

# MCIS ZURICH

INSURANCE

*Touching the lives of all*



Annual Report  
2012



# Directors' Report & Audited Financial Statements

30 JUNE 2012

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# DIRECTORS' REPORT

The directors hereby submit their report together with the audited financial statements of the Group and of the Company for the financial year ended 30 June 2012.

## PRINCIPAL ACTIVITIES

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

The principal activity of the subsidiary is described in Note 12 to the financial statements.

There have been no significant changes in the nature of the principal activities of the Group and of the Company during the financial year.

## RESULTS

|                         | Group<br>RM'000 | Company<br>RM'000 |
|-------------------------|-----------------|-------------------|
| Net profit for the year | 41,061          | 41,065            |

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

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

## DIVIDENDS

The amounts of dividends declared and paid by the Company since 30 June 2011 were as follows:

|  | RM'000        |
|--|---------------|
| Final dividend of 10% less 25% tax, amounting to RM7,521,305 in respect of the financial year ended 30 June 2011 declared on 30 November 2011 and paid on 15 December 2011 | 7,521         |
| Interim dividend of 5% less 25% tax, amounting to RM3,760,653 in respect of the financial year ended 30 June 2012 declared on 29 June 2012 and paid on 15 August 2012      | 3,761         |
|  | <u>11,282</u> |

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 30 June 2012 of 10% less 25% tax on 100,284,071 ordinary shares amounting to a total dividend of RM7,521,305 (7.5 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 30 June 2013.

# DIRECTORS' REPORT

## DIRECTORS

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

**Datuk Tan Kim Leong @ Tan Chong Min** (Chairman)

*Independent, non-executive director*

**Dato' Balaram a/l Petha Naidu**

*Non-independent, non-executive director*

**Datuk Haji Mohamed Al Amin bin Haji Abdul Majid**

*Independent, non-executive director*

**Tuan Haji Mustapha @ Mustapa bin Md Nasir**

*Non-independent, non-executive director*

**Mr. Kirupalani a/l Chelliah**

*Independent, non-executive director*

**Ms Eva Ip Yee Kwan** (appointed 29 June 2012)

*Non-independent, non-executive director*

**Mr. Murugiah M N Singham** (appointed 27 September 2012)

*Independent, non-executive director*

**Mr Edward Joseph Bush Jr** (appointed 30 November 2011, resigned 1 April 2012)

*Independent, non-executive director*

**Mr. Chan Tat Yoong** (resigned 26 January 2012)

*Non-independent, non-executive director*

**Mr. Graham Malcolm Howard Morrall** (resigned 29 June 2012)

*Non-independent, non-executive director*

**Mr. Arokiasamy a/l Savarimuthu** (vacated pursuant to section 125 of the Companies Act, 1965 on 1 December 2011)

*Non-independent, non-executive director*



# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

The Board of Directors ("the Board") confirms that the Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with, the principles prescribed under Bank Negara Malaysia ("BNM")'s Guidelines, BNM/RH/GL/003-1 Minimum Standards for Prudential Management of Insurers (Consolidated) and BNM/RH/GL/003-2 Prudential Framework of Corporate Governance for Insurers.

### Corporate Governance Standards

The memberships, roles and terms of reference of the Audit, Risk Management, Nominating, Remuneration and Investment Committees of the Board during the financial year were as follows:

#### (i) Audit Committee

The Audit Committee ("AC") comprises two independent, non-executive directors and one non-independent, non-executive director. The attendance of the members of the Committee in office at the 8 meetings of the Committee held during the financial year is as follows:

|   | Attendance |
|---|------------|
| <u>Chairman:</u>  |            |
| Mr Kirupalani a/I Chelliah (appointed 22 September 2011)                    | 6 / 6      |
| Datuk Tan Kim Leong @ Tan Chong Min (resigned 22 September 2011)            | 2 / 2      |
| <u>Members:</u>   |            |
| Tuan Haji Mustapha @ Mustapa bin Md Nasir                                   | 8 / 8      |
| Datuk Tan Kim Leong @ Tan Chong Min (appointed 10 April 2012)               | 1 / 1      |
| Mr. Kirupalani a/I Chelliah (appointed Chairman 22 September 2011)          | 2 / 2      |
| Mr Edward Joseph Bush Jr (appointed 13 January 2012, resigned 1 April 2012) | 2 / 2      |
| Datuk Haji Mohamed Al Amin bin Haji Abdul Majid (resigned 13 January 2012)  | 4 / 4      |

The AC's terms of reference include the reinforcement of the independence and objectivity of the internal audit function and the specification of its scope, the review of the Company's financial statements which includes the findings of both the internal and external auditors and the propriety of disclosure of related party transactions. It also makes recommendations to the Board on the appointment and re-appointment of the external auditors and the maintenance of a sound system of internal controls to safeguard the Company's assets.

The Committee's primary duties are as spelt out in the Guidelines, BNM/RH/GL/003-22: Guidelines on Audit Committee and Internal Audit Department (Part A) and BNM/RH/GL/013-4: Guidelines on Internal Audit Function of Licensed Institutions issued by BNM.

#### (ii) Risk Management Committee

The Risk Management Committee ("RMC") comprises one independent, non-executive director and two non-independent, non-executive directors. The attendance of the members of the Committee in office at the 3 meetings of the Committee held during the financial year is as follows:

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE (cont'd)

### Corporate Governance Standards (cont'd)

#### Attendance

##### Chairman:

|   |       |
|---|-------|
| Datuk Haji Mohamed Al-Amin bin Haji Abdul Majid | 2 / 3 |
|---|-------|

##### Members:

|  |       |
|--|-------|
| Tuan Haji Mustapha @ Mustapa bin Md Nasir  | 1 / 1 |
| Dato' Balaram a/l Petha Naidu (appointed 13 January 2012)                              | 1 / 1 |
| Ms Eva Ip Yee Kwan (appointed 29 June 2012)  | 0 / 0 |
| Mr. Chan Tat Yoong (resigned 26 January 2012)  | 1 / 1 |
| Mr. Graham Malcolm Howard Morrall (appointed 22 September 2011, resigned 29 June 2012) | 2 / 2 |
| Mr. Arokiasamy a/l Savarimuthu (vacated on 1 December 2011)                            | 2 / 2 |

The RMC oversees senior management's activities in managing the key risks of the Company, in order to ensure that the risk management process is in place and functioning effectively. The responsibilities of the RMC include the review, assessment and recommendation of the risk management strategies and risk tolerance of the Company. It also assesses the adequacy and effectiveness of the internal policies and frameworks for identifying, measuring, monitoring and controlling risks.

#### (iii) Nominating Committee

The Nominating Committee ("NC") comprises one independent, non-executive director and three non-independent, non-executive directors. The attendance of the members of the Committee in office at the 9 meetings of the Committee held during the financial year is as follows:

#### Attendance

##### Chairman:

|  |       |
|--|-------|
| Mr Kirupalani a/l Chelliah (appointed 22 September 2011)                     | 7 / 7 |
| Datuk Haji Mohamed Al-Amin bin Haji Abdul Majid (resigned 22 September 2011) | 2 / 2 |

##### Members:

|  |       |
|--|-------|
| Tuan Haji Mustapha @ Mustapa bin Md Nasir  | 9 / 9 |
| Dato' Balaram a/l Petha Naidu (appointed 22 September 2011)                            | 7 / 7 |
| Ms Eva Ip Yee Kwan (appointed 29 June 2012)  | 0 / 0 |
| Mr Edward Joseph Bush Jr (appointed 13 January 2012, resigned 1 April 2012)            | 1 / 1 |
| Mr. Chan Tat Yoong (resigned 26 January 2012)  | 4 / 4 |
| Mr. Graham Malcolm Howard Morrall (appointed 22 September 2011, resigned 29 June 2012) | 7 / 7 |
| Mr. Arokiasamy a/l Savarimuthu (resigned 22 September 2011)                            | 2 / 2 |

The NC is empowered to consider and evaluate the appointment of new directors and directors to fill the seats on Committees of the Board. It also recommends suitable, competent candidates to the Board and BNM for appointment and re-appointment or re-election. In addition to that, the NC is also entrusted with the responsibility for both the appointment and evaluation of the Chief Executive Officer and key senior officers of the Company.

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE (cont'd)

### Corporate Governance Standards (cont'd)

#### (iii) Nominating Committee (cont'd)

The NC will review annually, the structure, size, composition and mix of skills required for the Board to discharge its duties effectively. It also assesses on an annual basis, the effectiveness of the Board as a whole, including the various Committees of the Board.

#### (iv) Remuneration Committee

The Remuneration Committee ("RC") comprises one independent, non-executive director and one non-independent, non-executive directors. The attendance of the members of the Committee in office at the 3 meetings of the Committee held during the financial year is as follows:

|   | Attendance |
|---|------------|
| <u>Chairman:</u>  |            |
| Datuk Haji Mohamed Al Amin bin Haji Abdul Majid (appointed 22 September 2011) | 3 / 3      |
| Datuk Tan Kim Leong @ Tan Chong Min (resigned 22 September 2011)              | 0 / 0      |
| <u>Members:</u>   |            |
| Tuan Haji Mustapha @ Mustapa bin Md Nasir (appointed 13 January 2012)         | 2 / 2      |
| Mr Edward Joseph Bush Jr (appointed 13 January 2012, resigned 1 April 2012)   | 1 / 1      |
| Mr. Chan Tat Yoong (resigned 26 January 2012)                                 | 1 / 1      |
| Mr. Arokiasamy a/I Savarimuthu (vacated 1 December 2011)                      | 1 / 1      |
| Mr. Kirupalani a/I Chelliah (resigned 22 September 2011)                      | 0 / 0      |

The Board recognises that levels of remuneration must be sufficient to attract, retain and motivate directors of the quality required to manage the business of the Company and to align the interests of the directors with those of the shareholders. In this respect, the RC is responsible for reviewing and recommending the remuneration packages of executive directors.

#### (v) Board Investment Committee

The Board Investment Committee ("BIC") comprises one independent, non-executive director and two non-independent, non-executive directors. The attendance of the members of the Committee in office at the 7 meetings of the Committee held during the financial year is as follows:

|  | Attendance |
|--|------------|
| <u>Chairman:</u>   |            |
| Mr. Kirupalani a/I Chelliah (appointed 10 April 2012)  | 2 / 2      |
| (appointed 22 September 2011, resigned 13 January 2012, re-appointed 10 April 2012)          |            |
| Mr Edward Joseph Bush Jr (appointed 13 January 2012, resigned 1 April 2012)                  | 1 / 1      |
| Datuk Tan Kim Leong @ Tan Chong Min (resigned 22 September 2011)                             | 1 / 1      |
| <u>Members:</u>  |            |
| Dato' Balaram a/I Petha Naidu (appointed 22 September 2011)                                  | 6 / 6      |
| Mr. Kirupalani a/I Chelliah (appointed 13 January 2012, re-appointed Chairman 10 April 2012) | 3 / 3      |

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE (cont'd)

### Corporate Governance Standards (cont'd)

#### (v) Board Investment Committee (cont'd)

##### Attendance

##### Members:

|  |       |
|--|-------|
| Ms Eva Ip Yee Kwan (appointed 29 June 2012)  | 0 / 0 |
| Mr. Graham Malcolm Howard Morrall (appointed 22 September 2011, resigned 29 June 2012) | 4 / 4 |
| Mr. Chan Tat Yoong (resigned 26 January 2012)  | 3 / 3 |
| Mr. Arokiasamy a/I Savarimuthu (resigned 22 September 2011)                            | 1 / 1 |

The BIC oversees the Management Investment Committee. The responsibilities of the BIC include the review and approval of the overall investment policies, compliance and risk management policies with respect to investment, asset liability management, strategic asset allocation and monitoring the performance of the Investment Division. The BIC also review and approve the appointments of external investment managers. The BIC considers and approves significant investment decisions proposed by the Management Investment Committee.

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

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 shown in Note 28 to the financial statements) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company during the financial year were as follows:

|   | Number of ordinary shares of RM1.00 each |          |      |              |
|---|--|----------|------|--------------|
|   | 1 July 2011                              | Acquired | Sold | 30 June 2012 |
| <b>Direct interest:</b>                   |  |          |      |              |
| Dato' Balaram a/I Petha Naidu             | 32,201                                   | -        | -    | 32,201       |
| Tuan Haji Mustapha @ Mustapa bin Md Nasir | 6,489                                    | -        | -    | 6,489        |

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





# DIRECTORS' REPORT

## OTHER STATUTORY INFORMATION

- (a) Before the statements of financial position and income statements of the Group and of the Company were made out, the directors took reasonable steps:
  - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and
  - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would:
  - (i) require any amount to be written off as bad debts or render the amount of the provision for doubtful debts of the Group and of the Company inadequate to any substantial extent; and
  - (ii) render the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and 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 Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) The contingent liabilities of the Group and of the Company are disclosed in Note 37 to the financial statements. As at the date of this report, there does not exist:
  - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
  - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
  - (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
  - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

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



# DIRECTORS' REPORT

## OTHER STATUTORY INFORMATION (cont'd)

- (g) Before the statements of financial position and income statements of the Group and 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 prescribed under Part D of the Risk-Based Capital ("RBC") Framework for insurers issued by BNM.

## 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 8 October 2012.

Datuk Tan Kim Leong @ Tan Chong Min

Tuan Haji Mustapha @ Mustapa bin Md Nasir

Petaling Jaya, Malaysia  
8 October 2012



## STATEMENT BY DIRECTORS

Pursuant to Section 169(15) of the Companies Act, 1965

We, Datuk Tan Kim Leong @ Tan Chong Min and Tuan Haji Mustapha @ Mustapa bin Md Nasir, being two of the directors of MCIS ZURICH Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 29 to 113 are drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 8 October 2012.

Datuk Tan Kim Leong @ Tan Chong Min

Tuan Haji Mustapha @ Mustapa bin Md Nasir

Petaling Jaya, Malaysia  
8 October 2012

## STATUTORY DECLARATION

Pursuant to Section 169(16) of the Companies Act, 1965

I, Md. Adnan bin Md. Zain, being the officer primarily responsible for the financial management of MCIS ZURICH Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 29 to 113 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 Md. Adnan bin Md. Zain  
at Petaling Jaya in Selangor Darul Ehsan  
on 8 October 2012

)  
)  
)  
) Md. Adnan bin Md. Zain

Before me,





# INDEPENDENT AUDITORS' REPORT

to the members of MCIS ZURICH Insurance Berhad  
(Incorporated in Malaysia)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of MCIS ZURICH Insurance Berhad, which comprise the statements of financial position as at 30 June 2012 of the Group and of the Company, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 29 to 113

## 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 Company'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 Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, as modified by Bank Negara Malaysia Guidelines and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 30 June 2012 and of their financial performance and cash flows for the year then ended.



