	12,521,592	12,216,293

The carrying amount disclosed for LAR above approximates fair value as at reporting date due to the short term maturity of the financial assets.

(d) Fair Value of Financial Investments

An analysis of the different fair value measurement bases used in the determination of the fair values of Investments are further disclosed in Note 40(a) of the financial statements.

9. INVESTMENTS (CONT'D)

Included in the AFS financial assets are assets pledged to obtain a banking facility from Malayan Banking Berhad ("MBB") which amounted to RM45,760,000 (30.6.2011: RM45,760,000).

10. FINANCING RECEIVABLES

	31.12.2011 RM'000	30.6.2011 RM'000
Policy/automatic premium loans	228,346	229,206
Corporate loans	11,550	43,733
Staff loans:		
Secured	22,948	25,189
Unsecured	126	153
Others	21,382	21,457
Interest in suspense	(6,371)	(6,092)
Allowance for impairment losses	(1,889)	(1,730)
	276,092	311,916
Receivable after 12 months	84,579	88,749

The above balances are interest bearing. The carrying amount approximates fair value as the effect of discounting is not material.

The weighted average effective interest rates during the financial year were as follows:

	31.12.2011	30.6.2011
Policy/automatic premium loans	8.00%	8.00%
Corporate loans	7.68%	5.73%
Staff loans	3.10%	3.07%

11. REINSURANCE ASSETS

	31.12.2011 RM'000	30.6.2011 RM'000
Reinsurers' share of life insurance contract liabilities	36,958	36,966
Reinsurers' share of general insurance contract liabilities	1,400,463	1,281,405
	1,437,421	1,318,371

12. INSURANCE RECEIVABLES

	31.12.2011 RM'000	30.6.2011 RM'000
Due premiums including agents/brokers and co-insurers balances	229,959	280,889
Due from reinsurers and cedants	98,560	65,601
	328,519	346,490
Allowance for impairment losses	(50,187)	(56,556)
	278,332	289,934

13. OTHER RECEIVABLES

	31.12.2011 RM'000	30.6.2011 RM'000
Sundry receivables, deposits and prepayments	49,906	43,301
Allowance for impairment losses	(1,175)	(1,162)
	48,731	42,139
Income due and accrued	122,598	116,210
Allowance for impairment losses	(3,359)	(128)
	119,239	116,082
Amount due from related companies	2,323	6,479
TOTAL	170,293	164,700

The carrying amounts approximate fair values due to the relatively short-term maturity of these balances. Amount due from related companies is unsecured, interest-free and repayable on demand.

14. DERIVATIVE ASSETS

	31.12.2011				30.6.2011			
	Contract/ Notional Amount RM'000	Asset RM'000	Liability RM'000	Net Carrying Amount RM'000	Contract/ Notional Amount RM'000	Asset RM'000	Liability RM'000	Net Carrying Amount RM'000
Hedging derivatives:								
Forward foreign exchange contract	8,330	-	(348)	(348)		-	-	-
Non-hedging derivatives:								
Current								
Principal Only Swap	263,188	33,140	-	33,140	263,188	39,535	-	39,535
Option	286,422	29	-	29	303,528	1,866	-	1,866
		33,169	(348)	32,821		41,401	-	41,401
Non-current								
Cross Currency Swap	23,471	186	-	186	23,471	381	-	381
Total derivatives		33,355	(348)	33,007		41,782	-	41,782
Total held for trading financial assets		33,355	(348)	33,007		41,782	-	41,782

The fair value of derivatives assets is derived based on valuation techniques from market observable inputs. They are revalued at the date of the statement of financial position, of which valuations are provided by the respective counter parties using market convention.

15. SHARE CAPITAL

	Number of shares		Amount	
	31.12.2011 '000	30.6.2011 '000	31.12.2011 RM'000	30.6.2011 RM'000
Authorised:				
Ordinary shares of RM1.00 each				
At beginning and end of period/year	500,000	500,000	500,000	500,000
Issued and Paid-up:				
Ordinary shares of RM1.00 each				
At beginning and end of period/year	152,151	152,151	152,151	152,151

16. RESERVES

	31.12.2011 RM'000	30.6.2011 RM'000
Non-distributable:		
Share premium:		
At beginning and end of financial period/year	17,728	17,728
AFS reserve	51,578	61,978
Other reserves:		
Revaluation reserve	11,647	11,887
Currency translation reserve	937	2,632
	12,584	14,519
Distributable:		
Retained profits	1,275,555	1,308,919
Total reserves	1,357,445	1,403,144

The AFS reserve of the Company arose from the changes in the fair value of the investment assets.

The currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Company's presentation currency.

The revaluation reserve of the Company arose from the fair value movement on investment properties upon transfer from property, plant and equipment.

17. INSURANCE CONTRACT LIABILITIES

	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	30.6.2011 Gross RM'000	30.6.2011 Reinsurance RM'000	30.6.2011 Net RM'000
Life insurance (Note A)	11,175,119	(36,958)	11,138,161	10,967,150	(36,966)	10,930,184
General insurance (Note B)	2,209,637	(1,400,463)	809,174	2,069,969	(1,281,405)	788,564
	13,384,756	(1,437,421)	11,947,335	13,037,119	(1,318,371)	11,718,748

(A) Life Insurance

The life insurance contract liabilities and its movements are further analysed as follows:

(i) Life insurance contract liabilities

	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	30.6.2011 Gross RM'000	30.6.2011 Reinsurance RM'000	30.6.2011 Net RM'000
Claims liabilities	56,841	(2,688)	54,153	65,426	(1,274)	64,152
Actuarial liabilities	7,897,487	(34,270)	7,863,217	7,714,233	(35,692)	7,678,541
Unallocated surplus	1,733,462	-	1,733,462	1,723,480	-	1,723,480
Available-for-sale fair value reserves	165,231	-	165,231	256,315	-	256,315
Net aset value attributable to unitholders (Note 44)	1,322,098	-	1,322,098	1,207,696	-	1,207,696
	11,175,119	(36,958)	11,138,161	10,967,150	(36,966)	10,930,184

17. INSURANCE CONTRACT LIABILITIES (CONT'D)

(A) Life Insurance (Cont'd)

(ii) Movements of life insurance contract liabilities

	Provision for outstanding claims RM'000	NAV attributable to unitholders RM'000	AFS RM'000	Actuarial liabilities RM'000	Surplus RM'000	Gross RM'000	Reinsurance RM'000	Total Liabilities RM'000
31.12.2011								
At 1 July 2011	65,426	1,207,696	256,315	7,714,233	1,723,480	10,967,150	(36,966)	10,930,184
Earned premiums	-	283,513	-	-	391,224	674,737	(12,569)	662,168
Other revenue	-	5,610	-	-	384,331	389,941	2,540	392,481
Benefits and claims	(8,585)	(173,837)	-	-	(606,875)	(789,297)	8,615	(780,682)
Other expenses	-	(14)	-	-	(111,847)	(111,861)	-	(111,861)
Change in Reserve:								
- Discounting	-	-	-	130,741	(130,741)	-	(345)	(345)
- Assumptions	-	-	-	-	-	-	-	-
- Policy Movements	-	-	-	52,513	245,126	297,639	1,767	299,406
Changes in AFS	-	-	(99,004)	-	-	(99,004)	-	(99,004)
Taxation	-	(870)	7,920	-	(30,636)	(23,586)	-	(23,586)
Transfer to shareholders	-	-	-	-	(130,600)	(130,600)	-	(130,600)
At 31 December 2011	56,841	1,322,098	165,231	7,897,487	1,733,462	11,175,119	(36,958)	11,138,161

17. INSURANCE CONTRACT LIABILITIES (CONT'D)

(A) Life Insurance (Cont'd)

(ii) Movements of life insurance contract liabilities (Cont'd)

	Provision for outstanding claims RM'000	NAV attributable to unitholders RM'000	AFS RM'000	Actuarial liabilities RM'000	Surplus RM'000	Gross RM'000	Reinsurance RM'000	Total Liabilities RM'000
30.6.2011								
At 1 July 2010	16,100	-	126,569	3,612,377	687,234	4,442,280	(34,856)	4,407,424
Transfer from Sri MLA (Note 36)	32,168	1,465,879	80,060	3,910,078	971,539	6,459,724	(1,133)	6,458,591
Earned premiums	-	143,422	-	-	618,092	761,514	(20,834)	740,680
Other revenue	-	44,018	-	-	608,673	652,691	16,448	669,139
Benefits and claims	17,158	(441,019)	-	-	(561,149)	(985,010)	4,245	(980,765)
Other expenses	-	(39)	-	-	(172,662)	(172,701)	-	(172,701)
Change in Reserve:								
- Discounting	-	-	-	145,257	(145,257)	-	(110)	(110)
- Assumptions	-	-	-	52,479	(52,479)	-	(2,399)	(2,399)
- Policy Movements	-	-	-	(5,958)	21,277	15,319	1,673	16,992
Changes in AFS	-	-	54,006	-	-	54,006	-	54,006
Taxation	-	(4,565)	(4,320)	-	(10,965)	(19,850)	-	(19,850)
Transfer to shareholders	-	-	-	-	(240,823)	(240,823)	-	(240,823)
At 30 June 2011	65,426	1,207,696	256,315	7,714,233	1,723,480	10,967,150	(36,966)	10,930,184

Included in the unallocated surplus component of the insurance contract liabilities is an amount of RM1,313,919,501 (30.6.2011: RM1,306,229,209), being the accumulated surplus of the Non Participating ("Non Par") Fund of the Company less the estimated actuarial liabilities for the Fund (collectively referred to as the "Non Par unallocated surplus"). In accordance with FRS 4 and the Framework for Preparation and Presentation of Financial Statements ("FRS Framework"), the Non Par unallocated surplus does not meet the definition of a liability, that is, a present obligation of the company arising from past events, the settlement of which is expected to result in an outflow of economic benefits as the Non Par unallocated surplus represents the residual interest in the assets of the Non Par Fund after consideration of all liabilities. In addition, in accordance to FRS 139, the AFS reserves of the Non Par Fund of the Company, amounting to RM59,580,280 (30.6.2011: RM87,724,259) should be accounted for as equity of the Company.

In accordance with the requirements of Guidelines issued by BNM, the Company has continued to classify the Non Par unallocated surplus and the AFS reserves of the Non Par Fund as insurance contract liabilities. These are modifications to the FRS which had been approved by BNM under Section 90 of the Insurance Act 1996. Had the Company applied the requirements of the Standards and the FRS Framework, the insurance contract liabilities of the Company would have been lower by RM1,373,499,781 (30.6.2011: RM1,393,953,468); consequently, the retained profits and AFS reserves of the Company would have been higher by RM1,313,919,501 and RM59,580,280 (30.6.2011: RM1,306,229,209 and RM87,724,259) respectively.