# INDEPENDENT AUDITORS' REPORT

to the members of MCIS ZURICH Insurance Berhad  
(Incorporated in Malaysia)

## REPORTING ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report on the following:

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiary have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiary that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' report on the financial statements of the subsidiary was not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

## OTHER MATTERS

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

Ernst & Young  
AF: 0039  
Chartered Accountants

Abdul Rauf bin Rashid  
No. 2305/05/14(J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
8 October 2012

# STATEMENTS OF FINANCIAL POSITION

As at 30 June 2012

|                                | Note | Group          |                | Company        |                |
|--------------------------------|------|----------------|----------------|----------------|----------------|
|                                |      | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| ASSETS                         |      |                |                |                |                |
| Property and equipment         | 3    | 120,616        | 84,254         | 120,616        | 84,254         |
| Investment properties          | 4    | 1,860          | 1,790          | 1,860          | 1,790          |
| Intangible assets              | 5    | 1,380          | 1,398          | 1,380          | 1,398          |
| Prepaid land lease payments    | 6    | 266            | 278            | 266            | 278            |
| Investments                    | 7    | 4,140,736      | 3,871,299      | 4,140,736      | 3,871,299      |
| Reinsurance assets             | 8    | 167,173        | 179,510        | 167,173        | 179,510        |
| Insurance receivables          | 9    | 62,420         | 58,493         | 62,420         | 58,493         |
| Other receivables              | 10   | 69,133         | 59,259         | 69,133         | 59,259         |
| Cash and bank balances         |      | 44,163         | 19,307         | 44,163         | 19,307         |
| Assets held for sale           | 11   | -              | 7,305          | -              | 7,305          |
| Total assets                   |      | 4,607,747      | 4,282,893      | 4,607,747      | 4,282,893      |
| EQUITY                         |      |                |                |                |                |
| Share capital                  | 13   | 100,284        | 100,284        | 100,284        | 100,284        |
| Share premiums                 |      | 24,740         | 24,740         | 24,740         | 24,740         |
| Retained profits               | 14   | 172,532        | 142,753        | 172,548        | 142,765        |
| Merger reserves                | 15   | 40,672         | 40,672         | 40,672         | 40,672         |
| Available-for sale reserve     |      | 8,758          | 7,095          | 8,758          | 7,095          |
| Total equity                   |      | 346,986        | 315,544        | 347,002        | 315,556        |
| LIABILITIES                    |      |                |                |                |                |
| Insurance contract liabilities | 16   | 4,008,821      | 3,734,009      | 4,008,821      | 3,734,009      |
| Deferred tax liabilities       | 17   | 12,793         | 11,305         | 12,793         | 11,305         |
| Insurance payables             | 18   | 155,582        | 148,262        | 155,582        | 148,262        |
| Provision for taxation         |      | 15,269         | 7,277          | 15,269         | 7,277          |
| Other payables                 | 19   | 68,296         | 66,496         | 68,280         | 66,484         |
| Total liabilities              |      | 4,260,761      | 3,967,349      | 4,260,745      | 3,967,337      |
| Total equity and liabilities   |      | 4,607,747      | 4,282,893      | 4,607,747      | 4,282,893      |

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



# INCOME STATEMENTS

For the financial year ended 30 June 2012

|  | Note  | Group          |                | Company        |                |
|--|-------|----------------|----------------|----------------|----------------|
|  |       | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Operating revenue</b>                             | 20    | 965,814        | 942,206        | 965,814        | 942,206        |
| Gross earned premiums                                | 21(a) | 797,031        | 759,240        | 797,031        | 759,240        |
| Premiums ceded to reinsurers                         | 21(b) | (125,672)      | (117,884)      | (125,672)      | (117,884)      |
| <b>Net earned premiums</b>                           |       | 671,359        | 641,356        | 671,359        | 641,356        |
| Investment income                                    | 22    | 179,192        | 172,202        | 179,192        | 172,202        |
| Realised gains / (losses)                            | 23    | 100,878        | 37,772         | 100,878        | 37,772         |
| Fair value gains / (losses)                          | 24    | 3,695          | 9,239          | 3,695          | 9,239          |
| Fee, commission income and other operating revenue   | 25    | 33,298         | 29,767         | 33,298         | 29,767         |
| <b>Other revenue</b>                                 |       | 317,063        | 248,980        | 317,063        | 248,980        |
| Gross benefits and claims paid                       | 26(a) | (432,368)      | (443,691)      | (432,368)      | (443,691)      |
| Claims ceded to reinsurers                           | 26(b) | 24,314         | 37,410         | 24,314         | 37,410         |
| Gross change to contract liabilities                 | 26(c) | (279,497)      | (209,891)      | (279,497)      | (209,891)      |
| Change in contract liabilities ceded to reinsurers   | 26(d) | (9,119)        | 557            | (9,119)        | 557            |
| <b>Net benefits and claims</b>                       |       | (696,670)      | (615,615)      | (696,670)      | (615,615)      |
| Fee, commission expense and other operating expenses | 27    | (131,419)      | (133,911)      | (131,419)      | (133,911)      |
| Management expenses                                  | 28    | (88,155)       | (83,738)       | (88,151)       | (83,734)       |
| <b>Other expenses</b>                                |       | (219,574)      | (217,649)      | (219,570)      | (217,645)      |
| <b>Profit / surplus before taxation</b>              |       | 72,178         | 57,072         | 72,182         | 57,076         |
| Taxation   | 29    | (31,117)       | (25,192)       | (31,117)       | (25,192)       |
| <b>Net profit / surplus for the year</b>             |       | 41,061         | 31,880         | 41,065         | 31,884         |
| <b>Earnings per share (sen)</b>                      |       |                |                |                |                |
| Basic and diluted                                    | 30    | 40.9           | 31.8           | 40.9           | 31.8           |

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

# STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2012

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Net profit / surplus for the year</b>                                    | 41,061         | 31,880         | 41,065         | 31,884         |
| <b>Other comprehensive income:</b>  |                |                |                |                |
| Available-for-sale fair value reserves:                                     |                |                |                |                |
| Gain on fair value changes of AFS investments                               | 9,133          | 4,497          | 9,133          | 4,497          |
| Realised gain transferred to income statement                               | (6,916)        | (844)          | (6,916)        | (844)          |
| Deferred tax relating to components of other comprehensive income (Note 17) | (554)          | (913)          | (554)          | (913)          |
| Other comprehensive income for the year, net of taxation                    | 1,663          | 2,740          | 1,663          | 2,740          |
| <b>Total comprehensive income for the year</b>                              | <b>42,724</b>  | <b>34,620</b>  | <b>42,728</b>  | <b>34,624</b>  |

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

# STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 30 June 2012

| Note                                    | <----- Non-distributable ----->      |                         |                                       |   | Distributable                           |                 |
|---|--------------------------------------|-------------------------|---------------------------------------|---|---|-----------------|
|   | Share capital<br>RM'000<br>(Note 13) | Share premium<br>RM'000 | Merger reserve<br>RM'000<br>(Note 15) | Available-<br>for-sale<br>reserve<br>RM'000 | Retained profits<br>RM'000<br>(Note 14) | Total<br>RM'000 |
| <b>Group</b>                            |                                      |                         |                                       |   |   |                 |
| <b>At 30 June 2010</b>                  | 100,284                              | 24,740                  | 40,672                                | 4,355                                       | 122,155                                 | 292,206         |
| Total comprehensive income for the year | -                                    | -                       | -                                     | 2,740                                       | 31,880                                  | 34,620          |
| <b>Transaction with owner</b>           |                                      |                         |                                       |   |   |                 |
| Dividend on ordinary shares             | -                                    | -                       | -                                     | -   | (11,282)                                | (11,282)        |
| <b>At 30 June 2011</b>                  | 100,284                              | 24,740                  | 40,672                                | 7,095                                       | 142,753                                 | 315,544         |
| <b>At 30 June 2011</b>                  | 100,284                              | 24,740                  | 40,672                                | 7,095                                       | 142,753                                 | 315,544         |
| Total comprehensive income for the year | -                                    | -                       | -                                     | 1,663                                       | 41,061                                  | 42,724          |
| <b>Transaction with owner</b>           |                                      |                         |                                       |   |   |                 |
| Dividend on ordinary shares             | -                                    | -                       | -                                     | -   | (11,282)                                | (11,282)        |
| <b>At 30 June 2012</b>                  | 100,284                              | 24,740                  | 40,672                                | 8,758                                       | 172,532                                 | 346,986         |
| <b>Company</b>                          |                                      |                         |                                       |   |   |                 |
| <b>At 30 June 2010</b>                  | 100,284                              | 24,740                  | 40,672                                | 4,355                                       | 122,163                                 | 292,214         |
| Total comprehensive income for the year | -                                    | -                       | -                                     | 2,740                                       | 31,884                                  | 34,624          |
| <b>Transaction with owner</b>           |                                      |                         |                                       |   |   |                 |
| Dividend on ordinary shares             | -                                    | -                       | -                                     | -   | (11,282)                                | (11,282)        |
| <b>At 30 June 2011</b>                  | 100,284                              | 24,740                  | 40,672                                | 7,095                                       | 142,765                                 | 315,556         |
| <b>At 30 June 2011</b>                  | 100,284                              | 24,740                  | 40,672                                | 7,095                                       | 142,765                                 | 315,556         |
| Total comprehensive income for the year | -                                    | -                       | -                                     | 1,663                                       | 41,065                                  | 42,728          |
| <b>Transaction with owner</b>           |                                      |                         |                                       |   |   |                 |
| Dividend on ordinary shares             | -                                    | -                       | -                                     | -   | (11,282)                                | (11,282)        |
| <b>At 30 June 2012</b>                  | 100,284                              | 24,740                  | 40,672                                | 8,758                                       | 172,548                                 | 347,002         |

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



# STATEMENTS OF CASH FLOWS

For the financial year ended 30 June 2012

|  |      | Group          |                | Company        |                |
|--|------|----------------|----------------|----------------|----------------|
|  | Note | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Operating activities</b>                          |      |                |                |                |                |
| Cash generated from operating activities             | 32   | 73,090         | 40,329         | 73,090         | 40,329         |
| Income tax paid                                      |      | (22,207)       | (20,243)       | (22,207)       | (20,243)       |
| Net cash flows from operating activities             |      | 50,883         | 20,086         | 50,883         | 20,086         |
| <b>Investing activities</b>                          |      |                |                |                |                |
| Proceeds from disposal of<br>property and equipment  |      | 1              | 315            | 1              | 315            |
| Purchase of property and equipment                   | 3    | (14,341)       | (7,107)        | (14,341)       | (7,107)        |
| Purchase of intangibles assets                       | 5    | (405)          | (1,647)        | (405)          | (1,647)        |
| Net cash flows from investing activities             |      | (14,745)       | (8,439)        | (14,745)       | (8,439)        |
| <b>Financing activity</b>                            |      |                |                |                |                |
| Dividends paid                                       | 31   | (11,282)       | (11,282)       | (11,282)       | (11,282)       |
| Net cash flows from financing activity               |      | (11,282)       | (11,282)       | (11,282)       | (11,282)       |
| <b>Cash and bank balances</b>                        |      |                |                |                |                |
| Net increase in cash and<br>cash equivalents         |      | 24,856         | 365            | 24,856         | 365            |
| Cash and cash equivalents at<br>beginning of year    |      | 19,307         | 18,942         | 19,307         | 18,942         |
| Cash and cash equivalents at end of year             |      | 44,163         | 19,307         | 44,163         | 19,307         |
| Cash and cash equivalents comprise:                  |      |                |                |                |                |
| Cash and bank balances of:                           |      |                |                |                |                |
| Shareholders' fund and general<br>insurance business |      | 7,268          | 7,512          | 7,268          | 7,512          |
| Life fund  |      | 34,976         | 9,407          | 34,976         | 9,407          |
| Investment linked fund                               |      | 1,919          | 2,388          | 1,919          | 2,388          |
|  |      | 44,163         | 19,307         | 44,163         | 19,307         |

Note: Cash and bank balances of the Life and Investment linked fund of RM36,895,000 (2011: RM11,795,000) are not available for the general use of the Company other than to meet the obligations under the insurance fund.

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



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 1. CORPORATE INFORMATION

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

The details of the subsidiary is described in Note 12 to the financial statements.

There have been no significant changes in the nature of these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at Wisma MCIS ZURICH, Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 8 October 2012.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

At the beginning of the current financial year, the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 July 2011 as described in Note 2.4.

The financial statements of the Group and of the Company have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

The Company has met the minimum capital adequacy requirements as prescribed by The Framework as at the reporting date.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

### 2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. A subsidiary is a company in which the Group has a long-term equity interest and where it has power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

The subsidiary is consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of the subsidiary are included in the consolidated income statements from the effective date of acquisition to the effective date of disposal, as appropriate. The difference between the cost of acquisition and the fair value of the Group's share of the net assets of the subsidiary at the date of acquisition is treated as goodwill. As a result of using merger relief provisions, under Section 60(4) of the Companies Act, 1965, a merger reserve is created in place of a share premium account. The goodwill arising on consolidation and any provision for impairment in value of the investment in subsidiary is written-off immediately against the merger reserve at acquisition date. The resulting difference, being a net merger reserve is carried forward as part of shareholders' equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.2 Basis of consolidation (cont'd)

Intragroup transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets.

### 2.3 Summary of significant accounting policies

#### (a) Property and equipment and depreciation

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

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

Freehold land and the buildings are stated at revalued amounts, which is the fair value at the date of the revaluation less any accumulated depreciation and any accumulated impairment losses. Fair value is determined from market-based evidence by appraisals that are undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity of at least once in every three years with additional valuations in the intervening years where market conditions indicate that the carrying values of the revalued assets are materially different from the fair values. Any increase in the carrying amount arising from the revaluation of land and buildings is credited to an Asset Revaluation Reserve as a revaluation surplus in the insurance contract liabilities of the Life fund, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement in which case the increase is recognised in the income statement to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset in the statement of financial position, and any remaining deficit is thereafter recognised in the income statement.

Freehold land has an unlimited useful life and therefore is not depreciated. Buildings-in-progress are also not depreciated as these assets are not available for use. Leasehold land is depreciated over the period of the respective leases which ranges from 35 to 110 years. The remaining period of respective leases ranges from 23 to 90 years.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (a) Property and equipment and depreciation (cont'd)

Depreciation of other property and equipment is computed on a straight-line basis over its estimated useful life at the following annual rates:

|                                  |   |
|----------------------------------|---|
| Freehold buildings               | 2%  |
| Leasehold buildings              | Over the remaining leasehold period or 50 years<br>whichever is lower |
| Motor vehicles                   | 20%   |
| Furniture, fixtures and fittings | 10%   |
| Office equipment                 | 10%   |
| Computer equipment               | 20%   |
| Office renovation                | 20%   |

The residual values, useful lives 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 and equipment.

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

#### (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 registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is reviewed at every reporting date and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying value of the investment properties is materially different from the market value.

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

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

#### (c) Assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (d) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in income statement in the period in which the expenditure is incurred.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives, not exceeding a period of five years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in income statement when the asset is derecognised.

The carrying amount of assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### (e) Leases

##### (i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group, all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating leases except that property held under operating leases that would otherwise meet the definition of an investment property, is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (Note 2.3(e)(ii)).



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (e) Leases (cont'd)

##### (ii) Finance Leases - The Group 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 Group at the end of their useful lives. All leasehold buildings are therefore classified as finance lease in the financial statements.

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

The depreciation policy for leased assets is in accordance with that for depreciable property and equipment as described in Note 2.3(a) and investment properties as described in Note 2.3(b).

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

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

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

#### (f) Impairment of non-financial assets

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the net realisable value and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash-generating unit.

An impairment loss is recognised in the income statement in the period in which it arises. Subsequent increases in the recoverable amount of an asset is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. A reversal of impairment loss is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

#### (g) Investments and financial assets

The Company classifies its investments into financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") financial assets, loans and other receivables ("LAR") and available-for-sale ("AFS") financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (g) Investments and financial assets (cont'd)

The classification depends on the purpose for which the investments were acquired or originated. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial assets on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost.

All regular way purchases and sales of financial assets are recognised on the trade date which is the date that the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the period generally established by regulation or convention in the market place.

#### Financial assets at FVTPL

FVTPL include financial assets held for trading and those designated at fair value through profit or loss at inception. Investments bought with the intention to sell in the near future are classified as held-for-trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- (i) 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
- (ii) 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.

These financial assets are initially recorded at fair value. Subsequent to initial recognition, these financial assets are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement.

Investments under unit linked funds are designated as FVTPL at inception as they are managed and evaluated on a fair value basis in accordance with the respective investment strategies and mandates of the funds.

#### HTM

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as HTM when the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. After initial measurement, HTM are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in income statement when the investments are derecognised or impaired, as well as through the amortisation process. The Company does not have any financial assets classified as HTM as at the year-end.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (g) Investments and financial assets (cont'd)

##### LAR

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in income statement when the financial assets are derecognised or impaired, as well as through the amortisation process.

##### AFS

AFS are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value. After initial measurement, AFS are remeasured at fair value.

Any gains or losses from changes in fair value of the financial assets are recognised in the available for sale fair value reserve in the Statement of Comprehensive Income or Insurance Contract Liabilities, except for impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method which are recognised in the income statement. The cumulative gain or loss previously recognised in equity is recognised in the income statement when the financial asset is derecognised.

On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to income statement.

#### (h) Fair value of financial instruments

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

For investments in unit and real estate investment trusts, fair value is determined by reference to published net assets value.

For financial instruments where there is no active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and / or option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value. The carrying value is the cost of the deposit / placement and accrued interest / profit. The fair value of fixed interest / yield-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (i) Impairment of financial instruments

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

##### **Assets carried at amortised cost**

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, 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 (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate / yield. The carrying amount of the asset is reduced and the loss is recorded in income statement.