17. INSURANCE CONTRACT LIABILITIES (CONT'D)

(B) General insurance

	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	30.6.2011 Gross RM'000	30.6.2011 Reinsurance RM'000	30.6.2011 Net RM'000
Claims liabilities (i)	1,557,663	(1,067,965)	489,698	1,352,205	(888,082)	464,123
Premium liabilities (ii)	651,974	(332,498)	319,476	717,764	(393,323)	324,441
	2,209,637	(1,400,463)	809,174	2,069,969	(1,281,405)	788,564

(i) Claims liabilities

	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	30.6.2011 Gross RM'000	30.6.2011 Reinsurance RM'000	30.6.2011 Net RM'000
At 1 July 2011/2010	1,352,205	(888,082)	464,123	1,135,204	(697,839)	437,365
Claims incurred in the current accident period/year	460,465	(159,229)	301,236	744,252	(424,207)	320,045
Other movements in claims incurred in prior accident years	(278,534)	124,217	(154,317)	(14,154)	11,050	(3,104)
Claims paid during the period/year	(212,456)	68,389	(144,067)	(535,115)	236,405	(298,710)
Movements in Unallocated Loss Adjustments Expenses ("ULAE")	(390)	345	(45)	5,484	(3,828)	1,656
Movements in PRAD	236,373	(213,605)	22,768	16,534	(9,663)	6,871
At 31 December 2011/30 June 2011	1,557,663	(1,067,965)	489,698	1,352,205	(888,082)	464,123

(ii) Premium liabilities

	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	30.6.2011 Gross RM'000	30.6.2011 Reinsurance RM'000	30.6.2011 Net RM'000
At 1 July 2011/2010	717,764	(393,323)	324,441	630,324	(314,876)	315,448
Premiums written in the period/year	568,624	(286,494)	282,130	1,253,934	(678,847)	575,087
Premiums earned during the period/year	(634,414)	347,319	(287,095)	(1,166,494)	600,400	(566,094)
At 31 December 2011/30 June 2011	651,974	(332,498)	319,476	717,764	(393,323)	324,441

18. DEFERRED TAXATION

	31.12.2011 RM'000	30.6.2011 RM'000
At 1 July 2011/2010	(79,662)	(37,744)
Transfer from Sri MLAB (Note 36)	-	(28,893)
Recognised in:		
Income statement (Note 31)	(7,192)	(5,776)
Other comprehensive income (Note 31)	3,779	(2,938)
Insurance contract liabilities (Note 17)	7,920	(4,320)
Exchange differences	2	9
At 31 December 2011/30 June 2011	(75,153)	(79,662)

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.

	31.12.2011 RM'000	30.6.2011 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	14,661	17,457
Deferred tax liabilities	(89,814)	(97,119)
	(75,153)	(79,662)

18. DEFERRED TAXATION (CONT'D)

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

Deferred Tax Assets

	Impairment on Receivables RM'000	Amortisation premiums RM'000	General insurance liabilities RM'000	Impairment on Investment RM'000	Others RM'000	Total RM'000
31.12.2011						
At 1 July 2011	13,161	416	1,176	2,387	317	17,457
Recognised in:						
Income statement	(2,480)	(416)	(407)	822	(317)	(2,798)
Exchange differences	2	-	-	-	-	2
At 31 December 2011	10,683	-	769	3,209	-	14,661
30.6.2011						
At 1 July 2010	7,681	843	1,054	-	366	9,944
Transfer from Sri MLAB (Note 36)	-	-	-	1,906	-	1,906
Recognised in:						
Income statement	5,471	(427)	122	481	(49)	5,598
Exchange differences	9	-	-	-	-	9
At 30 June 2011	13,161	416	1,176	2,387	317	17,457

18. DEFERRED TAXATION (CONT'D)

Deferred Tax Liabilities

	Accelerated capital allowances RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	AFS Reserve RM'000	Others RM'000	Unit Linked RM'000	Total RM'000
31.12.2011							
At 1 July 2011	(939)	(14,368)	(37,101)	(40,759)	-	(3,952)	(97,119)
Recognised in:							
Income statement	257	788	(6,959)	-	-	1,520	(4,394)
Other comprehensive income	-	-	-	3,779	-	-	3,779
Insurance contract liabilities	-	-	-	7,920	-	-	7,920
At 31 December 2011	(682)	(13,580)	(44,060)	(29,060)	-	(2,432)	(89,814)
30.6.2011							
At 1 July 2010	(1,885)	(4,947)	(16,984)	(22,638)	(1,234)	-	(47,688)
Transfer from Sri MLAB (Note 36)	(182)	(6,363)	(11,095)	(10,863)	-	(2,296)	(30,799)
Recognised in:							
Income statement	1,128	(3,058)	(9,022)	-	1,234	(1,656)	(11,374)
Other comprehensive income	-	-	-	(2,938)	-	-	(2,938)
Insurance contract liabilities	-	-	-	(4,320)	-	-	(4,320)
At 30 June 2011	(939)	(14,368)	(37,101)	(40,759)	-	(3,952)	(97,119)

19. INSURANCE PAYABLES

	31.12.2011 RM'000	30.6.2011 RM'000
Due to agents and intermediaries	44,629	42,565
Due to reinsurers and cedants	287,034	279,766
	331,663	322,331

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

20. OTHER PAYABLES

	31.12.2011 RM'000	30.6.2011 RM'000
Premium deposits	45,115	51,795
Dividend payable to policyholders	64,903	60,414
Amount due to related companies*	8,837	4,343
Amount due to stockbrokers	22,653	73,103
Sundry payables and accrued liabilities	119,684	143,117
	261,192	332,772

* Amount due to related companies is unsecured, interest free and is repayable on demand.

The carrying amounts disclosed above approximate fair values at the reporting date. All amounts are payable within one year.

21. OPERATING REVENUE

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Gross premiums (Note 22)	1,243,361	2,015,448
Investment income (Note 24)	294,347	488,938
	1,537,708	2,504,386

22. NET EARNED PREMIUMS

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
(a) Gross Premiums		
Life insurance contracts	674,737	761,514
General insurance contracts	568,624	1,253,934
	1,243,361	2,015,448
Change in premium liabilities	65,790	(87,440)
	1,309,151	1,928,008
(b) Premium ceded		
Life insurance contracts	(12,569)	(20,834)
General insurance contracts	(286,494)	(678,847)
	(299,063)	(699,681)
Change in premium liabilities	(60,825)	78,447
	(359,888)	(621,234)
Net Earned Premiums	949,263	1,306,774

23. FEE AND COMMISSION INCOME

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Reinsurance commission income	27,703	68,064

24. INVESTMENT INCOME

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Financial assets at FVTPL		
(i) Designated as FVTPL		
Interest income	173,918	272,431
(ii) HFT		
Interest income	11,937	20,801
Dividend income		
- Quoted in Malaysia	5,994	7,026
- Quoted outside Malaysia	-	14
Financial Assets at AFS		
Interest income	25,176	46,716
Dividend income		
- Quoted in Malaysia	19,184	32,667
- Quoted outside Malaysia	1	21
- Unquoted in Malaysia	2,801	312
- Unnit and property trusts	158	3,906
LAR		
Interest income	16,343	28,215
Interest income from financing receivables and other loans	10,326	17,837
Rental income	16,127	31,707
Accretion of premiums	14,982	31,344
Investment related expenses	(2,600)	(4,059)
	294,347	488,938

25. REALISED GAINS AND LOSSES

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Realised gain on disposal of property, plant and equipment	-	180
Realised gain on disposal of prepaid land lease payments	-	70
Realised gain on disposal of investment properties	69	-
AFS financial assets		
Realised gains:		
- Malaysian government papers	-	404
- Equity securities	74,634	149,821
- Debts securities	1,541	1,179
- Other investments	978	9,412
	77,153	160,816
FVTPL financial assets		
(i) Designated upon initial recognition		
Realised gains:		
- Malaysian government papers	46	1,508
- Debts securities	11,881	5,385
	11,927	6,893
(ii) HFT		
Realised gains/(losses):		
- Malaysian government papers	31	(2)
- Equity securities	2,640	10,195
- Debts securities	1,650	71
- Negotiable certificate of deposits	7,448	4,515
- Other investments	197	44
- Foreign notes	-	(178)
- Derivative asset	(387)	(3,513)
	11,579	11,132
TOTAL REALISED GAINS	100,728	179,091

26. FAIR VALUE GAINS

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Financial investments - held for trading purposes	(32,444)	19,520
Financial investments - designated upon initial recognition	85,972	75,368
Total fair value gains on financial investment at FVTPL	53,528	94,888
Impairment of investments	(15,155)	(11,682)
Fair value gains from financial investments	38,373	83,206
Investment properties	40	27,030
TOTAL FAIR VALUE GAINS	38,413	110,236

27. OTHER OPERATING REVENUE/(EXPENSES)

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Other income		
Gain on foreign exchange		
- unrealised	16,052	680
Processing income	714	1,435
Bad debt recovered	-	388
Reversal of impairment losses on receivables	2,904	-
Sundry income	1,477	601
	21,147	3,104
Other expenses		
Impairment losses on receivables	-	(22,795)
Impairment losses on property, plant and equipment	-	(37)
Impairment losses on prepaid land lease payments	-	(13)
Bad debts written off	(2,340)	-
Loss on foreign exchange		
- realised	(1,226)	(7,839)
- unrealised	-	(252)
Sundry expenditure	(415)	(6,312)
	(3,981)	(37,248)
TOTAL OTHER OPERATING REVENUE/(EXPENSES)	17,166	(34,144)

28. NET BENEFITS AND CLAIMS

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
(a) Gross Benefits and Claims Paid		
Insurance contracts:		
General	212,456	535,115
Life	489,109	970,979
	701,565	1,506,094
(b) Claims Ceded to Reinsurers		
Insurance contracts:		
General	(68,389)	(236,405)
Life	(7,488)	(4,697)
	(75,877)	(241,102)
(c) Gross Change in Contract Liabilities		
Insurance contracts:		
General	205,458	217,001
Life	299,053	15,460
	504,511	232,461
(d) Change in Contract Liabilities Ceded to Reinsurers		
Insurance contracts:		
General	(179,883)	(190,243)
Life	8	(977)
	(179,875)	(191,220)

29. MANAGEMENT EXPENSES

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Employee benefits expense (a)	68,878	104,238
Directors' remuneration (b)	667	1,215
Auditors' remuneration:		
- statutory audits	765	759
- overprovision in prior year	(33)	(99)
- other services	32	166
Amortisation of intangible assets	1,976	129
Amortisation of prepaid land lease payments	152	252
Bank charges	3,293	4,196
Depreciation of property, plant and equipment	7,955	6,762
Fund management fees	8,698	15,187
Other management fees	546	1,283
Professional fees	7,707	17,792
Rental of offices/premises	1,935	5,506
Electronic data processing expenses	263	11,890
Outsourcing services	8,879	14,552
Postage & stamp duties	2,375	5,606
Printing & stationery	1,553	2,797
Promotional and marketing cost	8,092	10,740
Training expenses	1,568	3,251
Utilities, assessment and maintenance	1,097	8,555
Entertainment	1,127	2,780
Travelling expenses	2,234	3,919
Office facilities expenses	1,025	2,261
Legal fees	965	744
Other expenses	14,562	8,330
TOTAL MANAGEMENT EXPENSES	146,311	232,811

(a) Employee benefits expense:

Wages and salaries	46,483	78,974
EPF, CPF and TAP	7,445	13,565
SOCSO	292	510
Share-based compensation	6,536	-
Other benefits	8,122	11,189
	68,878	104,238

Included in employee benefits expenses is remuneration receivable by the Chief Executive Officer (CEO) of RM1,285,255 (30.6.2011:RM1,160,697) as disclosed in Note 29(c).

29. MANAGEMENT EXPENSES (CONT'D)

(b) Directors' remuneration:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Executive:		
Salary, bonus and allowance	346	584
EPF	8	64
Retirement gratuity	-	151
Fees	21	50
Share-based compensation	33	-
Other emoluments	62	67
Non executive:		
Fees	182	257
Other emoluments	15	42
	667	1,215

The number of directors whose total remuneration received from the Company during the period falls within the following bands is analysed below:

	Numbers of Directors 31.12.2011	30.6.2011
Executive director		
Above RM50,000	1	2
Non-executive directors		
Below RM50,000	7	6
Above RM50,000 to RM100,000	-	1

29. MANAGEMENT EXPENSES (CONT'D)

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

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Salary	276	481
Bonus	423	449
EPF	115	156
Share-based compensation	227	-
Other emoluments	23	45
Retirement gratuity	207	-
Benefits in kind	14	29
	1,285	1,160

30. FEE AND COMMISSION EXPENSES

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Costs incurred for the acquisition of insurance contracts expensed in the current financial period/year	104,831	197,997

31. INCOME TAX EXPENSE

Major components of income tax expense

The major components of income tax expense for the 6 months period ended 31 December 2011 and year ended 30 June 2011 are:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Income Statement:		
Income tax:		
Current financial period/year's provision		
- Malaysia	70,750	136,537
- Foreign	176	123
Deferred taxation:		
Relating to origination and reversal of temporary differences (Note 18)	7,192	5,776
Under/(over) provision of taxation in prior financial years	1,341	(59,537)
Income tax expense recognised in income statement	79,459	82,899
Statement of comprehensive income:		
Deferred income tax related to other comprehensive income:		
- Fair value changes on AFS investments	(3,779)	2,938

31. INCOME TAX EXPENSE (CONT'D)

Reconciliation between tax expense and accounting profit

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the 6 months period ended 31 December 2011 and year ended 30 June 2011 are as follows:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Income Statement:		
Profit before taxation	226,154	381,918
Taxation at Malaysian statutory tax rate of 25% (30.6.2011: 25%)	56,539	95,480
Section 110B tax credit set off	(7,167)	(7,563)
Business outside Malaysia taxed at 5%	(915)	(1,989)
Income not subject to tax	(2,399)	(1,987)
Expenses not deductible for tax purposes	32,060	55,835
Utilisation of financial year's tax losses	-	2,660
Under/(over) provision of taxation in prior financial years	1,341	(59,537)
Tax expense for the financial period/year	79,459	82,899

The domestic income tax for shareholder's fund and general fund are calculated based on the corporate tax rate of 25% (30.6.2011: 25%) of the estimated assessable profit for the financial year.

The income tax for the life fund is calculated based on the statutory rate of 8% (30.6.2011: 8%) of the estimated assessable investment income net of allowable deductions for the financial year.

In view of this, the Company has computed the deferred tax for shareholder's fund and general fund, and life fund based on the corporate tax rate of 25% and 8% respectively.

31. INCOME TAX EXPENSE (CONT'D)

Prior to the year of assessment 2008, Malaysians companies adopt 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 dividend 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 credit 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 Section 39 of the Finance act 2007.

Due to the changes in the single tier system, any distribution of dividend-in-species 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.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. During the transitional period, the Company may utilise the credits in the Section 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholder as defined under the Finance Act, 2007.

Previously, investment income and gains from disposal of investments from the Life Fund would be taxed twice, once at a tax rate of 8% (30.6.2011: 8%) in the Life Fund and again at a tax rate of 25% (30.6.2011: 25%) when the surplus from the Life Fund is transferred to the Shareholder's Fund. In the Budget 2008 which was enacted via a Gazette Order on 21 April 2008, effective from year of assessment 2008 onwards insurers are permitted a set-off ("Section 110B credits") from the total amount of tax imposed on the Shareholder's 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 Shareholdre's Fund of an insurer. Section 110B credits are applied before dividend tax credits when computing net tax payable to the IRB.

32. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity holders of the Company by the number of Ordinary Shares in issue during the financial period/year.

	1.7.2011 to 31.12.2011 sen	1.7.2010 to 30.6.2011 sen
Profit attributable to Ordinary equity holders	146,695	299,019
Basic earnings per share (sen)	96.41	196.53

Diluted earnings per share are not presented as there were no dilutive potential Ordinary Shares as at the date of the statement of financial position.

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

33. OPERATING LEASE COMMITMENTS

(a) **Company as lessee**

As at the date of the statement of financial position, the Company leases its office premises under lease agreements that are not cancellable within a year. The leases contain renewable options.

Future minimum lease payments for the leases with initial or remaining terms of one year or more are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Within 1 year	3,849	5,171
After 1 year but not more than 5 years	14,130	19,035
	17,979	24,206

33. OPERATING LEASE COMMITMENTS (CONT'D)

(b) **Company as lessor**

The Company has entered into operating lease agreements on its portfolio of investment properties. The leases have remaining lease terms of between 1 and 3 years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The leases also include a clause that allows for early termination but requires the tenant to provide a replacement tenant or pay for the remaining unexpired lease period.

The future minimum lease payments receivable under non-cancellable operating leases contracted for as at the date of statement of financial position but not recognised as receivables, are as follows:

	31.12.2011 RM'000	30.6.2011 RM'000
Not later than 1 year	31,992	30,197
Later than 1 year but not later than 5 years	67,257	59,631
	99,249	89,828

Rental income on investment properties recognised in income statement during the financial period/year is disclosed in Note 24.

34. OTHER COMMITMENTS AND CONTINGENCIES

	31.12.2011 RM'000	30.6.2011 RM'000
Approved and contracted for:		
Property, plant and equipment	1,919	1,882
Intangible assets	14,016	17,622
	15,935	19,504
Approved and not contracted for:		
Property, plant and equipment	-	200

35. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Income/(expenses):		
Transactions with the ultimate holding company:		
Gross insurance premium income	2,157	4,990
Dividend income	679	-
Commissions and fees expenses	(40,099)	(47,412)
Interest income	17,020	35,198
Rental income	239	452
Other expenses	(1,267)	(2,141)
Transactions within holding company:		
Rental income	59	116
Other management fees	(3,209)	(6,410)
Shared service cost chargeback	289	296
Interim dividend	(180,299)	-
Transactions with other related companies within the MBB group:		
Gross insurance premium income	1	1
Rental income	5,738	9,544
Rental expenses	-	(774)
Investment management fees	(8,698)	(15,187)
Other management fees	(22,822)	(38,021)
Shared service cost chargeback	32,509	53,306
Other expenses	(1,410)	(2,634)

35. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

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

	31.12.2011 RM'000	30.6.2011 RM'000
Ultimate holding company:		
Fixed deposits and call deposits	550,742	451,170
Structured deposits	49,085	365,000
NCD & NICD	165,040	260,389
Corporate bonds	396,029	367,673
Bank balance	59,655	179,489
Income due and accrued	5,938	9,272
Outstanding premiums	9,861	11,691
Amount due (to)/from related companies	(3,554)	2,796
Sundry payables and accrued liabilities	(722)	(201)
Holding company :		
Amount due to holding company	(3,628)	(2,435)
Other related companies within the MBB Group:		
Outstanding premiums	(182)	411
Income and profits due & accrued	277	537
Amount due from related companies	2,323	3,683
Amount due to related companies	(1)	(253)
Sundry payables and accrued liabilities	(4,528)	(4,785)
Subsidiary:		
Amount due to subsidiary	(1,655)	(1,655)

35. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

(iii) Key management personnel compensation

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 Executive Directors and Chief Executive Officer.

The remuneration of the Executive Directors and Chief Executive Officer were as follows:

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Short-term employee benefits		
- Salaries, allowances and bonuses	1,045	1,514
- EPF	123	220
- Fees	21	50
- Share-based compensation	260	-
- Other staff benefits	99	141
Post employment benefits		
- Retirement gratuity	207	151
	1,755	2,076

36. NET ASSETS TRANSFERRED

Sri MLAB Berhad ("Sri MLAB") transferred its business and net assets as a going concern to the Company, on 1 November 2010, pursuant to Vesting Orders obtained from the High Court of Malaya in Kuala Lumpur.

Details of the net assets transferred are as follows:

	Note	30.6.2011 RM'000
Assets:		
Property, plant and equipment	3	48,058
Investment properties	4	250
Prepaid land lease payments	5	11,670
Intangible Assets		-
Investments		6,538,834
Financing receivables		75,900
Reinsurance assets	17	1,133
Insurance receivables		4,505
Other receivables		80,110
Derivative assets		41,371
Cash and bank balances		31,448
		6,833,279
Equity and Liabilities:		
AFS reserves		11,703
Liabilities:		
Insurance contract liabilities	17	6,459,724
Insurance payables		3,163
Other payables		43,908
Deferred tax liabilities	18	28,893
		6,535,688
Net assets transferred		285,888

The net assets transferred from Sri MLAB was satisfied by RM285,888,000 cash.

37. RISK MANAGEMENT FRAMEWORK

The Risk Management Framework defines and formalises the risk management process. It comprises the development, implementation and monitoring of financial and operational strategies for assessing, mitigating and financing financial, insurance and operational risks to increase the value of Etiqa Operating Companies ("EOC") within MAHB.

It enhances the capabilities to align risk appetite and strategy, link risk with growth and returns, make timely risk response decisions, minimise operational surprises and losses, seize opportunities and rationalise capital.