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. Any subsequent reversal of an impairment loss is recognised in income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### **Assets carried at cost**

If there is objective evidence that an impairment loss on a 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.

##### **Assets classified as available for sale**

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.

In respect of equity investments classified as AFS, a decline of 30% or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for AFS financial assets, the asset is considered for impairment, taking qualitative evidence into account.

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 loss previously recognised in the income statement, is transferred from equity to the income statement.

Impairment losses on AFS equity investments are not reversed in the income statement in subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in equity. For AFS debt investments, impairment losses are subsequently reversed in the income statement 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 the income statement.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (j) Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation under the liabilities are discharged, cancelled or expired.

#### (k) Equity instruments

##### Ordinary share capital

The Company has issued ordinary shares that are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in equity, net of tax.

##### Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the reporting date.

#### (l) Contract classification

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

- (i) Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Based on this definition, all policy contracts issued by the Company are insurance contracts as at current reporting date.

Insurance contracts are recognised and measured in accordance with the terms and conditions of the respective contracts and are based on guidelines laid down by BNM. Premiums, claims and benefit payments, acquisition and management expenses and valuation of future policy benefit payments or premium reserves as the case may be, are recognised in the income statements.

- (ii) Participating life insurance contracts contain discretionary participating feature ("DPF"). This feature entitles the policyholders to receive non-guaranteed benefits which could vary according to the investment and operating results of the Company. The Company does not recognise the guaranteed component separately from the DPF; hence the whole contract is presented within the insurance contract liability in the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (I) Contract classification (cont'd)

- (iii) The Company is not required to un-bundle any insurance contract as the current accounting policy recognises all insurance premiums, claims and policy benefit payments, expenses and valuation of future benefit payments through the income statements.
- (iv) The Company does not separately measure at fair value the policyholder's option to surrender an insurance contract for a fixed amount or for an amount based on fixed amount and an interest rate.

Options and guarantees inherent in some insurance contracts which are closely related to the host contract issued by the Company are not required to be separated and measured at fair value.

- (v) The Company does not adopt a policy of deferring acquisition costs for its life insurance contracts.

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

Insurance contracts are further classified as being either with or without DPF. DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

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

Under the terms of the contracts, surpluses in the DPF funds can be distributed on a 90/10 basis to the policyholders and the shareholders respectively. The Company has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities, including unallocated surpluses, both guaranteed and discretionary, at the end of the reporting period are held within the insurance liabilities.

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.





# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (m) Reinsurance

The Company enters into reinsurance contracts in the normal course of business to diversify the risks and limit its net loss potential. Assets, liabilities, income and expense arising from the reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets represent balances due from reinsurers. Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in income statement.

The Company assesses its reinsurance assets for impairment at each reporting period. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is calculated following the same method used for these financial assets. These processes are described in Note 2.3(i).

Gains or losses on buying reinsurance are recognised in income statement immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of its general insurance business.

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

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

#### (n) Life insurance underwriting results

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

#### Gross premiums

Gross premiums are recognised as soon as the amount of the premiums can be reliably measured. First premium is recognised on assumption of risks and subsequent premiums are recognised on due date.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (n) Life insurance underwriting results (cont'd)

Premium income of the investment linked funds is in respect of the net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of the contract. Net creation of units is recognised on a receipt basis.

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

#### Reinsurance premiums

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

#### Benefits, claims and expenses

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

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

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

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

#### Commission and agency expenses

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

#### (o) General insurance underwriting results

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, premium liabilities and claim liabilities.

#### Gross premiums

Gross premiums are recognised in a financial period in respect of risks assumed during that particular financial period.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (o) General insurance underwriting results (cont'd)

##### Reinsurance premiums

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

##### 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. In determining premium liabilities at reporting date, the method that most accurately reflects the actual unearned premium used is described in Note 2.3(q)(ii).

##### Claim liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

The amount of claim liabilities is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at reporting date.

Provision is also made for the cost of claims, together with related expenses, incurred but not reported at reporting date, using a mathematical method of estimation.

##### Acquisition costs

The gross costs 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.

#### (p) Insurance receivables and payables

Insurance receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received / paid or receivable / payable respectively. 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 that impairment loss in income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2.3(i).]

Insurance receivables and payable are derecognised when the derecognition criteria for financial assets and liabilities, as described in Note 2.3(j), have been met.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (q) Insurance contract liabilities

##### Life insurance contract liabilities

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

The valuation of insurance contract liabilities is determined according to the Insurance Act and Regulations 1996, the RBC Framework and FRS 4. The liability estimation methods prescribed under the RBC Framework meets the requirements of the Liability Adequacy Test under FRS 4.

The Company performs liability adequacy tests on its life insurance liabilities to ensure that the carrying amount of provisions is sufficient to cover estimated future cash flows arising from contracts of insurance underwritten. When performing the liability adequacy test, the Company discounts all contractual cash flows and compares this amount against the carrying value of the liability. Any deficiency is charged to the income statement.

Participating Life plans are valued using a prospective actuarial valuation method based on the sum of the present value of future guaranteed benefits, an appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk discount rate. The Participating Life Insurance Liability is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities.

Provisions for annuity policies are valued using similar basis as Participating Life contracts.

The liability of Non-Participating Life plans are valued using a prospective actuarial valuation method based on the sum of the present value of future benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate.

Provisions for Investment linked insurance contracts is based on the carrying amount of the net assets of the Investment linked fund at the reporting date and the non-unit liability. The non-unit liability of Investment linked policies are valued by projecting future cash flows to ensure that all future outflows can be met without recourse to additional financing or capital support at any future time during the duration of the policy.

##### General insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (q) Insurance contract liabilities (cont'd)

##### (i) Claims liabilities

Claim liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions and includes a margin for adverse deviation as prescribed by the RBC Framework. The liability is discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

##### (ii) Premium liabilities

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserves ("UPR") for all lines of business and the best estimate value of the Unexpired Risk Reserves ("URR") at the required risk margin for adverse deviation as required by the RBC Framework.

#### UPR

UPR represent the portion of the net premiums of insurance policies written less deductible acquisition costs that relate to the unexpired periods of the policies at the end of the financial period.

In determining UPR at reporting date, the method that most accurately reflects the actual unearned premiums is used as follows:

- 25% method for marine cargo, aviation cargo and transit
- 1/24th method (or other more accurate) method for all other classes of Malaysian general policies
- 1/8th method for all other classes of overseas inward business
- Non-annual policies are time-apportioned over the period of the risks

#### URR

The best estimate value of URR is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the end of the financial year 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 allows for expected future premium refunds.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (r) Other revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

##### **Rental income**

Rental income from investment property is recognised on a straight-line basis over the term of the lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

##### **Interest and profit income**

Income is recognised on an accrual basis using the effective yield method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

##### **Dividend income**

Dividend income is recognised when the Company's right to receive payment is established.

##### **Realised gains and losses on investments**

Realised gains and losses recorded in income statement on investments include gains and losses on financial assets, investment properties and property and equipment. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

##### **Fees and commission income**

Insurance and investment contract policyholders are charged for policy administration services, investment management 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.

#### (s) Income tax

Income tax on the income statement for the 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 year and is measured using the tax rates that have been enacted at the reporting date.

Deferred tax is provided for using the liability method. 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 profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (s) Income tax (cont'd)

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 reporting date.

Deferred tax is recognised as income or an expense and included in the income statement 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.

#### (t) Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

#### (u) Employee benefits

##### Short-term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year 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.

##### Defined contribution plans

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

#### (v) Foreign currencies

The financial statements are presented in Ringgit Malaysia which is also the functional currency of the Company.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.3 Summary of significant accounting policies (cont'd)

#### (v) Foreign currencies (cont'd)

Non-monetary items that are measured in terms of historical cost in foreign currency are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to income statement, except for differences relating to items where gains or losses are recognised directly in equity, in which case, the gain or loss is recognised net of the exchange component in equity.

#### (w) Financial liabilities

Financial liabilities are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective yield method.

#### (x) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and at banks, excluding fixed and call deposits.

### 2.4 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and revised FRSs, amendments to FRSs and Interpretations of the Issues Committee ("IC Interpretations") which are effective for financial periods beginning on or after 1 July 2011. Except for the additional disclosure requirements under the Amendments to FRS 7 as discussed below, these new and revised FRSs, amendments to FRSs and IC Interpretations do not give rise to any significant effects on the financial statements of the Group and of the Company.

#### ***Amendments to FRS 7: Improving Disclosures about Financial Instruments***

The amended standard requires enhanced disclosure about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy (Level 1, Level 2 and Level 3), by class, for all financial instruments recognised at fair value. A reconciliation between the beginning and ending balance for Level 3 fair value measurements is required. Any significant transfers between levels of the fair value hierarchy and the reasons for those transfers need to be disclosed. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 7 and Note 42. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 40.

#### **Transition to Malaysian Financial Reporting Standards Framework ("MFRS Framework")**

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

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012.





# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.4 Changes in accounting policies (cont'd)

#### Transition to Malaysian Financial Reporting Standards Framework ("MFRS Framework") (cont'd.)

The Group and Company will be required to prepare financial statements using the MFRS Framework in their first MFRS financial statements for the year ending 30 June 2013.

At the date of these financial statements, the Group has not completed its quantification of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework due to the ongoing assessment by the project team. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 30 June 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 30 June 2013.

### 2.5 Significant accounting judgments, estimates and assumptions

The preparation of the Group and Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

#### (a) Critical judgments made in applying accounting policies

The following are judgments made by management in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

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

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

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

##### (ii) Impairment of receivables

The Company assesses at each reporting date whether there is any objective evidence that a financial asset 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 financial assets which are individually assessed for impairment are 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 debtor and default or significant delay in payments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.5 Significant accounting judgments, estimates and assumptions (cont'd)

#### (a) Critical judgments made in applying accounting policies

##### (ii) Impairment of receivables

Where there is objective evidence of impairment, the Company will recognise the impairment loss in the income statement.

##### (iii) Impairment of AFS financial assets

Significant judgment is required to assess impairment for AFS financial assets. The Group and Company evaluates the duration and extent to which the fair value of an investment is less than cost. In addition the Group and the Company evaluates 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.

##### (iv) Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the policyholder to the Company. The Company exercises judgment about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether the Company is required to pay significant additional benefits in excess of amounts payable when the insured event occurs. These additional benefits include claims liability and assessment costs, but exclude the loss of the ability to charge the policyholder for future services. The assessment covers the whole of the expected term of the contract where such additional benefits could be payable. Some contracts contain options for the policyholder to purchase insurance risk protection at a later date; these insurance risks are deemed not significant.

#### (b) Key sources of estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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:

##### Valuation of life insurance contract liabilities

There are several sources of uncertainty that need to be considered in the estimation of the life insurance contract liabilities that the Company will ultimately be required to pay as claims.

For life insurance contracts, estimates are made for future deaths, disabilities, voluntary terminations, discount rates and expenses.

The Company relies on standard industry and reinsurance mortality tables which represent historical mortality experience, and makes appropriate adjustments for its respective risk exposures in deriving the mortality and morbidity estimates. These estimates provide the basis in the valuation of the future benefits to be paid to policyholders and ensure adequate provision of reserve which are monitored against current and future premiums. At each reporting date, these estimates are assessed for adequacy and changes will be reflected as adjustments to insurance fund contract liabilities. Changes to the insurance fund contract liabilities during the year are reported in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.5 Significant accounting judgments, estimates and assumptions (cont'd)

#### (b) Key sources of estimation uncertainty and assumptions (cont'd)

Table below provides the key underlying assumptions used for valuation of life insurance contract liabilities:

| Valuation method        | Gross premium  |
|-------------------------|--|
| Discount rates          | <p>Participating and annuity fund:<br/>The actual zero-coupon spot yields of Malaysian Government Securities (MGS) is used to discount the guaranteed benefit cash flows while the average of the last five years Company's gross investment returns (capped at 7%) after net of 8% Investment Tax is used to discount the total benefit cash flows.</p> <p>Non-participating and Investment linked fund:<br/>The actual zero-coupon spot yields of MGS at valuation date is used to discount the guaranteed benefit cash flows.</p> <p>Data source:<br/>MGS spot yields are obtained from the Bond Pricing Agency Malaysia (BPAM) under <a href="http://www.bpam.com.my">http://www.bpam.com.my</a></p> |
| Mortality and Morbidity | Best estimates plus provision for adverse deviation<br>Data source: internal experience studies  |
| Lapse and Surrender     | Best estimates plus provision for adverse deviation<br>Data source: internal experience studies  |
| Expenses                | Best estimates plus provision for adverse deviation<br>Data source: internal experience studies  |

#### Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date ("IBNR").

It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the statement of financial position liability. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 2.5 Significant accounting judgments, estimates and assumptions (cont'd)

#### (b) Key sources of estimation uncertainty and assumptions (cont'd)

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence, ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical areas, as well as by significant business lines and claims type. Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic 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 future, (for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

#### Fair value of financial assets determined using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and / or option pricing models. For reference to similar instruments, instruments must have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counter-parties. Discount rates are influenced by risk-free interest rates and credit risk.

The valuation techniques described above are calibrated annually.

#### Valuation of unithised insurance contract liabilities

Unithised insurance contract fair values are determined by reference to the values of the assets backing the liabilities, which are based on the value of the unit linked fund.

For unithised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit-prices at the reporting date are valued on a basis consistent with their measurement basis in the Company's statement of financial position adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains or losses on assets in the fund.



## NOTES TO THE FINANCIAL STATEMENTS

2012

**Net carrying amount**  
At 30 June 2012

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 3. PROPERTY AND EQUIPMENT (cont'd)

| Group and Company        | < ----- At valuation ----- > |                                 |                            |  |  |                |                                  |                               |                   |                  | < ----- At cost ----- > |  |  |  |
|--------------------------|------------------------------|---------------------------------|----------------------------|--|--|----------------|----------------------------------|-------------------------------|-------------------|------------------|-------------------------|--|--|--|
|                          | < ----- Properties ----- >   |                                 |                            |  |  |                |                                  |                               |                   |                  |                         |  |  |  |
|                          | Freehold land                | Leasehold land 50 years or more | Buildings on freehold land | Buildings on leasehold land 50 years or more | Buildings on leasehold land less than 50 years | Motor vehicles | Furniture, fixtures and fittings | Office and computer equipment | Office renovation | Work-in-progress | Total                   |  |  |  |
| RM'000                   | RM'000                       | RM'000                          | RM'000                     | RM'000                                       | RM'000   | RM'000         | RM'000                           | RM'000                        | RM'000            | RM'000           | RM'000                  |  |  |  |
| 2011                     |                              |                                 |                            |  |  |                |                                  |                               |                   |                  |                         |  |  |  |
| Cost / Valuation         |                              |                                 |                            |  |  |                |                                  |                               |                   |                  |                         |  |  |  |
| At 1 July 2010           | 10,575                       | 23,770                          | 12,065                     | 32,160                                       | 450  | 2,505          | 10,379                           | 20,985                        | 5,726             | 3,117            | 121,732                 |  |  |  |
| Additions                | -                            | -                               | -                          | -  | -  | 110            | 1,611                            | 4,294                         | -                 | 1,092            | 7,107                   |  |  |  |
| Disposals                | -                            | -                               | -                          | -  | -  | (858)          | (37)                             | (209)                         | -                 | -                | (1,104)                 |  |  |  |
| Write-offs               | -                            | -                               | -                          | -  | -  | -              | (19)                             | (69)                          | (51)              | -                | (139)                   |  |  |  |
| At 30 June 2011          | 10,575                       | 23,770                          | 12,065                     | 32,160                                       | 450  | 1,757          | 11,934                           | 25,001                        | 5,675             | 4,209            | 127,596                 |  |  |  |
| Accumulated depreciation |                              |                                 |                            |  |  |                |                                  |                               |                   |                  |                         |  |  |  |
| At 1 July 2010           | -                            | 1,902                           | 1,074                      | 2,851  | 33   | 1,166          | 8,138                            | 18,375                        | 5,536             | -                | 39,075                  |  |  |  |
| Charge for the year      | -                            | 380                             | 603                        | 1,566  | 18   | 36             | 897                              | 1,547                         | 130               | -                | 5,177                   |  |  |  |
| Disposals                | -                            | -                               | -                          | -  | -  | (565)          | (26)                             | (210)                         | -                 | -                | (801)                   |  |  |  |
| Write-offs               | -                            | -                               | -                          | -  | -  | -              | (12)                             | (46)                          | (51)              | -                | (109)                   |  |  |  |
| At 30 June 2011          | -                            | 2,282                           | 1,677                      | 4,417  | 51   | 637            | 8,997                            | 19,666                        | 5,615             | -                | 43,342                  |  |  |  |
| Net carrying amount      |                              |                                 |                            |  |  |                |                                  |                               |                   |                  |                         |  |  |  |
| At 30 June 2011          | 10,575                       | 21,488                          | 10,388                     | 27,743                                       | 399  | 1,120          | 2,937                            | 5,335                         | 60                | 4,209            | 84,254                  |  |  |  |

Included in the cost of property and equipment of the Group and of the Company are cost of fully depreciated assets which are still in use amounting to RM42,833,000 (2011: RM37,799,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 3. PROPERTY AND EQUIPMENT (cont'd)

### Properties

The properties were revalued in May 2012 by an independent professional valuer and the fair values have been determined by reference to observable prices in an active market or recent market transactions on arm's length terms, adjusted if necessary, for any differences in the nature, location or condition of the specific properties.