The framework takes into account:

- The Bank Negara Malaysia ("BNM") guidelines regarding the Risk Management Committee ("RMC");
- The existing Risk Management organisation within the MBB Group;
- The relevant section of the MBB’s Group Risk Management Oversight Framework;
- The relevant section of the MBB’s Risk Governance and General Risk Management Framework for Credit Risk, Market Risk and Operational Risk; and
- The organisational structure of Etiqa Operating Companies ("EOC").

The scope of the framework addresses the management of risk policy, governance structure reporting and policy implementation.

This integrated framework ensures that risks are properly and adequately identified, evaluated, monitored and reported, as to safeguard and protect the assets of the Company and enables management to fulfil the obligations to its stakeholders and meeting the expectation of the regulators.

During the period, the Risk Management function was strengthened with the creation of the role of the Chief Risk Officer ("CRO") in the Senior Management Committee. The CRO role ensures an independent control function and makes risk management more strategic within the Group.

Capital Management Objectives, Policies and Approach

The Capital Management Guideline sets a standard policy regarding the levels of capital to be maintained within the Company. The Company aligns its capital requirement with Capital Adequacy Ratio ("CAR") defined in the RBC Framework (BNM/RH/GL/003-24) issued by BNM.

37. RISK MANAGEMENT FRAMEWORK (CONT'D)

Capital Management Objectives, Policies and Approach (Cont'd)

The Capital Management Guideline defines the level of internal capital target which is reviewed on an annual basis. This is to ensure that the target capital level adequately reflects the risk profile of the portfolio as well as the risk tolerance. The guideline is supported by stress testing exercises conducted at least twice yearly. The stress testing exercise is governed by the requirements established in the stress testing Guideline issued by BNM (BNM/RH/GL/004-16).

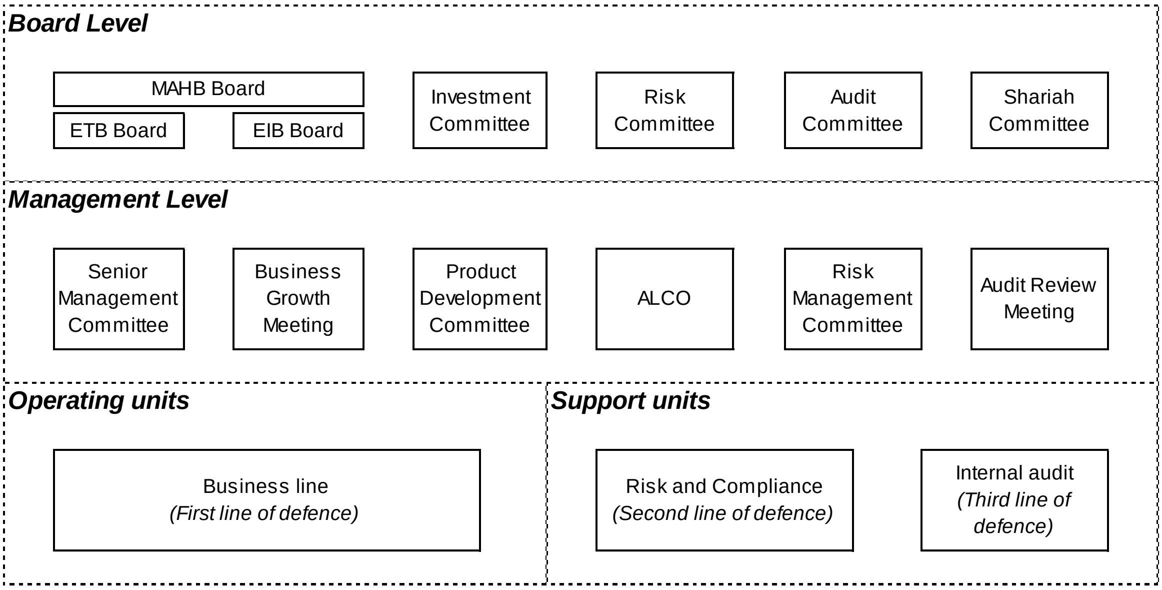
Currently, the minimum CAR is set by BNM at 130%.

Governance and Regulatory Framework

The governance structure outlines the organisational structure, the hierarchy and the scope of responsibilities of all the governance bodies involved in the risk management function.

The risk management organisation structure involves the Boards of Directors ("Board"), the Risk Management Committee ("RMC") and the Risk Management Meeting ("RMM").

Governance is emphasised via various level of committees (Board, Management and Working levels). Each of the committees have its own Terms of Reference, Roles and Responsibilities, Specific Duties and Levels of Authority.



The risk management framework comprises three (3) levels of defence.

(i) Risk acceptance and ownership (first line)
(ii) Risk control and oversight (second line)
(iii) Independent audit and compliance (third line)

37. RISK MANAGEMENT FRAMEWORK (CONT'D)

(i) Risk acceptance

The business lines are the risk taking units and are primarily responsible for appropriate risk acceptance in line with the risk management framework. The CEO of the Company holds ultimate responsibility.

(ii) Monitoring and control

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. Regular reviews should be carried out to ensure continuous effectiveness.

The RMM is the management forum for deliberation on all risk issues. The RMM proposes risk policies and risk acceptance limits towards the RMC and ensures that the approved guidelines are implemented. The RMM monitors exposures and actions in case of breaches.

(iii) Independent audit

Internal audit complements the risk governance framework in providing independent assurance on the effectiveness of the risk management process.

Asset-Liability Management ("ALM") Framework

The primary objective of the Asset-Liability Management Committee ("ALCO") is to coordinate ongoing controls over the financial/investment risk position of each investment portfolio and the liability position of the Company.

The ALCO is authorised to propose policies to RMC and IC and to propose the implementation program of the investment activities.

The ALCO is also responsible for carrying out Asset Liability Management ("ALM") studies, amongst other things.

38. INSURANCE RISK

Insurance Risk relates to the inherent risk associated in the underwriting activities of Life and General business. Such risk includes the pricing risk, claim reserving, underwriting risk and reinsurance risk. Actuarial analysis are performed to control pricing, underwriting and reserving risks by intervening trends before benefits and claims become due for payment.

Reinsurance is placed to minimise certain insurance risk within the established risk parameters. Risks associated with reinsurance risk are the counterparty risk of reinsurers or retrocessionaires failing to honor their obligations. Claims processes are defined by approval authority as part of the control in place on financial exposure.

The Company has established appropriate guidelines and framework tide with authority limits as part of risk mitigation activities embedded in the business operations. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

(A) Life Insurance

(i) The table below shows the concentration of actuarial liabilities by type of contract.

	31.12.2011			30.6.2011		
	Gross RM'000	**Reinsurance RM'000**	**Net RM'000**	**Gross RM'000**	**Reinsurance RM'000**	**Net RM'000**
Whole life	562,960	-	562,960	519,092	-	519,092
Endowment	5,501,001	-	5,501,001	5,392,486	-	5,392,486
Mortgage	988,053	(34,270)	953,783	973,553	(35,692)	937,861
Term assurance	352,767	-	352,767	341,935	-	341,935
Annuity	457,555	-	457,555	442,943	-	442,943
Others	35,151	-	35,151	44,224	-	44,224
Total	7,897,487	(34,270)	7,863,217	7,714,233	(35,692)	7,678,541

All of the life business was derived from Malaysia, the entire life insurance contract liabilities are in Malaysia.

38. INSURANCE RISK (CONT'D)

(A) Life Insurance (Cont'd)

(ii) Key Assumptions

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

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

(a) Discount rate

The discount rate used for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies is the yield observed on the Malaysian Government Security ("MGS") of the appropriate duration. In the case of the total benefits liabilities of participating policies, the discount rate is based on the expected fund yield of the participating fund, net of tax on investment income of the life fund. The best estimate investment return for participating business is derived from the expected returns of the respective investment classes.

(b) Mortality and morbidity rates

The Company bases mortality and morbidity on established industry and Malaysian tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements.

38. INSURANCE RISK (CONT'D)

(A) Life Insurance (Cont'd)

(ii) Key Assumptions (Cont'd)

(c) Lapse and surrender rates

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders.

(d) Expenses

Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation adjustments, if appropriate.

(iii) Sensitivities

The analysis below is performed for reasonably possible movements in key assumptions affecting the determination of insurance liabilities with all other assumptions held constant, showing the impact on gross and net liabilities, surplus arising and equity.

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in specific assumptions, the assumptions are changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

38. INSURANCE RISK (CONT'D)

(A) Life Insurance (Cont'd)

(iii) Sensitivities (Cont'd)

	Change in Assumptions %	Impact on Gross Liabilities RM'000	Impact on Net Liabilities RM'000	Impact on Surplus Arising RM'000	Impact on Equity RM'000
Life Insurance					
31.12.2011					
Discount rate	-1%	641,781	639,937	(639,937)	(70,143)
Mortality and morbidity rates	+/- 10% (adverse)	132,199	129,284	(129,284)	(5,806)
Lapse and surrender rates	+/- 10% (adverse)	19,287	19,205	(19,205)	(6,929)
Expenses	+10%	38,597	38,597	(38,597)	(3,916)
30.6.2011					
Discount rate	-1%	605,315	603,447	(603,447)	(56,991)
Mortality and morbidity rates	+/- 10% (adverse)	129,247	126,242	(126,242)	(1,431)
Lapse and surrender rates	+/- 10% (adverse)	18,867	18,770	(18,770)	(2,445)
Expenses	+10%	38,480	38,480	(38,480)	-

* excludes impact on fixed income

38. INSURANCE RISK (CONT'D)

(B) General Insurance

(i) The table below shows the concentration of premium by type of contract.

	1.7.2011 to 31.12.2011			1.7.2010 to 30.6.2011		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
Malaysia						
Motor	133,031	(4,102)	128,929	240,485	(11,867)	228,618
Fire	76,053	(41,005)	35,048	164,014	(73,501)	90,513
Marine Cargo, Aviation Cargo & Transit	217,840	(211,851)	5,989	547,628	(530,274)	17,354
Miscellaneous	92,058	(24,667)	67,391	205,418	(51,095)	154,323
	518,982	(281,625)	237,357	1,157,545	(666,737)	490,808
Singapore and Brunei						
Motor	15,144	(569)	14,575	32,666	(982)	31,684
Fire	10,148	(1,810)	8,338	18,302	(4,197)	14,105
Marine Cargo, Aviation Cargo & Transit	2,158	(531)	1,627	4,081	(1,076)	3,005
Miscellaneous	22,192	(1,959)	20,233	41,340	(5,855)	35,485
	49,642	(4,869)	44,773	96,389	(12,110)	84,279
Total	568,624	(286,494)	282,130	1,253,934	(678,847)	575,087

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(ii) Key Assumptions and Methods

The claim liabilities of the Company are estimated by using a range of standard actuarial claims projection methodologies, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the past claims development experience can be used to project future claims development and hence the ultimate costs of claims. Accordingly, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by type of coverage.

The assumptions used in the projection methodologies, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, legislative changes, judicial decisions and economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a liability range. In addition, the liabilities are estimated on an undiscounted basis and no curve-fitting methods have been applied in the estimation process.

The inherent uncertainties in estimating liabilities can arise from a variety of factors such as the range and quality of data available, underlying assumptions made and random volatility in future experience. The uncertainties involved in estimating liabilities are allowed for in the reserving process and by the estimation of explicit liability uncertainty distributions. The reserve estimation basis based on Bank Negara Malaysia’s Risk-Based Capital Framework for Insurers requires all general insurance businesses to calculate booked claim provisions at the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(ii) Key Assumptions and Methods (Cont'd)

The estimated unallocated loss adjustment expense ("ULAE") is based conventional 50-50% rule in computing the ULAE liability. Specifically, ULAE reserve equals to one half of (historical ULAE paid to Loss & ALAE paid) times (total case reserves plus 2 times pure IBNR reserves). There is no change in the methodology used in deriving the ULAE.

For Singapore branch, a loading is applied to the best estimates for loss and allocated loss adjustment expense to provide for the ULAE.

Unallocated loss adjustment expense

	31.12.2011	30.6.2011
Change in unallocated loss adjustment expense to paid loss ratio (Exclude Singapore)	5%	5%

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iii) Sensitivities

Using the methods described above, the claims development is extrapolated for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historical claims.

Illustrative results of sensitivity testing for general insurance business's claims liabilities are set out below. The cumulative effect of all possible factors that affect the assumptions in the projection would ultimately impact the claims liabilities and, consequently, the observed net incurred claim ratio for the financial year. Therefore, the sensitivity analysis has been performed based on reasonably possible movements in net incurred claims ratio with all other assumptions or key factors held constant, showing the impact on gross and net liabilities, profit before tax and the participants' fund.

General Insurance - Malaysia & Brunei businesses	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
31.12.2011					
Net Incurred Claims Ratio	+ 5%	29,391	12,348	(12,348)	(9,261)
	- 5%	(29,391)	(12,348)	12,348	9,261
30.6.2011					
Net Incurred Claims Ratio	+ 5%	52,731	24,257	(24,257)	(18,193)
	- 5%	(52,731)	(24,257)	24,257	18,193

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iii) Sensitivities (Cont'd)

General Insurance - Singapore business	Change in assumptions	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	profit before tax RM'000	Impact on equity RM'000
31.12.2011					
Net Incurred Claims Ratio	+ 5%	2,305	2,007	(2,007)	(1,505)
	- 5%	(2,305)	(2,007)	2,007	1,505
30.6.2011					
Net Incurred Claims Ratio	+ 5%	4,867	4,239	(4,239)	(3,179)
	- 5%	(4,867)	(4,239)	4,239	3,179

* impact on equity reflects adjustments for tax, when applicable

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

(iv) Claims development table

The following tables show the Malaysia and Singapore branch estimated incurred claims, including both claims notified and IBNR for each successive accident year at the end of each reporting period, together with cumulative payments to date. The management of the Company believes the estimate of total claims outstanding as at the financial year end are adequate. The Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty.

Note: Prior years' estimated incurred claims are not available for Malaysia because of the merger of a few companies with different financial ending period.

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iv) Claims development table (Cont'd)

Analysis of claims development - Gross Insurance Contract Liabilities

Malaysia and Brunei businesses	Before				As at 31 December				
	2005	2005	2006	2007	2008	2009	2010	2011	Total
Accident year	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Estimate of cumulative claims for Malaysia:									
At the end of accident year		347,856	367,506	322,376	420,321	511,266	562,758	387,989	
1 year later		512,103	385,003	316,391	506,979	420,875	740,423		
2 years later		473,225	342,696	325,232	348,529	314,554			
3 years later		464,911	323,542	354,280	342,856				
4 years later		439,303	329,242	319,117					
5 years later		474,545	316,002						
6 years later		453,754							
Estimate of cumulative claims for Malaysia (A)		453,754	316,002	319,117	342,856	314,554	740,423	387,989	
Estimate of cumulative payments to date for Malaysia:									
At the end of accident year		91,693	108,937	112,073	131,993	137,944	141,508	121,264	
1 year later		192,905	222,358	206,981	230,652	229,309	324,251		
2 years later		235,098	255,489	243,267	285,343	273,022			
3 years later		252,810	277,699	282,164	319,168				
4 years later		262,689	291,347	288,056					
5 years later		330,288	293,753						
6 years later		336,876							
Cumulative payments for Malaysia (B)		336,876	293,753	288,056	319,168	273,022	324,251	121,264	
Outstanding claim liabilities for Malaysia (A) - (B)	65,858	116,878	22,249	31,061	23,688	41,532	416,172	266,725	984,163
Outstanding claim liabilities for Brunei and Treaty Inward									47,854
Provision for Potential Reinsurance Uncollectibles									-
Unallocated loss adjustment expenses									28,919
Effect of discounting									-
Best estimate of outstanding claim liabilities									1,060,936
Provision for Risk Margin for Adverse Deviation									336,580
Gross Insurance Claims Liabilities									1,397,516

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iv) Claims development table (Cont'd)

Analysis of claims development - Net of Reinsurance

Malaysia and Brunei businesses	Before				As at 31 December				
	2005	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Accident year	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Estimate of cumulative claims for Malaysia:									
At the end of accident year		230,554	241,945	225,839	241,450	351,437	366,444	237,790	
1 year later		211,195	240,044	219,925	207,650	226,824	257,410		
2 years later		199,750	225,151	211,792	202,737	216,925			
3 years later		194,496	203,721	210,237	206,473				
4 years later		182,789	205,445	190,005					
5 years later		182,542	205,074						
6 years later		180,446							
Estimate of cumulative claims for Malaysia (A)		180,446	205,074	190,005	206,473	216,925	257,410	237,790	
Estimate of cumulative payments to date for Malaysia:									
At the end of accident year		89,978	95,909	86,172	107,506	116,191	129,136	104,809	
1 year later		153,715	172,519	157,931	175,155	180,244	215,832		
2 years later		166,231	188,772	170,887	187,774	199,988			
3 years later		171,019	194,805	177,066	195,233				
4 years later		175,189	199,019	181,078					
5 years later		177,110	200,908						
6 years later		178,106							
Cumulative payments for Malaysia (B)		178,106	200,908	181,078	195,233	199,988	215,832	104,809	
Outstanding claim liabilities for Malaysia (A) - (B)	6,619	2,340	4,166	8,927	11,240	16,937	41,578	132,981	224,788
Outstanding claim liabilities for Brunei and Treaty Inward									51,011
Provision for Potential Reinsurance Uncollectibles									-
Unallocated loss adjustment expenses									8,174
Effect of discounting									-
Best estimate of outstanding claim liabilities									283,973
Provision for Risk Margin for Adverse Deviation									65,573
Net Insurance Claims Liabilities									349,546

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iv) Claims development table (Cont'd)

Analysis of claims development - Gross insurance Contract Liabilities

Singapore business	**Before 2005**	**2005**	**2006**	**2007**	**As at 31 December 2008**	**2009**	**2010**	**2011**	**Total**
Accident year	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Estimate of cumulative claims for Singapore:									
At the end of accident year		N/A	27,262	31,776	38,980	94,206	93,502	72,476	
1 year later		52,554	62,516	68,282	86,679	88,674	93,140		
2 years later		50,557	64,022	70,164	90,051	89,462			
3 years later		49,521	65,156	72,189	92,056				
4 years later		50,456	66,008	76,190					
5 years later		51,320	66,930						
6 years later		51,412							
Estimate of cumulative claims for Singapore (A)		51,412	66,930	76,190	92,056	89,462	93,140	72,476	
Estimate of cumulative payments to date for Singapore:									
At the end of accident year		18,559	19,573	23,819	23,884	32,059	25,856	15,938	
1 year later		37,868	47,189	50,493	63,010	59,595	52,265		
2 years later		43,593	54,827	61,542	75,954	69,209			
3 years later		46,520	61,204	66,932	83,278				
4 years later		48,877	63,408	70,423					
5 years later		50,042	65,172						
6 years later		50,758							
Cumulative payments (B)		50,758	65,172	70,423	83,278	69,209	52,265	15,938	
Outstanding claim liabilities (A) - (B)	410	654	1,758	5,767	8,778	20,253	40,875	56,538	135,033
Outstanding claim liabilities for Alpha Reinsurance									5,020
Provision for Potential Reinsurance Uncollectibles									-
Unallocated loss adjustment expenses									3,037
Effect of discounting									-
Best estimate of outstanding claim liabilities									143,090
Provision for Risk Margin for Adverse Deviation									17,057
Effect of currency translation									-
Gross Insurance Claims Liabilities									160,147

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iv) Claims development table (Cont'd)

Analysis of claims development - Net of Reinsurance

Singapore business	**Before**				**As at 31 December**				
	2005	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Accident year	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Estimate of cumulative claims for Singapore:									
At the end of accident year		42,258	54,009	58,886	74,787	89,048	83,463	63,447	
1 year later		44,270	57,392	65,263	81,722	83,587	86,276		
2 years later		44,008	59,142	67,485	85,051	83,267			
3 years later		45,517	61,863	69,282	87,234				
4 years later		46,802	62,709	72,497					
5 years later		47,411	64,109						
6 years later		47,846							
Estimate of cumulative claims for Singapore (A)		47,846	64,109	72,497	87,234	83,267	86,276	63,447	
Estimate of cumulative payments to date for Singapore:									
At the end of accident year		16,213	19,541	23,651	22,679	29,945	24,349	14,836	
1 year later		34,568	45,870	48,482	59,759	55,571	48,864		
2 years later		40,054	52,892	59,291	72,523	64,422			
3 years later		42,960	59,169	64,600	79,138				
4 years later		45,326	60,760	68,067					
5 years later		46,531	62,481						
6 years later		47,441							
Cumulative payments (B)		47,441	62,481	68,067	79,138	64,422	48,864	14,836	
Outstanding claim liabilities (A) - (B)	384	405	1,628	4,430	8,096	18,845	37,412	48,611	119,811
Outstanding claim liabilities for Alpha Reinsurance									5,020
Provision for Potential Reinsurance Uncollectibles									-
Unallocated loss adjustment expenses									2,696
Effect of discounting									-
Best estimate of outstanding claim liabilities									127,527
Provision for Risk Margin for Adverse Deviation									12,626
Effect of currency translation									(1)
Net Insurance Claims Liabilities									140,152

38. INSURANCE RISK (CONT'D)

(B) General Insurance (Cont'd)

(iv) Claims development table (Cont'd)

Prior to 2009, gross valuation was only performed at the middle of each year. Thus the estimated cumulative claims for year 2008 and prior were based on gross premium earned in the first half of the year only (i.e. up to 30 June only).