Details of the freehold and leasehold land and buildings stated at revalued amounts are as follows:

| Year of Valuation                         | Location of Property          | Valuation by professional valuer<br>RM'000 |
|---|-------------------------------|--|
| <b>(i) Freehold land and buildings:</b>   |                               |  |
| 2012                                      | Sungai Petani, Kedah          | 800  |
| 2012                                      | Kulim, Kedah                  | 280  |
| 2012                                      | Seremban, Negeri Sembilan     | 450  |
| 2012                                      | Bentong, Pahang               | 770  |
| 2012                                      | Kuantan, Pahang               | 1,200                                      |
| 2012                                      | Butterworth, Penang           | 700  |
| 2012                                      | George Town, Penang           | 6,000                                      |
| 2012                                      | Taiping, Perak                | 600  |
| 2012                                      | Ipoh, Perak                   | 3,700                                      |
| 2012                                      | Sitiawan, Perak               | 90   |
| 2012                                      | Kuching, Sarawak              | 2,700                                      |
| 2012                                      | Kuala Lumpur                  | 3,600                                      |
| 2012                                      | Kuala Lumpur                  | 4,700                                      |
| 2012                                      | Port Dickson, Negeri Sembilan | 480  |
| 2012                                      | Teluk Intan, Perak            | 400  |
|   |                               | <u>26,470</u>                              |
| <b>(ii) Leasehold land and buildings:</b> |                               |  |
| 2012                                      | Kluang, Johor                 | 1,100                                      |
| 2012                                      | Alor Setar, Kedah             | 650  |
| 2012                                      | Melaka                        | 710  |
| 2012                                      | Port Dickson, Negeri Sembilan | 300  |
| 2012                                      | Kangar, Perlis                | 700  |
| 2012                                      | Kota Bahru, Kelantan          | 560  |
| 2012                                      | Kota Kinabalu, Sabah          | 5,850                                      |
| 2012                                      | Petaling Jaya, Selangor       | 67,000                                     |
|   |                               | <u>76,870</u>                              |
|   |                               | <u>103,340</u>                             |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 4. INVESTMENT PROPERTIES

### Group and Company

|  |
|--|
| At beginning of year                       |
| Disposals                                  |
| Fair value gains (Note 24)                 |
| Transfer to assets held for sale (Note 11) |
| At end of year                             |

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 1,790          | 47,885         |
| -              | (38,880)       |
| 70             | 90             |
| -              | (7,305)        |
| 1,860          | 1,790          |

The investment properties were revalued in May 2012 by an independent professional valuer and the fair values have been determined by reference to observable prices in an active market or recent market transactions on arm's length terms, adjusted if necessary, for any differences in the nature, location or condition of the specific properties.

Details of the investment properties stated at revalued amount are as follows :

| Year of Valuation | Location of Property    | Valuation by professional valuer<br>RM'000 |
|-------------------|-------------------------|--|
| 2012              | Johor Bahru, Johor      | 1,300                                      |
| 2012              | Hulu Selangor, Selangor | 560  |
|                   |                         | 1,860                                      |

## 5. INTANGIBLE ASSETS

### Group and Company

#### Cost

|                      |
|----------------------|
| At beginning of year |
| Additions            |
| Write-offs           |
| At end of year       |

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 15,525         | 13,881         |
| 405            | 1,647          |
| -              | (3)            |
| 15,930         | 15,525         |
| 14,127         | 13,660         |
| 423            | 470            |
| -              | (3)            |
| 14,550         | 14,127         |
| 1,380          | 1,398          |

#### Accumulated amortisation

|                      |
|----------------------|
| At beginning of year |
| Charge for the year  |
| Write-offs           |
| At end of year       |

#### Net carrying amount

Intangible assets comprise computer application software which were developed or acquired to meet the unique requirements of the Group and of the Company.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 6. PREPAID LAND LEASE PAYMENTS

### Group and Company

#### 2012

##### Cost / Valuation

At 1 July 2011 / 30 June 2012

##### Accumulated amortisation

At 1 July 2011

Charge for the year

At 30 June 2012

##### Net carrying amount

At 30 June 2012

#### 2011

##### Cost / Valuation

At 1 July 2010 / 30 June 2011

##### Accumulated amortisation

At 1 July 2010

Charge for the year

At 30 June 2011

##### Net carrying amount

At 30 June 2011

Leasehold land  
less than  
50 years  
RM'000

350

72

12

84

266

350

60

12

72

278

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 7. INVESTMENTS

### Group and Company

|                                       | 2012<br>RM'000   | 2011<br>RM'000   |
|---------------------------------------|------------------|------------------|
| Malaysian government securities       | 1,211,713        | 1,027,365        |
| Government investment issues          | 388,759          | 38,326           |
| Malaysian government guaranteed bonds | 497,700          | 577,385          |
| Quoted debt securities                | -                | 1,963            |
| Unquoted debt securities              | 873,702          | 1,080,568        |
| Quoted equity securities              | 271,500          | 348,396          |
| Unquoted equity securities            | 7,339            | 7,339            |
| Quoted unit and property trust funds  | 138,611          | 103,854          |
| Deposits with financial institutions  | 355,173          | 289,443          |
| Loans receivable                      | 396,239          | 396,660          |
|                                       | <u>4,140,736</u> | <u>3,871,299</u> |

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

|  |                  |                  |
|--|------------------|------------------|
| LAR  | 751,412          | 686,103          |
| AFS financial assets                         | 3,308,869        | 3,098,513        |
| Designated upon initial recognition at FVTPL | 80,455           | 86,683           |
|  | <u>4,140,736</u> | <u>3,871,299</u> |

### (a) LAR

#### At amortised cost:

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Deposits with financial institutions | 355,173        | 289,443        |
| Loans receivable:                    |                |                |
| Policy loans                         | 376,895        | 372,152        |
| Mortgage loans                       | 10,538         | 11,108         |
| Term loan to related party           | 11,000         | 13,000         |
| Other loans                          | 821            | 801            |
| Accumulated impairment loss          | (3,015)        | (401)          |
|                                      | <u>396,239</u> | <u>396,660</u> |
|                                      | <u>751,412</u> | <u>686,103</u> |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 7. INVESTMENTS (cont'd)

### Group and Company (cont'd)

#### (b) AFS

##### At fair value:

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Malaysian government securities       | 1,211,713        | 1,027,365        |
| Government investment issues          | 388,759          | 38,326           |
| Malaysian government guaranteed bonds | 494,136          | 573,832          |
| Quoted debt securities                | -                | 1,881            |
| Unquoted debt securities              | 854,763          | 1,062,657        |
| Quoted equity securities              | 215,531          | 285,127          |
| Quoted unit and property trust funds  | 136,628          | 101,986          |
|                                       | <u>3,301,530</u> | <u>3,091,174</u> |

##### At cost less impairment:

|  |                  |                  |
|--|------------------|------------------|
| Unquoted equity securities (net of impairment loss of RM59,000 (2011: RM59,000)) | 7,339            | 7,339            |
|  | <u>3,308,869</u> | <u>3,098,513</u> |

#### (c) FVTPL

##### At fair value:

|                                       |               |               |
|---------------------------------------|---------------|---------------|
| Malaysian government guaranteed bonds | 3,564         | 3,553         |
| Quoted debt securities                | -             | 82            |
| Unquoted debt securities              | 18,939        | 17,911        |
| Quoted equity securities              | 55,969        | 63,269        |
| Quoted unit and property trust funds  | 1,983         | 1,868         |
|                                       | <u>80,455</u> | <u>86,683</u> |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 7. INVESTMENTS (cont'd)

### (d) Carrying values of financial instruments

| Group and Company                                | LAR<br>RM'000 | AFS<br>RM'000 | FVTPL<br>RM'000 | Total<br>RM'000 |
|--|---------------|---------------|-----------------|-----------------|
| <b>At 30 June 2010</b>                           | 710,793       | 2,751,977     | 71,645          | 3,534,415       |
| Purchases  | -             | 2,195,808     | 30,254          | 2,226,062       |
| Disposals  | -             | (1,924,186)   | (24,496)        | (1,948,682)     |
| Fair value gains recorded in:                    |               |               |                 |                 |
| Other comprehensive income                       | -             | 3,653         | -               | 3,653           |
| Insurance contract liabilities:                  |               |               |                 |                 |
| Life fund  | -             | 38,466        | -               | 38,466          |
| Investment linked fund                           | -             | -             | 9,280           | 9,280           |
| Realised gains recorded in income statements     |               | 37,787        | -               | 37,787          |
| Decrease in loans                                | (2,633)       | -             | -               | (2,633)         |
| Decrease in deposits with financial institutions | (22,057)      | -             | -               | (22,057)        |
| Net amortisation of premiums                     | -             | (4,992)       | -               | (4,992)         |
| <b>At 30 June 2011</b>                           | 686,103       | 3,098,513     | 86,683          | 3,871,299       |
| Purchases  | -             | 7,789,376     | 25,496          | 7,814,872       |
| Disposals  | -             | (7,654,184)   | (35,012)        | (7,689,196)     |
| Fair value gains recorded in:                    |               |               |                 |                 |
| Other comprehensive income                       | -             | 2,217         | -               | 2,217           |
| Insurance contract liabilities:                  |               |               |                 |                 |
| Life fund  | -             | (21,012)      | -               | (21,012)        |
| Investment linked fund                           | -             | -             | 3,626           | 3,626           |
| Realised gains recorded in income statements     | -             | 100,652       | (338)           | 100,314         |
| Decrease in loans                                | (421)         | -             | -               | (421)           |
| Increase in deposits with financial institutions | 65,730        | -             | -               | 65,730          |
| Net amortisation of premiums                     | -             | (6,693)       | -               | (6,693)         |
| <b>At 30 June 2012</b>                           | 751,412       | 3,308,869     | 80,455          | 4,140,736       |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 7. INVESTMENTS (cont'd)

### (e) Fair values of financial instruments

The following tables show financial investments recorded at fair value analysed by the different bases as follows:

#### Group and Company

#### 2012

Quoted market bid price  
Valuation techniques - market observable inputs

| AFS<br>RM'000 | FVTPL<br>RM'000 | Total<br>RM'000 |
|---------------|-----------------|-----------------|
| 352,159       | 57,952          | 410,111         |
| 2,949,371     | 22,503          | 2,971,874       |
| 3,301,530     | 80,455          | 3,381,985       |

#### 2011

Quoted market bid price  
Valuation techniques - market observable inputs

|           |        |           |
|-----------|--------|-----------|
| 388,994   | 65,219 | 454,213   |
| 2,702,180 | 21,464 | 2,723,644 |
| 3,091,174 | 86,683 | 3,177,857 |

Included in the quoted category are financial instruments that are measured in whole or in part by reference to quoted market bid prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company's own models whereby the majority of assumptions are market observable.

For the Group and Company's unquoted equity securities, fair value cannot be measured reliably. These financial instruments are measured at cost less impairment, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

### (f) Range of effective interest rates

The range of effective interest rates for each class of interest-bearing investment and placements with licensed financial institutions, at net carrying amounts of the Group and Company are as below:

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 7. INVESTMENTS (cont'd)

### (f) Range of effective interest rates (cont'd)

| Group and Company                     | 2012<br>%    | 2011<br>%    |
|---------------------------------------|--------------|--------------|
| Malaysian government securities       | 3.20 - 5.73  | 3.46 - 5.73  |
| Government investment issues          | 3.58 - 4.28  | 3.82 - 4.28  |
| Malaysian government guaranteed bonds | 3.48 - 7.75  | 3.64 - 7.75  |
| Quoted debt securities                | -            | 2.50         |
| Unquoted debt securities              | 3.55 - 10.35 | 3.98 - 10.35 |
| Deposits with financial institutions  | 0.15 - 3.10  | 0.25 - 3.40  |
| Loans receivable                      | 4.00 - 9.50  | 4.00 - 9.50  |

### (g) Interest-bearing contractual re-pricing or maturity dates

The earlier of the contractual re-pricing or maturity dates for each class of interest-bearing investment and placements with licensed financial institutions, at net carrying amounts of the Group and Company are as below:

| Group and Company                     | Interest-bearing contractual re-pricing or maturity dates (whichever is earlier) |                             |                             |                  |
|---------------------------------------|--|-----------------------------|-----------------------------|------------------|
|                                       | 1 year or less<br>RM'000   | 1 year to 5 years<br>RM'000 | More than 5 years<br>RM'000 | Total<br>RM '000 |
| <b>2012</b>                           |  |                             |                             |                  |
| Malaysian government securities       | -  | 50,680                      | 1,161,033                   | 1,211,713        |
| Government investment issues          | 6,609  | -                           | 382,150                     | 388,759          |
| Malaysian government guaranteed bonds | -  | 213,236                     | 284,464                     | 497,700          |
| Unquoted debt securities              | 61,567   | 355,116                     | 457,019                     | 873,702          |
| Deposits with financial institutions  | 355,173  | -                           | -                           | 355,173          |
| Loans receivable*                     | 1,271  | 1,154                       | 16,919                      | 19,344           |
|                                       | 424,620  | 620,186                     | 2,301,585                   | 3,346,391        |
| <b>2011</b>                           |  |                             |                             |                  |
| Malaysian government securities       | -  | 322,132                     | 705,233                     | 1,027,365        |
| Government investment issues          | -  | -                           | 38,326                      | 38,326           |
| Malaysian government guaranteed bonds | -  | 211,517                     | 365,868                     | 577,385          |
| Quoted debt securities                | -  | -                           | 1,963                       | 1,963            |
| Unquoted debt securities              | 5,075  | 380,863                     | 694,630                     | 1,080,568        |
| Deposits with financial institutions  | 289,443  | -                           | -                           | 289,443          |
| Loans receivable*                     | 1,157  | 1,710                       | 21,641                      | 24,508           |
|                                       | 295,675  | 916,222                     | 1,827,661                   | 3,039,558        |

\* The Company's policy loan portfolio of RM376,895,000 (2011: RM372,152,000) is not included in the above loans receivable as there are no specific maturity dates.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 8. REINSURANCE ASSETS

### Group and Company

Claims liabilities (Note 16)  
Premium liabilities (Note 16)

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 114,275        | 123,393        |
| 52,898         | 56,117         |
| 167,173        | 179,510        |

## 9. INSURANCE RECEIVABLES

### Group and Company

Due premiums including agents/brokers and co-insurers balances  
Due from reinsurers and cedants  
  
Accumulated impairment loss

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 66,032         | 59,072         |
| 6,257          | 5,219          |
| 72,289         | 64,291         |
| (9,869)        | (5,798)        |
| 62,420         | 58,493         |

Details of the allowance account has been disclosed in Note 40(d).

Included in amount due from reinsurers and cedants is an amount of RM778,000 (2011: RM156,000) due from related companies. The amount receivable is subject to settlement terms stipulated in the insurance contracts.