Subsequent to 2009, we have performed gross valuation as at the end of the year. Thus, the estimated cumulative claims from year 2009 to 2011 represents estimate of expected claims to be paid on gross premium earned up to 31 December.

39. FINANCIAL RISKS

(i) Credit Risk

The Company's credit risk arises through the investment in fixed income instruments, corporate loans and contracts with reinsurance.

However, the main contribution of the credit risk arises from transactions related to our positions in debt securities (mainly corporate bonds).

The default risk the Company faces is when the counterparties fail to meet contractual payment obligations.

The Company measures and manages the credit risk following the philosophy and principles below:
- Actively aim to prevent undue concentration by ensuring diversified and marketable credit portfolio
- Asset management research team does a prudent bond selection
- Sets forth maximum credit exposures it is willing to take. The credit limit for a counterparty is based on the counterparty credit quality. And also aligned to the Company's risk appetite.

- Uses Key Risk Indicators (KRI") to alert its impending problems in a timely manner.

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Credit Exposure

The table below shows the maximum exposure to credit risk for the components on the Statement of Financial Position and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreement.

	31.12.2011			30.6.2011		
	Insurance and Shareholder's Fund RM'000	Unit-Linked RM'000	Total RM'000	Insurance and Shareholder's Fund RM'000	Unit-Linked RM'000	Total RM'000
LAR						
Fixed and call deposits	1,035,933	242,432	1,278,365	1,058,708	67,661	1,126,369
AFS financial investments						
Equity securities	1,247,891	-	1,247,891	1,357,681	-	1,357,681
MGS/GII/MGGB^	311,248	-	311,248	310,772	-	310,772
Other debt securities, structured deposits and NCDs	882,189	-	882,189	775,376	-	775,376
Unit and property trust funds	58,353	-	58,353	34,384	-	34,384
Financial investments at FVTPL						
(i) Designated upon initial recognition						
MGS/GII/MGGB^	1,618,187	-	1,618,187	1,564,197	-	1,564,197
Other debt securities, structured deposits and NCDs	6,068,338	-	6,068,338	5,933,390	-	5,933,390
(ii) Held- for- trading (HFT)						
Equity securities	-	357,295	357,295	-	361,829	361,829
MGS/GII/MGGB^	-	38,542	38,542	-	7,581	7,581
Other debt securities, structured deposits and NCDs	-	639,548	639,548	-	722,689	722,689
Unit and property trust funds	-	21,636	21,636	-	22,025	22,025
Financing receivables	276,092	-	276,092	311,916	-	311,916
Reinsurance assets	1,437,421	-	1,437,421	1,318,371	-	1,318,371
Insurance receivables	278,332	-	278,332	289,934	-	289,934
Other receivables	156,553	13,740	170,293	155,215	9,485	164,700
Derivative assets	(348)	33,355	33,007	-	41,782	41,782
Cash and bank balances	128,792	580	129,372	256,149	520	256,669
	13,498,981	1,347,128	14,846,109	13,366,093	1,233,572	14,599,665

^ MGS/GII/MGGB are government securities and government guaranteed debts.

The financial effect of collateral (quantification of the extent to which collateral mitigates credit risk) held for financing receivables of the Company is at 98% (30.6.2011: 87%).

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Credit Exposure by rating (Cont'd)

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

	Neither past-due nor impaired						
	*Investment grade RM'000 A to AAA	*Non-Investment grade RM'000 B to BBB	Not Rated RM'000	Unit-linked RM'000	Past-due RM'000	Not subject to credit risk RM'000	Total RM'000
31.12.2011							
LAR							
Fixed and call deposits	976,267	-	59,666	242,432	-	-	1,278,365
AFS financial investments							
Equity securities	-	-	-	-	-	1,247,891	1,247,891
MGS/GII/MGGB^	83,267	-	227,981	-	-	-	311,248
Other debt securities, structured deposits and NCDs	817,916	-	64,273	-	-	-	882,189
Unit and property trust funds	-	-	-	-	-	58,353	58,353
Financial investments at FVTPL							
(i) Designated upon initial recognition							
MGS/GII/MGGB^	376,246	-	1,241,941	-	-	-	1,618,187
Other debt securities, structured deposits and NCDs	6,023,924	-	44,414	-	-	-	6,068,338
(ii) Held- for- trading (HFT)							
Equity securities	-	-	-	357,295	-	-	357,295
MGS/GII/MGGB^	-	-	-	38,542	-	-	38,542
Other debt securities, structured deposits and NCDs	-	-	-	639,548	-	-	639,548
Unit and property trust funds	-	-	-	21,636	-	-	21,636
Financing receivables	-	-	12,609	-	639	262,844	276,092
Reinsurance assets	-	-	1,104,923	-	-	332,498	1,437,421
Insurance receivables^^	3,798	1,325	229,834	-	43,375	-	278,332
Other receivables	66,529	-	15,343	13,740	-	74,681	170,293
Derivative assets	-	-	(348)	33,355	-	-	33,007
Cash and bank balances	128,345	-	447	580	-	-	129,372
	8,476,292	-	3,001,083	1,347,128	44,014	1,976,267	14,846,109

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Credit Exposure by rating (Cont'd)

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

	Neither past-due nor impaired						
	*Investment grade RM'000 A to AAA	*Non-Investment grade RM'000 B to BBB	Not Rated RM'000	Unit-linked RM'000	Past-due RM'000	Not subject to credit risk RM'000	Total RM'000
30.6.2011							
LAR							
Fixed and call deposits	983,325	6,728	68,655	67,661	-	-	1,126,369
AFS financial investments							
Equity securities	-	-	-	-	-	1,357,681	1,357,681
MGS/GII/MGGB^	20,278	-	290,494	-	-	-	310,772
Other debt securities, structured deposits and NCDs	713,105	50	62,221	-	-	-	775,376
Unit and property trust funds	-	-	-	-	-	34,384	34,384
Financial investments at FVTPL							
(i) Designated upon initial recognition							
MGS/GII/MGGB^	376,783	-	1,187,414	-	-	-	1,564,197
Other debt securities, structured deposits and NCDs	5,888,831	346	44,213	-	-	-	5,933,390
(ii) Held- for- trading (HFT)							
Equity securities	-	-	-	361,829	-	-	361,829
MGS/GII/MGGB^	-	-	-	7,581	-	-	7,581
Other debt securities, structured deposits and NCDs	-	-	-	722,689	-	-	722,689
Unit and property trust funds	-	-	-	22,025	-	-	22,025
Financing receivables	-	-	10,223	-	3,565	298,128	311,916
Reinsurance assets	-	-	925,048	-	-	393,323	1,318,371
Insurance receivables^^	4,466	8	233,872	-	51,588	-	289,934
Other receivables	86,493	-	33,261	9,485	-	35,461	164,700
Derivative assets	-	-	-	41,782	-	-	41,782
Cash and bank balances	255,841	-	308	520	-	-	256,669
	8,329,122	7,132	2,855,709	1,233,572	55,153	2,118,977	14,599,665

* Based on ratings assigned by external rating agencies including RAM and MARC
^ MGS/GII/MGGB are government securities and government guaranteed debts which is classified as not rated category.
^^ Insurance receivables from agents/insurers/reinsurers licensed under the Insurance Act, 1996 generally falls under not rated category.

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Age Analysis of Financial Assets Past-Due But Not Impaired

	Past due but not impaired				Past due and impaired			Total
	< 90 days	91 to 180 days	> 180 days	Total	Original carrying amount	Allowance for impairment	Net carrying amount	
31.12.2011	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AFS financial investments								
- Debt securities	-	-	-	-	14,363	(14,363)	-	-
Financing receivables	159	21	459	639	1,889	(1,889)	-	639
Insurance receivables	33,396	8,219	1,760	43,375	50,187	(50,187)	-	43,375
Other receivables	-	-	-	-	4,534	(4,534)	-	-
	33,555	8,240	2,219	44,014	70,973	(70,973)	-	44,014
30.6.2011								
AFS financial investments								
- Debt securities	-	-	-	-	15,957	(15,957)	-	-
Financing receivables	580	199	2,091	2,870	2,425	(1,730)	695	3,565
Insurance receivables	35,462	15,593	533	51,588	56,556	(56,556)	-	51,588
Other receivables	-	-	-	-	1,290	(1,290)	-	-
	36,042	15,792	2,624	54,458	76,228	(75,533)	695	55,153

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Reconciliation of allowance account

Movements in allowances for impairment for financial assets are as follows:

	AFS - Debt securities RM'000	Financing receivables RM'000	Insurance receivables RM'000	Other receivables RM'000	Total RM'000
31.12.2011					
At 1 July 2011	15,957	1,730	56,556	1,290	75,533
Allowance made/(recovered) during the period	(1,594)	159	(6,307)	3,244	(4,498)
Amount written off	-	-	(62)	-	(62)
At 31 December 2011	14,363	1,889	50,187	4,534	70,973
30.6.2011					
At 1 July 2010	1,584	790	34,498	952	37,824
Transfer from Sri MLAB	17,160	565	3	27	17,755
Allowance made during the year	2,791	429	22,055	311	25,586
Amount written back in respect of recoveries	(5,578)	-	-	-	(5,578)
Amount written off	-	(54)	-	-	(54)
At 30 June 2011	15,957	1,730	56,556	1,290	75,533

39. FINANCIAL RISKS (CONT'D)

(i) Credit Risk (Cont'd)

Collateral

The main types of collateral obtained by the Company to mitigate credit risk are as follows:

Type of financing receivables	Type of collaterals
Policy/automatic premium loans	Cash value of policies
Corporate loans	Charges over properties being financed and bank guarantees
Secured staff loans	Charges over residential properties and vehicles

(ii) Liquidity Risk

Liquidity Risk is the risk that arises from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss.

Liquidity risk management is to safeguard the Company's ability to meet all payments when they fall due.

The Company measures and manages the liquidity risk following the philosophy and principles below:
- Actively monitors the asset-liability cashflows through ALCO platform.
- The Company's investment strategies ensure that the investment limits set takes care of reasonable liquidity requirements at all times.

39. FINANCIAL RISKS (CONT'D)

(ii) Liquidity Risk (Cont'd)

Maturity Profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities. Unearned premiums and the reinsurers' share of unearned premiums have been excluded form the analysis as they are not contractual obligations.

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

31.12.2011	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Financial investments:						
LAR	1,278,365	1,282,129	231	-	-	1,282,360
AFS	2,499,681	67,491	545,606	921,610	1,306,244	2,840,951
FVTPL	8,743,546	370,251	3,660,700	6,391,382	378,931	10,801,264
Financing receivables	276,092	232,930	22,117	29,816	-	284,863
Reinsurance assets*	1,104,923	629,455	412,393	67,465	-	1,109,313
Insurance receivables	278,332	278,332	-	-	-	278,332
Other receivables	170,293	123,794	-	-	46,499	170,293
Derivative assets	33,007	-	33,168	187	-	33,355
Cash and bank balances	129,372	129,372	-	-	-	129,372
Total financial and insurance assets	14,513,611	3,113,754	4,674,215	7,410,460	1,731,674	16,930,103
Insurance contract liabilities*	10,834,089	2,625,722	4,322,365	8,147,601	-	15,095,688
Insurance payables	331,663	330,486	-	-	-	330,486
Other payables	261,192	261,192	-	-	-	261,192
Total financial and insurance liabilities	11,426,944	3,217,400	4,322,365	8,147,601	-	15,687,366

* Excluded premium liabilities, AFS reserves and unallocated surplus.

39. FINANCIAL RISKS (CONT'D)

(ii) Liquidity Risk (Cont'd)

Maturity Profiles (Cont'd)

30.6.2011	Carrying value RM'000	Up to a year RM'000	1 - 5 years RM'000	> 5 years RM'000	No maturity date RM'000	Total RM'000
Financial investments:						
LAR	1,126,369	1,139,398	1,013	-	-	1,140,411
AFS	2,478,213	84,215	580,069	739,367	1,392,065	2,795,716
FVTPL	8,611,711	781,656	3,628,979	6,085,238	383,853	10,879,726
Financing receivables	311,916	267,167	27,325	34,275	-	328,767
Reinsurance assets*	925,048	496,691	368,671	67,342	-	932,704
Insurance receivables	289,934	289,934	-	-	-	289,934
Other receivables	164,700	129,239	-	-	35,461	164,700
Derivative assets	41,782	41,401	381	-	-	41,782
Cash and bank balances	256,669	256,669	-	-	-	256,669
Total financial and insurance assets	14,206,342	3,486,370	4,606,438	6,926,222	1,811,379	16,830,409
Insurance contract liabilities*	10,339,560	2,455,932	4,152,916	8,294,984	-	14,903,832
Insurance payables	322,331	322,331	-	-	-	322,331
Other payables	332,772	332,772	-	-	-	332,772
Total financial and insurance liabilities	10,994,663	3,111,035	4,152,916	8,294,984	-	15,558,935

* Excluded premium liabilities, AFS eserves and unallocated surplus.

39. FINANCIAL RISKS (CONT'D)

(iii) Market Risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprises of three (3) types of risk:
- foregin exchange rates (currency risk);
- market interest rates (interest rate risk); and
- market prices (price risk).

The Company has namely three key features in its market risk management practices and policies.

Firstly, a Company-wide market risk policy exists which sets out the evaluation and determination of components of market risk for the Company. Compliance with the policy is monitored and reported monthly to the RMC and exposures and breaches are reported as soon as practicable.

Second, the Company's policies on asset allocation, portfolio limit structure and diversification benchmarks have been set in line with the Company's risk management policy after taking the cognizance of the regulatory requirements in respect of maintenance of assets and solvency.

Third, strict controls exist over derivative transactions; such transactions are only permitted for hedging purposes and strictly not for speculative purposes.

The Company also issues unit-linked investment policies in a number of its products. In the unit-linked business, the policyholder bear the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the funds.

The Company's exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of the assets in the funds.

39. FINANCIAL RISKS (CONT'D)

(iii) Market Risk (Cont'd)

(a) Currency Risk

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

The Company’s primary transactions are carried out in Ringgit Malaysia ("RM") and its exposure to foreign exchange risk arises principally with respect to Singapore Dollar, Brunei Dollar and US Dollar.

As the Company’s business is conducted primarily in Malaysia, the Company’s financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the same currency (the local "RM") as its insurance and investment contract liabilities.

The Company’s main foreign exchange risk from recognised assets and liabilities arises from reinsurance transactions for which the balances are expected to be settled and realised in less than a year, the impact arising from sensitivity in foreign exchange rates is deemed minimal as the Company has no significant concentration of foreign currency risk.

39. FINANCIAL RISKS (CONT'D)

(iii) Market Risk (Cont'd)

(b) Interest Rate Risk

Interest rate risks arise from exposures to interest rate related assets and liabilities. It is also known as asset-liability mismatch ("ALM") risk. It is mainly driven by the volatility of future cash flows. The quantum is also proxied to the duration mismatch between the assets and the liabilities.

The Company measures and manages the interest rate risk following mainly three philosophies and principles.

- Actively aim to match the liability duration with the asset duration, without compromising credit quality;

- Set forth the benchmark for asset duration in line with risk appetite;

- Use Key Risk Indicators ("KRI") to alert the organisation to impending problems in a timely manner.

39. FINANCIAL RISKS (CONT'D)

(iii) Market Risk (Cont'd)

(b) Interest Rate Risk (Cont'd)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on NAV

		31.12.2011		30.6.2011	
Funds	**Changes in variables**	**Impact on Profit/ Surplus Before Tax RM'000**	**Impact on Equity/ Insurance Fund RM'000**	**Impact on Profit/ Surplus Before Tax RM'000**	**Impact on Equity/ Insurance Fund RM'000**
Shareholders	+100 basis points	(40,892)	(30,669)	(26,093)	(26,093)
	-100 basis points	40,892	30,669	26,093	26,093
General	+100 basis points	-	(23,170)	-	(25,256)
	-100 basis points	-	23,170	-	25,256
Life	+100 basis points	(217,085)	(422,994)	(209,938)	(414,738)
	-100 basis points	217,085	422,994	209,938	414,738

(c) Price Risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The changes can be due to factors specific to the individual financial instrument or its issuer; or factors affecting similar financial instruments traded in the market.

39. FINANCIAL RISKS (CONT'D)

(iii) Market Risk (Cont'd)

(c) Price Risk (Cont'd)

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices which are principally investment securities not held for unit-linked business.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM.

The Company complied with BNM stipulated limits during the financial year and had no significant concentration of price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables being held constant.

Funds	Market Indices	Changes in variables	31.12.2011 Impact on Equity/ Insurance Fund RM'000	30.6.2011 Impact on Equity/ Insurance Fund RM'000
Shareholder's	Bursa Malaysia	+10%	19,454	25,500
		-10%	(19,454)	(25,500)
General	Bursa Malaysia	+10%	6,757	9,482
		-10%	(6,757)	(9,482)
Life	Bursa Malaysia	+10%	125,875	142,610
		-10%	(125,875)	(142,610)

39. FINANCIAL RISKS (CONT'D)

(iv) Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Company put in place controls to mitigate operational risks. If these controls fail to perform, they can cause damage to reputation, have legal or regulatory implications and can lead to financial loss. Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(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.

(ii) Financing Receivables

Financing receivables are granted at interest rates which are comparable with the rates offered on similar instruments in the market and to counter parties with similar credit profile. Accordingly, the carrying amount of the financing receivables approximate their fair values as the impact of discounting is not material.

(iii) Insurance Receivables and Payables

The carrying amounts are measured at amortised cost in accordance with the accounting policies as disclosed in Note 2.2(r) and 2.2(y) . The carrying amounts approximate fair values due to the short-term maturity of these financial instruments.

(iv) Investments

Investments as at 31 December 2011 have been accounted for in accordance with the accounting policies as disclosed in Note 2.2(f) and 2.2(g). The carrying amounts and fair values of the investments are disclosed in Note 9 to the financial statements.

Description of Overall Fair Value Framework

The Company has an established framework and policies which provides guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuations for financial instruments.

The valuations of financial instruments are performed either based on quoted prices in active markets at which an arm's length transaction would be likely to occur or using valuation techniques. Fair values of financial instruments can be assessed using observable inputs or unobservable inputs where one or more significant inputs are unobservable. Management judgment is exercised in the selection and application of appropriate parameters, assumptions and modeling techniques where some or all of the parameter inputs are not observable in deriving fair value.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

(iv) Investments (Cont'd)

Description of Overall Fair Value Framework (Cont'd)

Valuation adjustment is an integral part of valuation process. Valuation adjustment reflects the uncertainty in valuations for products that are less standardised, less frequently traded and more complex in nature. In making valuation adjustments, the Company follows methodologies that consider factors such as liquidity, bid-offer spread, unobservable prices/inputs in the market and uncertainties in the assumptions/parameters.

In addition, the Company continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure the model remains suitable for its intended use.

Description of Overall Definition of the Fair Value Hierarchy

The levels of the fair value hierarchy as defined by the accounting standards are an indication of the observability of prices or valuation input. It can be classified into following hierarchy/level:

• Level 1 : Active Market – quoted price

Refers to financial instruments which are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices which represent actual and regularly occurring market transactions on an arm’s length basis. Such financial instruments include actively traded government securities, listed derivatives and cash products traded on exchange.

• Level 2 : No Active Market – Valuation techniques using observable input

Refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Examples of level 2 financial instruments include corporate and other government bonds and less liquid equities.

• Level 3 : No Active Market – Valuation techniques using unobservable input

Refers to financial instruments where fair values are measured using unobservable market inputs. The valuation technique is consistent with level 2.

Examples of level 3 instruments include corporate bonds in illiquid markets, private equity investments, over–the–counter ("OTC") derivatives and structured OTC derivatives.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

(a) Fair Value Disclosures Based on 3-Level Hierarchy

31.12.2011

	Valuation technique using: Level 1 Quoted market prices RM'000	Level 2 Using observable inputs RM'000	Level 3 Using significant unobservable inputs RM'000	Total RM'000
Assets				
AFS financial investments				
Equity securities	1,137,635	-	-	1,137,635
MGS/GII /MGGB^	-	311,248	-	311,248
Other debt securities, structured deposits and NCDs	-	825,682	56,507	882,189
Unit and property trust funds	50,490	-	-	50,490
Financial investments at FVTPL				
(i) Designated upon initial recognition				
MGS/GII /MGGB^	-	1,618,187	-	1,618,187
Other debt securities, structured deposits and NCDs	-	5,782,140	286,198	6,068,338
(ii) Held- for- trading (HFT)				
Equity securities	357,295	-	-	357,295
MGS/GII /MGGB^	-	38,542	-	38,542
Other debt securities, structured deposits and NCDs	-	639,548	-	639,548
Unit and property trust funds	21,636	-	-	21,636
Derivative assets	-	-	33,355	33,355
Total assets	1,567,056	9,215,347	376,060	11,158,463
Liabilities				
Derivative Liabilities	-	-	(348)	(348)
Total liabilities	-	-	(348)	(348)

Unquoted equities securities and unquoted unit and property trust fund of RM110,256,016 and RM7,862,971 respectively as disclosed in Note 9 are not included in the above analysis as they are carried at cost.