## 10. OTHER RECEIVABLES

### Group and Company

#### Financial assets:

Income due and accrued  
Amount due from Life insurance fund\*  
Amount due from related companies\*  
Other receivables

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 34,635         | 31,643         |
| 12,919         | 12,873         |
| 37             | 52             |
| 19,287         | 11,146         |
| 66,878         | 55,714         |

#### Non-financial assets:

Prepayments  
Tax recoverable

|        |        |
|--------|--------|
| 1,564  | 2,051  |
| 691    | 1,494  |
| 2,255  | 3,545  |
| 69,133 | 59,259 |

\* These balance are unsecured, interest-free and are repayable on demand.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 11. ASSETS HELD FOR SALE

### Group and Company

At beginning of year  
Reclassified from:  
Investment properties  
Disposals  
At end of year

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 7,305          | 4,451          |
| -              | 7,305          |
| (7,305)        | (4,451)        |
| -              | 7,305          |

In the previous financial year, the Group and Company has entered into a Sale and Purchase Agreement to dispose certain investment properties. The disposals was completed on 13 September 2011.

## 12. SUBSIDIARY

### Company

Unquoted shares, at cost  
Less: Allowance for impairment loss

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 100            | 100            |
| (100)          | (100)          |
| -              | -              |

### Details of subsidiary:

#### Name

Cramson (Malaysia) Bhd.

| Country of<br>incorporation | Proportion of<br>equity interest |           | Principal<br>activity |
|-----------------------------|----------------------------------|-----------|-----------------------|
|                             | 2012<br>%                        | 2011<br>% |                       |
| Malaysia                    | 100                              | 100       | Dormant               |

## 13. SHARE CAPITAL

### Company

#### Authorised:

Ordinary share of RM1.00 each  
At beginning and end of year

#### Issued and paid-up:

Ordinary share of RM1.00 each  
At beginning and end of year

| 2012                       |         | 2011                       |         |
|----------------------------|---------|----------------------------|---------|
| No. of<br>Shares<br>(‘000) | RM'000  | No. of<br>Shares<br>(‘000) | RM'000  |
| 200,000                    | 200,000 | 200,000                    | 200,000 |
| 100,284                    | 100,284 | 100,284                    | 100,284 |





# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 14. RETAINED PROFITS

Presently, Malaysian 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 ("single-tier system"). However, there is a transitional period of six years expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard their accumulated tax credits under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single-tier system. The change in the tax legislation also provides for the Section 108 balance to be locked in as at 31 December 2007 in accordance with Section 39 of the Finance Act, 2007.

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 30 June 2012 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007.

The Company has sufficient Section 108 balance and balance in the tax-exempt account to frank the payment of dividends out of its entire retained earnings as at 30 June 2012.

As at 30 June 2012, the Company also has tax exempt profits available for distribution of RM691,000 (2011: RM1,494,000), subject to the agreement of the Inland Revenue Board.

## 15. MERGER RESERVES

In June 2002, the Company acquired the entire equity interest in the subsidiary for a purchase consideration amounting to RM123,349,408, via the issuance of 30,085,221 new ordinary shares of RM1.00 each to the vendors of the subsidiary at an issue price of RM4.10 per ordinary share.

As a result of using merger relief provisions, under Section 60(4) of the Companies Act, 1965, the merger reserve was created in place of a share premium account and this reserve has been utilised to write-off the goodwill arising from the business combination in the Group financial statements and impairment in value of the investment in subsidiary at the effective date of acquisition, in the Company's financial statements.

The merger reserve was arrived at after considering the fair value of the subsidiary acquired, the nominal value of ordinary shares issued as consideration for the acquisition and the write-off of goodwill on consolidation in June 2002 as follows:

|   | RM'000        |
|---|---------------|
| Fair value of subsidiary acquired               | 123,349       |
| Nominal value of shares issued as consideration | (30,085)      |
| Merger reserve on acquisition                   | 93,264        |
| Write-off of goodwill on consolidation          | (52,592)      |
|   | <u>40,672</u> |

For the financial year ended 30 June 2012

Life insurance  
General insurance

|  | 2012            |                       | 2011          |                 |                       |               |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
|  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 |
|  | 3,616,942       | (1,649)               | 3,615,293     | 3,349,470       | (4,150)               | 3,345,320     |
|  | 391,879         | (165,524)             | 226,355       | 384,539         | (175,360)             | 209,179       |
|  | 4,008,821       | (167,173)             | 3,841,648     | 3,734,009       | (179,510)             | 3,554,499     |

|  | 2012            |                       | 2011            |                       |
|--|-----------------|-----------------------|-----------------|-----------------------|
|  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Gross<br>RM'000 | Reinsurance<br>RM'000 |
|  | 34,850          | (1,649)               | 33,201          | (4,150)               |
|  | 2,895,299       | -                     | 2,895,299       | -                     |
|  | 421,529         | -                     | 421,529         | -                     |
|  | 122,779         | -                     | 122,779         | -                     |
|  | 42,537          | -                     | 42,537          | -                     |
|  | 99,948          | -                     | 99,948          | -                     |
|  | 3,616,942       | (1,649)               | 3,615,293       | (4,150)               |
|  |                 |                       | 3,349,470       |                       |
|  |                 |                       | 93,975          |                       |
|  |                 |                       | 16,771          |                       |
|  |                 |                       | 142,822         |                       |
|  |                 |                       | 335,122         |                       |
|  |                 |                       | 2,728,716       |                       |
|  |                 |                       | 32,064          |                       |
|  |                 |                       | (4,150)         |                       |
|  |                 |                       |                 | 27,914                |
|  |                 |                       |                 | 2,728,716             |
|  |                 |                       |                 | 335,122               |
|  |                 |                       |                 | 142,822               |
|  |                 |                       |                 | 16,771                |
|  |                 |                       |                 | 93,975                |
|  |                 |                       |                 | 3,345,320             |

(a) Life insurance fund

- Provision for outstanding claims
- Actuarial liabilities
- Unallocated surplus
- AFS reserves
- Asset revaluation reserves
- Net asset value attributable to unitholders

| With DPF<br>RM'000 | Gross<br>Without<br>DPF<br>RM'000 | Total<br>RM'000 | With DPF<br>RM'000 | Reinsurance              |               | Total<br>RM'000 | Net<br>RM'000 |
|--------------------|-----------------------------------|-----------------|--------------------|--------------------------|---------------|-----------------|---------------|
|                    |                                   |                 |                    | Without<br>DPF<br>RM'000 | DPF<br>RM'000 |                 |               |
| 2,892,156          | 457,314                           | 3,349,470       | (1,992)            | (2,158)                  | (4,150)       | 3,345,320       |               |
| 417,836            | 85,894                            | 503,730         | (3,222)            | (3,906)                  | (7,128)       | 496,602         |               |
| (262,867)          | (46,844)                          | (309,711)       | 1,011              | 540                      | 1,551         | (308,160)       |               |
| 144,500            | 18,743                            | 163,243         | -                  | -                        | -             | 163,243         |               |
| 21,969             | 7,323                             | 29,292          | -                  | -                        | -             | 29,292          |               |
| (4,990)            | (10,967)                          | (15,957)        | -                  | -                        | -             | (15,957)        |               |
| (2,671)            | (362)                             | (3,033)         | -                  | -                        | -             | (3,033)         |               |
| (63,372)           | (5,457)                           | (68,829)        | -                  | -                        | -             | (68,829)        |               |
| 60,870             | 997                               | 61,867          | -                  | -                        | -             | 61,867          |               |
| (88)               | 2,874                             | 2,786           | 766                | 1,735                    | 2,501         | 5,287           |               |
| -                  | 6,890                             | 6,890           | -                  | -                        | -             | 6,890           |               |
| -                  | 23,343                            | 23,343          | -                  | -                        | -             | 23,343          |               |
| -                  | (24,260)                          | (24,260)        | -                  | -                        | -             | (24,260)        |               |
| (22,074)           | 1,062                             | (21,012)        | -                  | -                        | -             | (21,012)        |               |
| 1,054              | (85)                              | 969             | -                  | -                        | -             | 969             |               |
| 24,992             | 3,014                             | 28,006          | -                  | -                        | -             | 28,006          |               |
| (1,999)            | (241)                             | (2,240)         | -                  | -                        | -             | (2,240)         |               |
| (85,334)           | (22,278)                          | (107,612)       | 2,211              | 3,366                    | 5,577         | (102,035)       |               |
| 3,119,982          | 496,960                           | 3,616,942       | (1,226)            | (423)                    | (1,649)       | 3,615,293       |               |

2012

As at 1 July 2011

|  |  |
|--|--|
| Premiums received (Note 21(a) & (b))   |  |
| Liabilities paid for death, maturities, surrenders, benefits and claims (Note 26(a) & (b)) |  |
| Policy movement  |  |
| Interest rate  |  |
| Adjustments due to changes in assumptions:   |  |
| Mortality/morbidity  |  |
| Expenses   |  |
| Lapse  |  |
| Others   |  |
| Claims benefit experience variation  |  |
| Net asset value attributable to unitholders  |  |
| Net creation of units (Note 21(a) & (b))   |  |
| Net cancellation of units (Note 26(a) & (b))   |  |
| AFS reserves   |  |
| Deferred tax on AFS reserves   |  |
| Asset revaluation reserves   |  |
| Deferred tax on asset revaluation reserves   |  |
| Unallocated surplus available  |  |
| As at 30 June 2012   |  |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 16. INSURANCE CONTRACT LIABILITIES (cont'd)

### (a) Life insurance fund (cont'd)

| 2011  | With DPF<br>RM'000 | Gross<br>Without<br>DPF<br>RM'000 | Total<br>RM'000 | With DPF<br>RM'000 | Reinsurance<br>Without<br>DPF<br>RM'000 | Total<br>RM'000 | Net<br>RM'000 |
|---|--------------------|-----------------------------------|-----------------|--------------------|---|-----------------|---------------|
| As at 1 July 2010   | 2,710,145          | 425,101                           | 3,135,246       | (1,510)            | (3,428)                                 | (4,938)         | 3,130,308     |
| Premiums received (Note 21(a) & (b))  | 396,390            | 91,155                            | 487,545         | (3,222)            | (2,827)                                 | (6,049)         | 481,496       |
| Liabilities paid for death, maturities, surrenders,<br>benefits and claims (Note 26(a) & (b)) | (265,924)          | (51,171)                          | (317,095)       | 927                | 13                                      | 940             | (316,155)     |
| Policy movement   | 115,268            | 17,755                            | 133,023         | -                  | -                                       | -               | 133,023       |
| Interest rate   | 9,801              | 3,656                             | 13,457          | -                  | -                                       | -               | 13,457        |
| Adjustments due to changes in assumptions:  |                    |                                   |                 |                    |   |                 |               |
| Mortality/morbidity   | (2,194)            | 3,406                             | 1,212           | -                  | -                                       | -               | 1,212         |
| Expenses  | (3,142)            | (2,822)                           | (5,964)         | -                  | -                                       | -               | (5,964)       |
| Lapse   | 46,944             | 2,278                             | 49,222          | -                  | -                                       | -               | 49,222        |
| Others  | 5,254              | 3,494                             | 8,748           | -                  | -                                       | -               | 8,748         |
| Claims benefit experience variation   | 991                | (3,350)                           | (2,359)         | (482)              | 1,270                                   | 788             | (1,571)       |
| Net asset value attributable to unitholders   | -                  | 11,166                            | 11,166          | -                  | -                                       | -               | 11,166        |
| Net creation of units (Note 21(a) & (b))  | -                  | 24,270                            | 24,270          | -                  | -                                       | -               | 24,270        |
| Net cancellation of units (Note 26(a) & (b))  | -                  | (23,387)                          | (23,387)        | -                  | -                                       | -               | (23,387)      |
| AFS reserves  | 36,627             | 1,839                             | 38,466          | -                  | -                                       | -               | 38,466        |
| Deferred tax on AFS reserves  | (242)              | (147)                             | (389)           | -                  | -                                       | -               | (389)         |
| Asset revaluation reserves  | (1,873)            | -                                 | (1,873)         | -                  | -                                       | -               | (1,873)       |
| Deferred tax on asset revaluation reserves  | (1,211)            | (247)                             | (1,458)         | -                  | -                                       | -               | (1,458)       |
| Unallocated surplus available   | (154,678)          | (45,682)                          | (200,360)       | 2,295              | 2,814                                   | 5,109           | (195,251)     |
| As at 30 June 2011  | 2,892,156          | 457,314                           | 3,349,470       | (1,992)            | (2,158)                                 | (4,150)         | 3,345,320     |

Included in the unallocated surplus component of the Company's insurance contract liabilities is an amount of RM71,649,770 (2011 : RM54,877,700), being the accumulated surplus of the 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 RM9,238,799 (2011 : RM8,262,369), 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 Standard and the FRS Framework, the insurance contract liabilities of the Company would have been lower by RM80,888,569 (2011 : RM63,140,069); consequently, the retained profits and AFS reserves of the Company would have been higher by RM71,649,770 (2011 : RM54,877,700) and RM9,238,799 (2011 : RM8,262,369) respectively.

For the financial year ended 30 June 2012

**(b) General insurance fund**

Provision for claims reported by policyholders  
Provision for incurred but not reported claims  
("BNR") and provision for risk margin for  
adverse deviations ("PRAD")  
Claims liabilities (i)  
Premiums liabilities (ii)

|  | 2012            |                       | 2011          |                 |                       |               |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
|  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 |
|  | 182,166         | (85,297)              | 96,869        | 182,737         | (90,042)              | 92,695        |
|  | 94,686          | (27,329)              | 67,357        | 76,366          | (29,201)              | 47,165        |
|  | 276,852         | (112,626)             | 164,226       | 259,103         | (119,243)             | 139,860       |
|  | 115,027         | (52,898)              | 62,129        | 125,436         | (56,117)              | 69,319        |
|  | 391,879         | (165,524)             | 226,355       | 384,539         | (175,360)             | 209,179       |

**(i) Claim liabilities**

At beginning of year  
Claims incurred in the current accident year  
IBNR and PRAD incurred  
Claims incurred in prior accident years  
Claims paid during the year  
At end of year

|  | 2012            |                       | 2011          |                 |                       |               |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
|  | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 | Gross<br>RM'000 | Reinsurance<br>RM'000 | Net<br>RM'000 |
|  |                 |                       |               |                 |                       |               |
|  | 259,103         | (119,243)             | 139,860       | 229,962         | (119,476)             | 110,486       |
|  | 106,626         | (37,852)              | 68,774        | 102,392         | (36,283)              | 66,109        |
|  | 18,320          | 1,872                 | 20,192        | 12,810          | 4,548                 | 17,358        |
|  | (8,800)         | 19,834                | 11,034        | 17,148          | (4,502)               | 12,646        |
|  | (98,397)        | 22,763                | (75,634)      | (103,209)       | 36,470                | (66,739)      |
|  | 276,852         | (112,626)             | 164,226       | 259,103         | (119,243)             | 139,860       |

**(ii) Premiums liabilities**

At beginning of year  
Premiums written in the year (Note 21 (a) & (b))  
Premiums earned during the year  
At end of year

|           |           |           |           |           |           |
|-----------|-----------|-----------|-----------|-----------|-----------|
| 125,436   | (56,117)  | 69,319    | 114,673   | (52,975)  | 61,698    |
| 259,549   | (115,325) | 144,224   | 258,189   | (114,977) | 143,212   |
| (269,958) | 118,544   | (151,414) | (247,426) | 111,835   | (135,591) |
| 115,027   | (52,898)  | 62,129    | 125,436   | (56,117)  | 69,319    |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 17. DEFERRED TAXATION

### Group and Company

|                                | Note  | 2012<br>RM'000 | 2011<br>RM'000 |
|--------------------------------|-------|----------------|----------------|
| At beginning of year           |       | 11,305         | 5,761          |
| Recognised in:                 |       |                |                |
| Income statement               | 29    | (337)          | 2,784          |
| Other comprehensive income     |       | 554            | 913            |
| Insurance contract liabilities | 16(a) | 1,271          | 1,847          |
| At end of year                 |       | 12,793         | 11,305         |

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 taxes relate to the same tax authority.

Presented after appropriate offsetting as follows:

|                          | 2012<br>RM'000 | 2011<br>RM'000 |
|--------------------------|----------------|----------------|
| Deferred tax liabilities | 17,231         | 16,805         |
| Deferred tax assets      | (4,438)        | (5,500)        |
|                          | 12,793         | 11,305         |

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

|                                | Accretion<br>and<br>amortisation<br>on investment<br>assets<br>RM'000 | Accelerated<br>capital<br>allowance<br>on property<br>and<br>equipment<br>RM'000 | Fair<br>value of<br>investment<br>properties<br>RM'000 | Fair<br>value of<br>investments<br>assets<br>RM'000 | Total<br>RM'000 |
|--------------------------------|---|--|--|---|-----------------|
| <b>At 1 July 2010</b>          | 5,903   | 2,273  | -  | 14,447  | 22,623          |
| Recognised in:                 |   |  |  |   |                 |
| Income statement               | (3,419)   | (1,541)  | -  | -   | (4,960)         |
| Other comprehensive income     | -   | -  | -  | 913   | 913             |
| Insurance contract liabilities | -   | -  | 1,458  | (3,229)   | (1,771)         |
| <b>At 30 June 2011</b>         | 2,484   | 732  | 1,458  | 12,131  | 16,805          |
| Recognised in:                 |   |  |  |   |                 |
| Income statement               | (1,013)   | (386)  | -  | -   | (1,399)         |
| Other comprehensive income     | -   | -  | -  | 554   | 554             |
| Insurance contract liabilities | -   | -  | 2,241  | (970)   | 1,271           |
| <b>At 30 June 2012</b>         | 1,471   | 346  | 3,699  | 11,715  | 17,231          |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 17. DEFERRED TAXATION (cont'd)

|                                | Accretion<br>and<br>amortisation<br>on investment<br>assets<br>RM'000 | Accelerated<br>capital<br>allowance<br>on property<br>and<br>equipment<br>RM'000 | Fair<br>value of<br>investment<br>properties<br>RM'000 | Fair<br>value of<br>investments<br>assets<br>RM'000 | Total<br>RM'000 |
|--------------------------------|---|--|--|---|-----------------|
| <b>Deferred tax assets:</b>    |   |  |  |   |                 |
| <b>At 1 July 2010</b>          | (2,519)   | (10,588)   | -  | (3,755)   | (16,862)        |
| Recognised in:                 |   |  |  |   |                 |
| Income statement               | 1,325   | 6,419  | -  | -   | 7,744           |
| Insurance contract liabilities | -   | -  | -  | 3,618   | 3,618           |
| <b>At 30 June 2011</b>         | (1,194)   | (4,169)  | -  | (137)   | (5,500)         |
| Recognised in:                 |   |  |  |   |                 |
| Income statement               | 734   | 328  | -  | -   | 1,062           |
| Insurance contract liabilities | -   | -  | -  | -   | -               |
| <b>At 30 June 2012</b>         | (460)   | (3,841)  | -  | (137)   | (4,438)         |

## 18. INSURANCE PAYABLES

|                                     | 2012<br>RM'000 | 2011<br>RM'000 |
|-------------------------------------|----------------|----------------|
| <b>Group and Company</b>            |                |                |
| Due to agents and intermediaries    | 43,071         | 39,750         |
| Due to reinsurers and cedants       | 68,935         | 64,921         |
| Due to policyholders                | 32,030         | 29,769         |
| Accrual for agency related expenses | 11,546         | 13,822         |
|                                     | <b>155,582</b> | <b>148,262</b> |

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

Included in amount due to reinsurers and cedants is an amount of RM28,117,000 (2011: RM29,134,000) due to related companies. The amount payable is subject to settlement terms stipulated in the insurance contracts.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 19. OTHER PAYABLES

### Financial liabilities:

Dividend payable  
Amount due to Shareholders fund  
Others

### Non-financial liabilities:

Accrued expenses  
Other payables

|                                 | Group          |                | Company        |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Dividend payable                | 3,761          | 3,761          | 3,761          | 3,761          |
| Amount due to Shareholders fund | 12,919         | 12,873         | 12,919         | 12,873         |
| Others                          | 45,856         | 44,644         | 45,856         | 44,632         |
|                                 | 62,536         | 61,278         | 62,536         | 61,266         |
| Accrued expenses                | 3,901          | 2,718          | 3,901          | 2,718          |
| Other payables                  | 1,859          | 2,500          | 1,843          | 2,500          |
|                                 | 5,760          | 5,218          | 5,744          | 5,218          |
|                                 | 68,296         | 66,496         | 68,280         | 66,484         |

The carrying amounts of financial liabilities disclosed above approximate fair value at the reporting date. All amounts are payable within one year.

## 20. OPERATING REVENUE

### Group and Company

Gross premiums (Note 21(a))  
Investment income (Note 22)

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 786,622        | 770,004        |
| 179,192        | 172,202        |
| 965,814        | 942,206        |

## 21. NET EARNED PREMIUMS

### Group and Company

#### (a) Gross premiums

Insurance contracts:  
Life  
General

Change in unearned premiums provision

Note

16(a)  
16(b)(ii)

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 527,073        | 511,815        |
| 259,549        | 258,189        |
| 786,622        | 770,004        |
| 10,409         | (10,764)       |
| 797,031        | 759,240        |
| (7,128)        | (6,049)        |
| (115,325)      | (114,977)      |
| (122,453)      | (121,026)      |
| (3,219)        | 3,142          |
| (125,672)      | (117,884)      |
| 671,359        | 641,356        |

#### (b) Premiums ceded

Insurance contracts:  
Life  
General

Change in unearned premiums provision

16(a)  
16(b)(ii)

### Net earned premiums

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 22. INVESTMENT INCOME

### Group and Company

|  | 2012<br>RM'000 | 2011<br>RM'000 |
|--|----------------|----------------|
| Rental income related to properties        | 2,618          | 3,547          |
| Expenses related to properties             | (3,378)        | (5,820)        |
| AFS financial assets:                      |                |                |
| Interest / profit income                   | 123,475        | 121,051        |
| Dividend income                            |                |                |
| - Quoted equity securities in Malaysia     | 12,356         | 13,554         |
| - Quoted unit and property trust funds     | 8,332          | 4,690          |
| LAR interest / profit income               | 44,335         | 41,728         |
| Net amortisation of premiums on investment | (6,693)        | (4,992)        |
| Sundry investment expenses                 | (1,853)        | (1,556)        |
|  | 179,192        | 172,202        |

## 23. REALISED GAINS / (LOSSES)

### Group and Company

|   | 2012<br>RM'000 | 2011<br>RM'000 |
|---|----------------|----------------|
| Gain on disposal of asset held for sale             | 575            | -              |
| Loss on disposal of investment properties           | -              | (159)          |
| (Loss) / gain on disposal of property and equipment | (11)           | 12             |
|   | 564            | (147)          |

### AFS financial assets:

|   |         |         |
|---|---------|---------|
| Realised gains:                               |         |         |
| Quoted equity securities in Malaysia          | 26,574  | 7,027   |
| Unquoted debt securities in Malaysia          | 84,619  | 33,855  |
| Realised losses:                              |         |         |
| Quoted equity securities in Malaysia          | (6,512) | (56)    |
| Unquoted debt securities in Malaysia          | (4,029) | (3,039) |
| Total realised gains for AFS financial assets | 100,652 | 37,787  |

### FVTPL:

|                                      |         |        |
|--------------------------------------|---------|--------|
| Realised gains:                      |         |        |
| Quoted equity securities in Malaysia | 1,643   | 250    |
| Unquoted debt securities in Malaysia | 231     | 328    |
| Realised losses:                     |         |        |
| Quoted equity securities in Malaysia | (2,209) | (422)  |
| Unquoted debt securities in Malaysia | (3)     | (24)   |
|                                      | (338)   | 132    |
|                                      | 100,878 | 37,772 |

Total realised gains of AFS financial assets transferred from statement of comprehensive income amounts to RM6,916,000 (2011: RM844,000).

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 24. FAIR VALUE GAINS / (LOSSES)

### Group and Company

Investment properties  
Quoted equity securities

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 70             | 90             |
| 3,625          | 9,149          |
| 3,695          | 9,239          |

## 25. FEE, COMMISSION INCOME AND OTHER OPERATING REVENUE

### Group and Company

#### Fee and commission income:

Policyholder administration and investment management services  
Reinsurance commission income

#### Other operating revenue:

Recovery of investment written-off  
Other miscellaneous income

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 1,131          | 1,028          |
| 27,009         | 25,671         |
| 28,140         | 26,699         |
| 3,878          | 3,068          |
| 1,280          | -              |
| 5,158          | 3,068          |
| 33,298         | 29,767         |

## 26. NET BENEFITS AND CLAIMS

### Group and Company

#### (a) Gross benefits and claims paid

Insurance contracts:

Life

General

Note

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| (333,971)      | (340,482)      |
| (98,397)       | (103,209)      |
| (432,368)      | (443,691)      |

#### (b) Claims ceded to reinsurers

Insurance contracts:

Life

General

16(a)

16(b)(i)

|        |        |
|--------|--------|
| 1,551  | 940    |
| 22,763 | 36,470 |
| 24,314 | 37,410 |

#### (c) Gross change in contract liabilities

Insurance contracts:

Life

General

|           |           |
|-----------|-----------|
| (261,748) | (180,750) |
| (17,749)  | (29,141)  |
| (279,497) | (209,891) |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 26. NET BENEFITS AND CLAIMS (Cont'd)

|   | Note | 2012<br>RM'000 | 2011<br>RM'000 |
|---|------|----------------|----------------|
| <b>Group and Company (cont'd)</b>                             |      |                |                |
| (d) <b>Change in contract liabilities ceded to reinsurers</b> |      |                |                |
| Insurance contracts:  |      |                |                |
| Life  |      | (2,501)        | 788            |
| General   |      | (6,618)        | (231)          |
|   |      | (9,119)        | 557            |

## 27. FEE, COMMISSION EXPENSE AND OTHER OPERATING EXPENSES

|  | 2012<br>RM'000 | 2011<br>RM'000 |
|--|----------------|----------------|
| <b>Fee and commission expenses:</b>      |                |                |
| Agency commission expenses               | 117,594        | 124,026        |
| Reinsurance commission expenses          | 7,116          | 6,025          |
|  | 124,710        | 130,051        |
| <b>Other operating expenses:</b>         |                |                |
| Property and equipment written-off       | 24             | 30             |
| Impairment loss on insurance receivables | 4,071          | 2,078          |
| Impairment loss on loans receivable      | 2,614          | -              |
| Other miscellaneous expenses             | -              | 1,752          |
|  | 6,709          | 3,860          |
|  | 131,419        | 133,911        |

## 28. MANAGEMENT EXPENSES

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Employee benefits expenses (a)              | 45,499         | 43,590         | 45,499         | 43,590         |
| Directors' remuneration (b)                 | 956            | 777            | 956            | 777            |
| Auditors' remuneration:                     |                |                |                |                |
| - statutory audits                          | 340            | 327            | 338            | 325            |
| Insurance guarantee scheme fund / PIDM levy | 1,999          | 1,008          | 1,999          | 1,008          |
| Office rental                               | 2,239          | 2,097          | 2,239          | 2,097          |
| Equipment rental                            | 157            | 157            | 157            | 157            |
| Depreciation of property and equipment      | 5,964          | 5,177          | 5,964          | 5,177          |
| Amortisation of prepaid land lease payments | 12             | 12             | 12             | 12             |
| Amortisation of intangible assets           | 423            | 470            | 423            | 470            |
| Entertainment                               | 368            | 392            | 368            | 392            |
| EDP expenses                                | 5,578          | 4,620          | 5,578          | 4,620          |
| Advertising and promotion                   | 970            | 2,548          | 970            | 2,548          |
| Repair and maintenance                      | 2,072          | 4,336          | 2,072          | 4,336          |
| Agency training                             | 958            | 948            | 958            | 948            |
| Printing and stationery                     | 1,285          | 1,619          | 1,285          | 1,619          |
| Electricity and water                       | 1,524          | 1,327          | 1,524          | 1,327          |
| Telephone and postages                      | 1,452          | 1,540          | 1,452          | 1,540          |
| Legal and consultancy fees                  | 5,687          | 3,490          | 5,687          | 3,490          |
| Finance charges                             | 5,139          | 4,741          | 5,139          | 4,741          |
| Other expenses                              | 5,533          | 4,562          | 5,531          | 4,560          |
|   | 88,155         | 83,738         | 88,151         | 83,734         |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 28. MANAGEMENT EXPENSES (cont'd)

### Group and Company

#### (a) Employee benefits expense

|   |
|---|
| Wages and salaries                              |
| Social security contributions                   |
| Contributions to defined contribution plan, EPF |
| Other benefits                                  |

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 30,396         | 28,633         |
| 297            | 285            |
| 4,213          | 3,977          |
| 10,593         | 10,695         |
| 45,499         | 43,590         |

#### (b) Non-executive directors' remuneration

The details of non-executive directors' remuneration for the year are as follows:

|                                 |
|---------------------------------|
| Non-executive:                  |
| Fees                            |
| Allowances and other emoluments |

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 261            | 274            |
| 695            | 503            |
| 956            | 777            |

The number of non-executive directors of the Company whose remuneration during the financial year fell within the following bands is analysed below:

|                          |
|--------------------------|
| Non-executive directors: |
| Below RM50,000           |
| RM50,000 - RM100,000     |
| RM100,001 - RM150,000    |
| More than RM150,000      |

| Number of directors<br>2012 | 2011 |
|-----------------------------|------|
| 2                           | 2    |
| 3                           | 1    |
| 4                           | 6    |
| 1                           | -    |

#### (c) Executive directors' remuneration

The remuneration including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM1,032,000 (2011: RM995,000).

## 29. TAXATION

|                              |
|------------------------------|
| Current income tax:          |
| Malaysian income tax         |
| Over provision in prior year |

|   |
|---|
| Deferred tax:   |
| Relating to origination and reversal of temporary differences (Note 17) |

| Group          |                | Company        |                |
|----------------|----------------|----------------|----------------|
| 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| 31,454         | 23,860         | 31,454         | 23,860         |
| -              | (1,452)        | -              | (1,452)        |
| 31,454         | 22,408         | 31,454         | 22,408         |
| (337)          | 2,784          | (337)          | 2,784          |
| 31,117         | 25,192         | 31,117         | 25,192         |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 29. TAXATION (cont'd)

The income tax for the Shareholders' and General funds are calculated based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year. The income tax for the Life fund is calculated based on tax rate of 8% (2011: 8%) of the assessable investment income for the financial year. The taxes of the respective funds are disclosed in Note 43 – Insurance Funds.

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

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| Profit / surplus before taxation                               | 72,178         | 57,072         | 72,182         | 57,076         |
| Taxation at Malaysian statutory<br>tax rate of 25% (2011: 25%) | 18,044         | 14,268         | 18,044         | 14,269         |
| Tax rate differential of 17%<br>in respect of Life fund        | (2,642)        | (2,940)        | (2,642)        | (2,940)        |
| Business outside Malaysia tax rate at 5%                       | 539            | (1,507)        | 539            | (1,507)        |
| Income not subject to tax                                      | (9,094)        | (7,093)        | (9,094)        | (7,093)        |
| Expenses not deductible for tax purposes                       | 24,270         | 23,916         | 24,270         | 23,915         |
| Over provision in prior years                                  | -              | (1,452)        | -              | (1,452)        |
| Tax expense for the year                                       | 31,117         | 25,192         | 31,117         | 25,192         |

## 30. EARNINGS PER SHARE

Earnings per share is calculated by dividing profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the financial year.

|  | Group   |         | Company |         |
|--|---------|---------|---------|---------|
|  | 2012    | 2011    | 2012    | 2011    |
| Profit attributable to ordinary<br>equity holders (RM'000) | 41,061  | 31,880  | 41,065  | 31,884  |
| Weighted average number<br>of shares in issue ('000)       | 100,284 | 100,284 | 100,284 | 100,284 |
| Basic and diluted earnings per share (sen)                 | 40.9    | 31.8    | 40.9    | 31.8    |

There were no dilutive potential ordinary shares as at the reporting date.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 31. DIVIDENDS

| Group and Company   | Amount         |                | Net dividend per share |             |
|---|----------------|----------------|------------------------|-------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>Sen            | 2011<br>Sen |
| <b>Approved and paid</b>  |                |                |                        |             |
| <b>Dividend paid in respect of the financial year ended 30 June 2010:</b> |                |                |                        |             |
| Final dividend of 10% less 25% tax paid on 15 December 2010               | -              | 7,521          | -                      | 7.50        |
| <b>Dividend paid in respect of the financial year ended 30 June 2011:</b> |                |                |                        |             |
| Final dividend of 10% less 25% tax paid on 15 December 2011               | 7,521          | -              | 7.50                   | -           |
| <b>Approved and paid</b>  |                |                |                        |             |
| <b>Dividend paid in respect of the financial year ended 30 June 2011:</b> |                |                |                        |             |
| Interim dividend of 5% less 25% tax paid on 26 July 2011                  | -              | 3,761          | -                      | 3.75        |
| <b>Dividend paid in respect of the financial year ended 30 June 2012:</b> |                |                |                        |             |
| Interim dividend of 5% less 25% tax paid on 15 August 2012                | 3,761          | -              | 3.75                   | -           |
|   | 11,282         | 11,282         | 11.25                  | 11.25       |

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year ended 30 June 2012 of 10% less 25% tax on 100,284,071 ordinary shares amounting to a total dividend of RM7,521,305 (7.5 sen per share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year ending 30 June 2013.