^ MGS/GII/MGGB are government securities and government guaranteed debts.

40. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D)

(b) Reconciliation of level 3 fair value hierarchy

31.12.2011

	Financial instruments measured at fair value				
	AFS RM'000	**Designated at FVTPL RM'000**	**HFT RM'000**	**Derivative assets RM'000**	**Derivative liabilities RM'000**
At 1 July 2011	54,308	276,363	-	41,782	-
Recognised in Income Statement:					
Fair value gain/(loss)	-	9,835	-	(10,238)	(348)
Recognised in Other Comprehensive Income:					
Fair value gain/(loss)	2,199	-	-	-	-
Translation differences	-	-	-	1,811	-
At 31 December 2011	56,507	286,198	-	33,355	(348)
Total gains/(losses) recognised in Income Statement for financial instruments measured at fair value at the end of the reporting period	-	9,835	-	(10,238)	(348)
Total gains/(losses) recognised in Other Comprehensive Income for financial instruments measured at fair value at the end of the reporting period	2,199	-	-	-	-

41. DIVIDENDS

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Recognised during the financial period:		
Dividends on ordinary shares:		
- Interim dividend for the 6 months ended 31 December 2011: 158%, net of tax at 25% (12 months ended 30 June 2011: NIL)	180,299	-

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

42. REGULATORY CAPITAL REQUIREMENT

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

	31.12.2011 RM'000	30.6.2011 RM'000
Eligible Tier 1 Capital		
Share capital (paid up)	152,151	152,151
Reserves, including retained earnings	3,683,005	3,696,119
	3,835,156	3,848,270
Tier 2 Capital		
Revaluation reserve	11,647	11,887
Available for sale reserve	216,809	318,293
Currency translation reserve	937	2,632
	229,393	332,812
Amount deducted from Capital	(74,135)	(53,788)
Total Capital Available	3,990,414	4,127,294

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

43. INSURANCE FUNDS

The Company's principal activities are organised by funds and segregated into Shareholder's, General and Life funds in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996.

The Company's Statement of Financial Position and Income Statement have been further analysed by funds.

The Life business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Annuity products, as well as Unit-linked products.

The General insurance businesses offer general insurance products which include Motor, Fire, Marine, Aviation and Transit ("MAT"), Health & Surgical and Miscellaneous products.

STATEMENT OF FINANCIAL POSITION BY FUNDS
AS AT 31 DECEMBER 2011

	Total		Shareholder's and General Fund		Life Fund	
	31.12.2011 RM'000	30.6.2011 RM'000	31.12.2011 RM'000	30.6.2011 RM'000	31.12.2011 RM'000	30.6.2011 RM'000
Assets:						
Property, plant and equipment	116,768	136,228	64,220	64,289	52,548	71,939
Investment properties	515,070	516,360	34,600	35,890	480,470	480,470
Prepaid land lease payments	20,644	20,796	10,266	10,343	10,378	10,453
Intangible assets	21,998	163	634	148	21,364	15
Investment in associate	152	152	152	152	-	-
Investments	12,521,592	12,216,293	1,920,156	1,862,356	10,601,436	10,353,937
Financing receivables	276,092	311,916	12,922	29,242	263,170	282,674
Reinsurance assets	1,437,421	1,318,371	1,400,463	1,281,405	36,958	36,966
Insurance receivables	278,332	289,934	247,107	240,618	31,225	49,316
Other receivables	170,293	164,700	44,909	46,909	125,384	117,791
Derivative assets	33,007	41,782	(19)	-	33,026	41,782
Current tax assets	97,440	97,441	83,365	83,365	14,075	14,076
Cash and bank balances	129,372	256,669	88,044	177,737	41,328	78,932
Total Assets	15,618,181	15,370,805	3,906,819	3,832,454	11,711,362	11,538,351

43. INSURANCE FUNDS (CONT'D)

STATEMENT OF FINANCIAL POSITION BY FUNDS (CONT'D)
AS AT 31 DECEMBER 2011

	Total		Shareholder's and General Fund		Life Fund	
	31.12.2011 RM'000	30.6.2011 RM'000	31.12.2011 RM'000	30.6.2011 RM'000	31.12.2011 RM'000	30.6.2011 RM'000
Equity and liabilities:						
Share capital	152,151	152,151	152,151	152,151	-	-
Reserves	1,357,445	1,403,144	1,357,445	1,403,144	-	-
Total Equity	1,509,596	1,555,295	1,509,596	1,555,295	-	-
Insurance contract liabilities	13,384,756	13,037,119	2,209,637	2,069,969	11,175,119	10,967,150
Deferred tax liabilities	75,153	79,662	8,433	9,097	66,720	70,565
Insurance payables	331,663	322,331	303,829	296,580	27,834	25,751
Other payables[1]	261,192	332,772	(165,758)	(132,835)	426,950	465,607
Current tax liabilities	55,821	43,626	41,082	34,348	14,739	9,278
Total Liabilities	14,108,585	13,815,510	2,397,223	2,277,159	11,711,362	11,538,351
Total equity and liabilities	15,618,181	15,370,805	3,906,819	3,832,454	11,711,362	11,538,351

[1] - Included in other payables is the amounts due to life, general and investment-linked funds which are unsecured, not subject to any interest elements and are repayable on demand.

Inter fund balances	-	-	(252,901)	(92,433)	252,901	92,433

43. INSURANCE FUNDS (CONT'D)

INCOME STATEMENT/REVENUE ACCOUNT BY FUNDS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	Total		Shareholder's Fund		General Fund		Life Fund	
	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Operating revenue	1,537,708	2,504,386	21,504	32,049	586,303	1,294,289	929,901	1,178,048
Gross earned premiums	1,309,151	1,928,008	-	-	634,414	1,166,494	674,737	761,514
Premiums ceded to reinsurers	(359,888)	(621,234)	-	-	(347,319)	(600,400)	(12,569)	(20,834)
Net earned premiums	949,263	1,306,774	-	-	287,095	566,094	662,168	740,680
Fee and commission income	27,703	68,064	-	-	25,163	61,492	2,540	6,572
Investment income	294,347	488,938	21,504	32,049	17,679	40,353	255,164	416,536
Realised gains	100,728	179,091	13,332	17,582	5,783	24,659	81,613	136,850
Fair value gains/(losses)	38,413	110,236	(3,560)	(2,539)	(46)	(6,453)	42,019	119,228
Other operating revenue/(expenses)	17,166	(34,144)	147	(4,241)	5,874	(19,856)	11,145	(10,047)
Other revenue	478,357	812,185	31,423	42,851	54,453	100,195	392,481	669,139
Gross benefits and claims paid	(701,565)	(1,506,094)	-	-	(212,456)	(535,115)	(489,109)	(970,979)
Claims ceded to reinsurers	75,877	241,102	-	-	68,389	236,405	7,488	4,697
Gross change to contract liabilities	(504,511)	(232,461)	-	-	(205,458)	(217,001)	(299,053)	(15,460)
Change in contract liabilities ceded to reinsurers	179,875	191,220	-	-	179,883	190,243	(8)	977
Net benefits and claims	(950,324)	(1,306,233)	-	-	(169,642)	(325,468)	(780,682)	(980,765)
Management expenses	(146,311)	(232,811)	(8,818)	(2,163)	(73,194)	(133,984)	(64,299)	(96,664)
Fee and commission expenses	(104,831)	(197,997)	-	-	(57,269)	(121,960)	(47,562)	(76,037)
Other expenses	(251,142)	(430,808)	(8,818)	(2,163)	(130,463)	(255,944)	(111,861)	(172,701)
Profit before tax	226,154	381,918	22,605	40,688	41,443	84,877	162,106	256,353
Transfer from Revenue Accounts								
- General Funds	-	-	30,666	97,700	(30,666)	(97,700)	-	-
- Life Funds	-	-	130,600	240,823	-	-	(130,600)	(240,823)
Taxation	(79,459)	(82,899)	(37,176)	(80,192)	(10,777)	12,823	(31,506)	(15,530)
Net profit/Surplus after tax	146,695	299,019	146,695	299,019	-	-	-	-

43. INSURANCE FUNDS (CONT'D)

STATEMENT OF CASH FLOWS BY FUNDS
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	Total		Shareholder's Fund		General Fund		Life Fund	
	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Cash flows from:								
Operating activities	155,180	148,727	338,168	367,012	(171,144)	(65,723)	(11,844)	(152,562)
Investing activities	(102,178)	(27,687)	(157,465)	(367,009)	81,047	159,134	(25,760)	180,188
Financing activity	(180,299)	-	(180,299)	-	-	-	-	-
Net (decrease)/increase in cash and cash equivalents	(127,297)	121,040	404	3	(90,097)	93,411	(37,604)	27,626
Cash and cash equivalents:								
Cash and cash equivalents at beginning of financial period/year	256,669	104,181	357	233	177,380	83,969	78,932	19,979
Transfer from Sri MLAB (Note 36)	-	31,448	-	121	-	-	-	31,327
Cash and cash equivalents at end of financial period/year	129,372	256,669	761	357	87,283	177,380	41,328	78,932

ETIQA INSURANCE BERHAD
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44. INVESTMENT-LINKED FUND STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	31.12.2011 RM'000	30.6.2011 RM'000
Assets:		
Investments	1,299,453	1,181,785
Other receivables	13,740	9,485
Derivative assets	33,355	41,782
Cash and bank balances	580	520
Total Assets	1,347,128	1,233,572
Liabilities:		
Deferred tax liabilities	2,432	3,952
Other payables	19,471	20,162
Current tax liabilities	3,127	1,762
Total Liabilities	25,030	25,876
Net asset value of funds (Note 17)	1,322,098	1,207,696

INVESTMENT-LINKED FUND INCOME STATEMENT FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2011

	1.7.2011 to 31.12.2011 RM'000	1.7.2010 to 30.6.2011 RM'000
Investment income	18,295	28,651
Realised gains	11,579	11,132
Fair value (losses)/gains	(32,444)	19,520
Other operating revenue/(expense)	8,180	(15,284)
Other revenue	5,610	44,019
Management expenses	(14)	(39)
Other expenses	(14)	(39)
Profit before tax	5,596	43,980
Taxation	(869)	(4,565)
Net profit/surplus after tax	4,727	39,415