## 32. CASH FLOWS

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Profit / surplus before taxation</b>      | 72,178         | 57,072         | 72,182         | 57,076         |
| Investment income                            | (185,885)      | (173,260)      | (185,885)      | (173,260)      |
| Realised gains recorded in income statement  | (100,652)      | (37,787)       | (100,652)      | (37,787)       |
| Purchases of FVTPL financial assets          | (25,496)       | (30,254)       | (25,496)       | (30,254)       |
| Purchases of AFS investments                 | (7,789,376)    | (2,195,808)    | (7,789,376)    | (2,195,808)    |
| Proceeds from sale of AFS investments        | 7,654,184      | 1,924,186      | 7,654,184      | 1,924,186      |
| Proceeds from sale of FVTPL financial assets | 35,012         | 24,496         | 35,012         | 24,496         |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 32. CASH FLOWS (cont'd)

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2012<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | 2011<br>RM'000 |
| <b>Profit / surplus before taxation (cont'd)</b>        |                |                |                |                |
| Proceeds from sale of investment properties             | -              | 38,721         | -              | 38,721         |
| Proceeds from disposal of assets held for sale          | 7,880          | 4,270          | 7,880          | 4,270          |
| (Increase) / decrease in LAR                            | (67,923)       | 24,758         | (67,923)       | 24,758         |
| <b>Non-cash items:</b>                                  |                |                |                |                |
| Depreciation of property and equipment                  | 5,949          | 5,177          | 5,949          | 5,177          |
| Revaluation surplus on self-occupied property           | (28,007)       | -              | (28,007)       | -              |
| Loss / (gain) on disposal of property and equipment     | 11             | (12)           | 11             | (12)           |
| Loss on disposal of investment properties               | -              | 159            | -              | 159            |
| Amortisation of intangible assets                       | 423            | 470            | 423            | 470            |
| Amortisation of prepaid land lease payments             | 12             | 12             | 12             | 12             |
| Property and equipment written-off                      | 24             | 30             | 24             | 30             |
| (Gain) / loss on disposal of assets held for sale       | (575)          | 181            | (575)          | 181            |
| Revaluation surplus on investment properties            | (70)           | (90)           | (70)           | (90)           |
| Provision for impairment of investments                 | 77             | -              | 77             | -              |
| Net amortisation of investments                         | 6,693          | 4,992          | 6,693          | 4,992          |
| Investment income received                              | 203,549        | 120,825        | 203,549        | 120,825        |
| Impairment loss on insurance receivable                 | 4,071          | 2,078          | 4,071          | 2,078          |
| Impairment loss on loans receivable                     | 2,614          | -              | 2,614          | -              |
| <b>Changes in working capital:</b>                      |                |                |                |                |
| Decrease / (increase) in reinsurance reinsurance assets | 12,337         | (2,121)        | 12,337         | (2,121)        |
| Increase in insurance receivables                       | (7,998)        | (2,889)        | (7,998)        | (2,889)        |
| Increase in other receivables                           | (9,874)        | (8,093)        | (9,874)        | (8,093)        |
| Increase in insurance contract liabilities              | 274,812        | 254,128        | 274,812        | 254,128        |
| Increase in insurance payables                          | 7,320          | 16,391         | 7,320          | 16,391         |
| Increase in other payables                              | 1,800          | 12,697         | 1,796          | 12,693         |
| Cash generated from operating activities                | 73,090         | 40,329         | 73,090         | 40,329         |

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of benefits and claims incurred for insurance and investment contracts, which are respectively treated under operating activities.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 33. OPERATING LEASE ARRANGEMENTS

### (a) The Company as lessee

The Company has entered into a lease agreement for rental of equipment, software and services and office premises.

The future aggregate minimum lease payments under operating lease contracted for as at the reporting date but not recognised as liabilities are as follows:

#### Future minimum rental payments:

#### Rental of equipment, software and services:

Payable within one year  
Payable after one year

#### Rental of office premises:

Payable within one year  
Payable after one year

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 35             | 35             |
| -              | 35             |
| 35             | 70             |
| 1,021          | 994            |
| 287            | 606            |
| 1,308          | 1,600          |

### (b) The Company as lessor

The Company has entered into non-cancellable operating lease arrangements on its portfolio of investment properties. The leases have remaining non-cancellable 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 future minimum lease payments receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

Receivable within one year  
Receivable after one year

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 374            | 1,914          |
| 118            | 749            |
| 492            | 2,663          |

Rental income on investment properties recognised in income statement during the financial year is disclosed in Note 22.

## 34. CAPITAL COMMITMENTS

The commitments of the Group and of the Company as at the financial year-end are as follows:

#### Capital expenditure:

Approved and contracted for:  
Property and equipment  
Intangible assets

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| -              | 6,903          |
| 1,732          | 13,375         |
| 1,732          | 20,278         |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 34. CAPITAL COMMITMENTS (cont'd)

### Capital expenditure: (cont'd)

Approved but not contracted for:  
Property and equipment  
Intangible assets

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 6,999          | 3,299          |
| 642            | 886            |
| 7,641          | 4,185          |
| 9,373          | 24,463         |

## 35. SIGNIFICANT RELATED PARTY DISCLOSURES

### (a) Related parties

The related parties and their relationship with the Company as at 30 June 2012 are as follows:

| Name  | Relationship   |
|---|--|
| Zurich Asia Holdings Ltd ("Z AHL")            | Corporate shareholder  |
| Koperasi MCIS Berhad                          | Corporate shareholder  |
| Associated Marine Insurers                    | Related company of Z AHL   |
| Zurich American Insurance Company             | Related company of Z AHL   |
| Zurich International (Deutschland)            | Related company of Z AHL   |
| Zurich International (UK) Limited             | Related company of Z AHL   |
| Zurich Forsakring (Sweden)                    | Related company of Z AHL   |
| Zurich Insurance Company (Switzerland)        | Related company of Z AHL   |
| Zurich Services (Hong Kong) Limited           | Related company of Z AHL   |
| Zurich International (Netherlands)            | Related company of Z AHL   |
| Zurich Insurance Company Hong Kong            | Related company of Z AHL   |
| Zurich Australian Insurance                   | Related company of Z AHL   |
| Zurich International France                   | Related company of Z AHL   |
| Zurich Insurance Company Singapore            | Related company of Z AHL   |
| Koperasi Konsumer Malaysia Berhad             | A Co-operative in which a director<br>Dato' Balaram a/l Petha Naidu is also a director |
| National Land Finance Co-operative<br>Society | A Co-operative in which a director<br>Dato' Balaram a/l Petha Naidu is also a director |

The Company undertakes various transactions with related companies of Z AHL. The Directors are of the opinion that the reinsurance premiums ceded to related companies and related parties are contracted on terms and conditions no more favourable than those available with other reinsurance counterparties. Other related party transactions were also carried out on terms and conditions no more favourable than those available on similar transactions with unrelated parties, unless otherwise stated.

### Transactions with related parties:

- (i) **Interest income received from:**  
National Land Finance Co-operative Society Limited

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 640            | 745            |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 35. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd)

### (a) Related parties (cont'd)

#### Transactions with related parties: (cont'd)

##### (ii) Rental income received from:

Koperasi MCIS Berhad  
Koperasi Konsumer Malaysia Berhad

| 2012<br>RM'000 | 2011<br>RM'000 |
|----------------|----------------|
| 86             | 86             |
| -              | 100            |
| 86             | 186            |

#### Group and Company

##### (iii) Reinsurance premium ceded to:

Zurich American Insurance Company  
Zurich International (Deutschland)  
Zurich International (Netherland)  
Zurich International (UK) Limited  
Zurich Forsakring (Sweden)  
Zurich Insurance Company (Switzerland)  
Zurich Australian Insurance  
Zurich Insurance Company Hong Kong  
Zurich International France

|        |        |
|--------|--------|
| 2,133  | 1,718  |
| 4,081  | 4,355  |
| 72     | 1,421  |
| 6,373  | 5,228  |
| 813    | 620    |
| 20,910 | 22,657 |
| 565    | -      |
| 1,346  | -      |
| 741    | -      |
| 37,034 | 35,999 |

##### (iv) Reimbursable costs to:

Zurich Services (Hong Kong) Limited  
Zurich Insurance Company (Switzerland)

|     |     |
|-----|-----|
| -   | 549 |
| 132 | 106 |
| 132 | 655 |

##### (v) Reimbursable costs from:

Zurich Services (Hong Kong) Limited

|     |     |
|-----|-----|
| 441 | 437 |
|-----|-----|

##### (vi) Sale of property to:

Koperasi Konsumer Malaysia Berhad

|   |       |
|---|-------|
| - | 2,300 |
|---|-------|

#### Balances with related parties:

##### (i) Term loan granted to:

National Land Finance Co-operative Society Limited

|        |        |
|--------|--------|
| 11,000 | 13,000 |
|--------|--------|

##### (ii) Included in insurance receivables (Note 9):

Associated Marine Insurers

|    |   |
|----|---|
| 68 | 6 |
| 68 | 6 |

##### (iii) Included in insurance payables (Note 18):

Zurich American Insurance Company  
Zurich Forsakring (Sweden)  
Zurich International (Deutschland)  
Zurich International (UK) Limited  
Zurich Insurance Company (Switzerland)  
Zurich Insurance Company Hong Kong  
Zurich Insurance Company Singapore

|        |        |
|--------|--------|
| 1,063  | 1,105  |
| 291    | 615    |
| 1,564  | 1,887  |
| 4,848  | 2,872  |
| 17,759 | 20,415 |
| 601    | -      |
| 678    | -      |
| 26,804 | 26,894 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 35. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd)

### (b) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Company, directly or indirectly. In line with this classification, the key management personnel of the Group and Company includes directors and the Chief Executive Officer.

#### Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

|                      | 2012<br>RM'000 | 2011<br>RM'000 |
|----------------------|----------------|----------------|
| Salaries and bonuses | 795            | 767            |
| Contributions to EPF | 201            | 192            |
| Fees and allowances  | 956            | 777            |
| Benefits-in-kind     | 36             | 36             |
|                      | 1,988          | 1,772          |

## 36. REGULATORY CAPITAL REQUIREMENT

The capital structure of the Company as at 30 June 2012, as prescribed under RBC Framework is provided as below:

|                                      | 2012<br>RM'000   | 2011<br>RM'000   |
|--------------------------------------|------------------|------------------|
| <u>Eligible Tier 1 capital</u>       |                  |                  |
| Share capital (paid-up)              | 100,284          | 100,284          |
| Reserve, including retained earnings | 997,829          | 890,899          |
|                                      | 1,098,113        | 991,183          |
| <u>Tier 2 capital</u>                |                  |                  |
| Eligible reserves                    | 174,074          | 166,689          |
| Amount deducted from capital         | -                | (423)            |
| <b>Total capital available</b>       | <b>1,272,187</b> | <b>1,157,449</b> |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 37. CONTINGENT LIABILITIES

The following are the claims made against the Company:

- (i) A former agent had filed a suit against the Company for general damages for libel and malicious prosecution, loss of profits, punitive and exemplary damages and interest amounting to RM30 million with an interest rate of 8% thereon, as a result of winding up proceedings instituted by the Company against the agency involved. Subsequent to 30 June 2012, this claim has been withdrawn by the former agent against the Company, with no loss to the Company.
- (ii) A former Architect Firm had filed a suit against the Company for architectural professional fees and project management fees amounting to RM4,105,750 with interest of 8% thereon together with cost and other relief that the Court thinks fit. The Company's defence is that it has paid all the fees specified and that the Plaintiff's action was time barred by virtue of the Limitation Act, 1953. Subsequent to 30 June 2012, the claim against the Company has been dismissed by the Court with no loss to the Company.

## 38. RISK MANAGEMENT FRAMEWORK

### (a) Risk management framework

The Company has an integrated risk management framework and processes for identifying, measuring, monitoring and controlling risks which may impact both earnings and capital.

The responsibility for risk management and control is embedded into the respective business lines management to ensure that risk management processes are functioning effectively. The Risk Management Department functions independently for assessing and reporting the potential risk impact and probability across the organization and the adequacy of risk management actions. This includes assessing and reporting risks related to financial, insurance and operational aspects of the business.

The Compliance function provides support in complying with rules and regulations.

The Internal Audit function which is independent of the business functions also provides support in identifying and highlighting key risk areas for improvement.

The risk profiles, risk exposure, emerging risks and compliance with risk appetite and regulatory requirements as well as the adequacy of the mitigating actions are reviewed by the Governance, Risk and Compliance Committee ("GRCC") and reported to the Board Risk Management Committee ("BRMC") on a regular basis.

The Board Investment Committee provides oversight on all aspects of investment management to safeguard the interests of policyholders and shareholders.

### (b) Capital management objectives, policies and approach

Capital management risk is the risk of having insufficient capital, which may impact the implementation of strategic objectives, reduces the Company's ability to manage losses that are not anticipated, and reduces confidence of the market, policyholders and creditors.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 38. RISK MANAGEMENT FRAMEWORK (cont'd)

### (b) Capital management objectives, policies and approach (cont'd)

The Company's capital management objectives are to maintain effective capital management processes and a level of capital resources consistent with the risk profiles approved by the Board to support business development, at the same time meeting the shareholders' requirements, as well as the capital adequacy requirement set by BNM.

The Capital Management Committee ("CMC") undertakes to implement the capital framework for planning, managing, monitoring and optimizing the Company's capital position.

### (c) Governance and regulatory framework

The Risk Management Policies identify the inherent risks and set out how the risks are to be managed. The policies include risk appetite in relation to each of the inherent risks and minimum standards of control that the company is expected to maintain.

The risk management governance process operates through delegation of authority from the Board to the CEO and oversight committees, Executive Management Committee ("EMC"), GRCC, Risk Management Department ("RMD"), CMC, Management Investment Committee ("MIC") and Product Development Committee.

## 39. INSURANCE RISK

Insurance risk is the risk that inadequate or inappropriate underwriting, claims management, product design and pricing will expose the Company to financial loss and may result in the inability to meet its liabilities.

### Life insurance risk

The Company's life insurance businesses are exposed to a range of life insurance risks from various products. In providing insurance protection, the Company has to manage risks such as mortality (the death of policyholder), morbidity (ill health), longevity (annuity), product design and pricing.

The mortality and morbidity risks are managed through the use of reinsurance to transfer risks in excess of the Company's risk appetite, appropriate actuarial methodologies/techniques for reserving as well as other risk mitigating measures.

Persistency (or lapsation) risk is managed through monitoring of experience. Where possible, the potential financial impact of lapses is reduced by persistency management, product design requirements, experience monitoring and management actions.

Poorly designed or inadequately priced products may lead to both financial loss and reputation risk to the Company. Policies have been developed to support the Company through complete product development processes, financial analysis and pricing.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

### Life insurance risk (cont'd)

The table below sets out the concentration of life insurance risk as at the reporting date:

| Life insurance contracts | 2012             | 2011             |
|--------------------------|------------------|------------------|
|                          | RM'000           | RM'000           |
| Whole life               | 297,310          | 224,987          |
| Term assurance           | 134,890          | 129,313          |
| Endowment                | 1,949,028        | 1,876,452        |
| Annuity                  | 474,853          | 447,704          |
| Others                   | 39,218           | 50,260           |
|                          | <u>2,895,299</u> | <u>2,728,716</u> |

### Key assumptions

Material judgment is required in the choice of assumptions to determine the value of life insurance liabilities. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The sensitivity analysis below shows the impact of changes in key assumptions on the value of life insurance liabilities. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on liabilities. The correlation of assumptions will have a significant effect in determining the liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

There are no material change to the methods used to derive assumptions from the previous year.

The following table highlights the sensitivity of the gross valuation liabilities to reasonably possible changes to the key assumptions :

| Assumptions             | Change                                  | Impact on<br>30 June 2012<br>insurance contract<br>liabilities<br>RM'000 |
|-------------------------|---|--|
| Base                    |   | 2,895,299  |
| Discount rates          | +100 basis points<br>- 100 basis points | 2,625,101<br>3,217,943   |
| Mortality and morbidity | Increase by 25%<br>Decrease by 25%      | 2,922,306<br>2,863,085   |
| Lapse and surrender     | Increase by 25%<br>Decrease by 25%      | 2,837,513<br>2,948,712   |
| Expenses                | Increase by 25%<br>Decrease by 25%      | 2,938,998<br>2,845,272   |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

### General insurance risk

The Company's general insurance businesses are exposed to the possibility of occurrence of an insured event and uncertainty of the amount and timing of the resultant claim. The principal risk that the Company faces is that the actual claims exceed the carrying amount of insurance liabilities.

The probability and severity of risk events are managed through a diversification of insurance portfolio and careful selection of risks, together with the implementation of underwriting strategy and guidelines, limiting the Company's exposure to large claims and catastrophes by placing risk with reinsurers as well as regular claims management and claims review to minimize the uncertainty of claims development as well as to mitigate dubious or fraudulent claims whilst ensuring fair claims settlement on a timely basis.

The table below sets out the concentration of general insurance risk by contract type as at the reporting date:

### General insurance contracts

|                                       | 2012<br>Net<br>premium<br>liabilities<br>RM'000 | 2012<br>Net<br>claim<br>liabilities<br>RM'000 | 2011<br>Net<br>premium<br>liabilities<br>RM'000 | 2011<br>Net<br>claim<br>liabilities<br>RM'000 |
|---------------------------------------|---|---|---|---|
| Marine, aviation and transit          | 1,377   | 7,821   | 1,871   | 10,556  |
| Contractors all risks and engineering | 542   | 4,142   | 851   | 5,106   |
| Fire                                  | 3,473   | 10,143  | 5,030   | 9,934   |
| Liabilities                           | 655   | 5,454   | 2,046   | 5,913   |
| Medical and health                    | 353   | 627   | 1,541   | 1,301   |
| Motor                                 | 49,121  | 123,175                                       | 50,628  | 88,473  |
| Personal accident                     | 1,909   | 3,970   | 2,018   | 4,912   |
| Workmen compensation                  | 114   | 292   | 198   | 478   |
| Others                                | 4,585   | 8,602   | 5,136   | 13,187  |
|                                       | 62,129  | 164,226                                       | 69,319  | 139,860                                       |

General insurance contract liabilities are determined based on previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Of particular relevance is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions, economic conditions and claims handling procedures. The estimates of the general insurance contract liabilities are therefore sensitive to various factors and uncertainties. The actual future premium and claims liabilities may not develop exactly as projected and may vary from initial estimates.

### Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

### General insurance risk (cont'd)

#### Key assumptions (cont'd)

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation, affect the probability and incidence of claims.

Other key circumstances affecting the reliability of assumptions include variation in interest rates and delays in settlement and changes in foreign currency rates.

#### Sensitivities

The general insurance claim liabilities are sensitive to the key assumptions shown below. It is not possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net liabilities, Profit before taxation and Equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

| < ----- Increase / (Decrease) ----- > |                            |                                       |                                     |  |                             |
|---------------------------------------|----------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|
|                                       | Change in assumptions<br>% | Impact on gross liabilities<br>RM'000 | Impact on net liabilities<br>RM'000 | Impact on profit before taxation<br>RM'000 | Impact on equity*<br>RM'000 |
| <b>2012</b>                           |                            |                                       |                                     |  |                             |
| Average claim cost                    | +10%                       | 25,300                                | 16,100                              | (16,100)                                   | (12,075)                    |
| Average number of claims              | +10%                       | 22,100                                | 14,400                              | (14,400)                                   | (10,800)                    |
| Average claim settlement period       | +6 months                  | 3,100                                 | 2,100                               | (2,100)                                    | (1,575)                     |
| <b>2011</b>                           |                            |                                       |                                     |  |                             |
| Average claim cost                    | +10%                       | 24,800                                | 14,000                              | (14,000)                                   | (10,500)                    |
| Average number of claims              | +10%                       | 24,700                                | 15,800                              | (15,800)                                   | (11,850)                    |
| Average claim settlement period       | +6 months                  | 2,400                                 | 1,700                               | (1,700)                                    | (1,275)                     |

\* impact on equity reflects adjustments for tax, when applicable

An equivalent decrease in the assumptions shown above would have resulted in an equivalent, but opposite, impact.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

### General insurance risk (cont'd)

#### Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and Incurred But Not Report ("IBNR") for each successive accident year at each reporting date, together with cumulative payments to-date.

In setting provisions for claims, 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. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Data pertaining to the gross general insurance liabilities prior to underwriting year 2009 was not available and hence only post underwriting year 2009 developments in gross general reinsurance liabilities are disclosed.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

### General insurance risk (cont'd)

### Claims development table (cont'd)

### Gross general insurance contract liabilities for 2012:

| Accident year   | PRAD   | Inward Treaty | Prior to 2005<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | Total<br>RM'000 |
|---|--------|---------------|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| At end of accident year   |        |               |                         |                |                |                | 138,812        | 122,509        | 135,798        | 135,990        |                 |
| One year later  |        |               |                         |                |                |                | 118,533        | 127,268        | 116,750        |                |                 |
| Two year later  |        |               |                         |                |                | 83,631         | 114,085        | 123,668        |                |                |                 |
| Three year later  |        |               |                         |                | 82,146         | 84,405         | 109,060        |                |                |                |                 |
| Four year later   |        |               |                         | 78,405         | 82,292         | 82,187         |                |                |                |                |                 |
| Five year later   |        |               | 60,283                  | 78,038         | 79,439         |                |                |                |                |                |                 |
| Six year later  |        |               | 59,419                  | 72,881         |                |                |                |                |                |                |                 |
| Seven year later  |        |               | 60,175                  |                |                |                |                |                |                |                |                 |
| <b>Claims incurred</b>  |        |               | 60,175                  | 72,881         | 79,439         | 82,187         | 109,060        | 123,668        | 116,750        | 135,990        | 780,150         |
| At end of accident year   |        |               |                         |                |                |                | (35,867)       | (34,987)       | (31,393)       | (35,455)       |                 |
| One year later  |        |               |                         |                |                |                | (77,002)       | (76,116)       | (69,436)       |                |                 |
| Two year later  |        |               |                         |                |                | (66,396)       | (92,098)       | (89,000)       |                |                |                 |
| Three year later  |        |               |                         |                | (64,764)       | (72,201)       | (94,973)       |                |                |                |                 |
| Four year later   |        |               |                         | (69,540)       | (69,831)       | (74,946)       |                |                |                |                |                 |
| Five year later   |        |               | (56,787)                | (71,125)       | (71,500)       |                |                |                |                |                |                 |
| Six year later  |        |               | (57,455)                | (71,205)       |                |                |                |                |                |                |                 |
| Seven year later  |        |               | (57,992)                |                |                |                |                |                |                |                |                 |
| <b>Payments to date</b>   |        |               | (57,992)                | (71,205)       | (71,500)       | (74,946)       | (94,973)       | (89,000)       | (69,436)       | (35,455)       | (564,507)       |
| <b>Gross general insurance contract liabilities per statement of financial position</b> | 31,255 | 29,954        | 2,183                   | 1,676          | 7,939          | 7,241          | 14,087         | 34,668         | 47,314         | 100,535        | 276,852         |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

General insurance risk (cont'd)

Claims development table (cont'd)

Net general insurance contract liabilities for 2012:

| Accident year   | PRAD   | Inward Treaty | Prior to 2005<br>RM'000 | 2006<br>RM'000 | 2007<br>RM'000 | 2008<br>RM'000 | 2009<br>RM'000 | 2010<br>RM'000 | 2011<br>RM'000 | 2012<br>RM'000 | Total<br>RM'000 |
|---|--------|---------------|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| At end of accident year   |        |               | 39,211                  | 51,186         | 59,025         | 58,368         | 66,491         | 80,223         | 89,390         | 89,931         |                 |
| One year later  |        |               | 35,527                  | 44,123         | 55,160         | 56,254         | 65,385         | 79,415         | 81,447         |                |                 |
| Two year later  |        |               | 34,110                  | 43,257         | 52,402         | 54,077         | 65,439         | 80,399         |                |                |                 |
| Three year later  |        |               | 33,701                  | 41,838         | 50,733         | 54,949         | 63,640         |                |                |                |                 |
| Four year later   |        |               | 33,087                  | 41,416         | 50,966         | 53,874         |                |                |                |                |                 |
| Five year later   |        |               | 34,945                  | 40,388         | 50,132         |                |                |                |                |                |                 |
| Six year later  |        |               | 33,226                  | 38,798         |                |                |                |                |                |                |                 |
| Seven year later  |        |               | 33,719                  |                |                |                |                |                |                |                |                 |
| <b>Claims incurred</b>  |        |               | 33,719                  | 38,798         | 50,132         | 53,874         | 63,640         | 80,399         | 81,447         | 89,931         | 491,940         |
| At end of accident year   |        |               | (15,068)                | (18,867)       | (24,166)       | (25,247)       | (25,589)       | (28,934)       | (26,001)       | (29,454)       |                 |
| One year later  |        |               | (26,581)                | (32,700)       | (41,105)       | (41,418)       | (49,414)       | (55,416)       | (53,896)       |                |                 |
| Two year later  |        |               | (28,607)                | (34,616)       | (42,906)       | (44,933)       | (55,312)       | (64,751)       |                |                |                 |
| Three year later  |        |               | (29,744)                | (36,387)       | (44,080)       | (48,026)       | (57,120)       |                |                |                |                 |
| Four year later   |        |               | (30,292)                | (37,881)       | (47,214)       | (49,924)       |                |                |                |                |                 |
| Five year later   |        |               | (33,116)                | (38,006)       | (47,820)       |                |                |                |                |                |                 |
| Six year later  |        |               | (32,337)                | (38,036)       |                |                |                |                |                |                |                 |
| Seven year later  |        |               | (32,835)                |                |                |                |                |                |                |                |                 |
| <b>Payments to date</b>   |        |               | (32,835)                | (38,036)       | (47,820)       | (49,924)       | (57,120)       | (64,751)       | (53,896)       | (29,454)       | (373,836)       |
| <b>Net general insurance contract liabilities per statement of financial position</b> | 16,168 | 29,954        | 884                     | 762            | 2,312          | 3,950          | 6,520          | 15,648         | 27,551         | 60,477         | 164,226         |

Following the Motor Subclass Analysis conducted in the last financial year, the results pertaining to financial year 2011 as disclosed in the claims development tables were restated due to subsequent changes in the Motor valuations results.

### 39. INSURANCE RISK (cont'd)

#### General insurance risk (cont'd)

#### Claims development table (cont'd)

#### Gross general insurance contract liabilities for 2011:

| Accident year   | PRAD          | Inward Treaty | 2004            | 2005            | 2006            | 2007            | 2008            | 2009            | 2010            | 2011            | Total            |
|---|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
|   |               | RM'000        | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000          | RM'000           |
| At end of accident year   |               |               |                 |                 |                 |                 |                 | 138,812         | 122,509         | 138,356         |                  |
| One year later  |               |               |                 |                 |                 |                 | 92,042          | 118,533         | 127,396         |                 |                  |
| Two year later  |               |               |                 |                 |                 | 86,183          | 83,631          | 114,331         |                 |                 |                  |
| Three year later  |               |               |                 |                 | 80,684          | 82,146          | 84,431          |                 |                 |                 |                  |
| Four year later   |               |               |                 | 59,730          | 78,405          | 82,316          |                 |                 |                 |                 |                  |
| Five year later   |               |               |                 | 60,283          | 78,038          |                 |                 |                 |                 |                 |                  |
| Six year later  |               |               | 68,022          | 59,419          |                 |                 |                 |                 |                 |                 |                  |
| Seven year later  |               |               | 70,376          |                 |                 |                 |                 |                 |                 |                 |                  |
| <b>Claims incurred</b>  |               |               | <b>70,376</b>   | <b>59,419</b>   | <b>78,038</b>   | <b>82,316</b>   | <b>84,431</b>   | <b>114,331</b>  | <b>127,396</b>  | <b>138,356</b>  | <b>754,663</b>   |
| At end of accident year   |               |               |                 |                 |                 |                 |                 | (35,867)        | (34,987)        | (31,393)        |                  |
| One year later  |               |               |                 |                 |                 |                 | (53,509)        | (77,002)        | (76,116)        |                 |                  |
| Two year later  |               |               |                 |                 |                 | (62,100)        | (66,396)        | (92,098)        |                 |                 |                  |
| Three year later  |               |               |                 |                 | (67,225)        | (64,764)        | (72,201)        |                 |                 |                 |                  |
| Four year later   |               |               |                 | (55,496)        | (69,540)        | (69,831)        |                 |                 |                 |                 |                  |
| Five year later   |               |               |                 | (56,787)        | (71,125)        |                 |                 |                 |                 |                 |                  |
| Six year later  |               |               | (63,483)        | (57,455)        |                 |                 |                 |                 |                 |                 |                  |
| Seven year later  |               |               | (64,662)        |                 |                 |                 |                 |                 |                 |                 |                  |
| <b>Payments to date</b>   |               |               | <b>(64,662)</b> | <b>(57,455)</b> | <b>(71,125)</b> | <b>(69,831)</b> | <b>(72,201)</b> | <b>(92,098)</b> | <b>(76,116)</b> | <b>(31,393)</b> | <b>(534,881)</b> |
| <b>Gross general insurance contract liabilities per statement of financial position</b> | <b>31,290</b> | <b>8,031</b>  | <b>5,714</b>    | <b>1,964</b>    | <b>6,913</b>    | <b>12,485</b>   | <b>12,230</b>   | <b>22,233</b>   | <b>51,280</b>   | <b>106,963</b>  | <b>259,103</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 39. INSURANCE RISK (cont'd)

General insurance risk (cont'd)

Claims development table (cont'd)

Net general insurance contract liabilities for 2011:

| Accident year  | PRAD | Inward Treaty | Prior to 2004 |        | 2004     | 2005     | 2006     | 2007     | 2008     | 2009     | 2010     | 2011     | Total     |        |         |
|--|------|---------------|---------------|--------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|--------|---------|
|  |      |               | RM'000        | RM'000 |          |          |          |          |          |          |          |          |           | RM'000 | RM'000  |
| At end of accident year  |      |               |               |        | 44,545   | 39,211   | 51,186   | 59,025   | 58,368   | 66,491   | 80,223   | 90,811   |           |        |         |
| One year later   |      |               |               |        | 34,737   | 35,527   | 44,123   | 55,160   | 56,254   | 65,385   | 79,234   |          |           |        |         |
| Two year later   |      |               |               |        | 34,352   | 34,110   | 43,257   | 52,402   | 54,077   | 65,517   |          |          |           |        |         |
| Three year later   |      |               |               |        | 33,600   | 33,701   | 41,838   | 50,733   | 54,864   |          |          |          |           |        |         |
| Four year later  |      |               |               |        | 32,482   | 33,087   | 41,416   | 50,888   |          |          |          |          |           |        |         |
| Five year later  |      |               |               |        | 32,380   | 34,945   | 40,322   |          |          |          |          |          |           |        |         |
| Six year later   |      |               |               |        | 31,435   | 33,226   |          |          |          |          |          |          |           |        |         |
| Seven year later   |      |               |               |        | 33,480   |          |          |          |          |          |          |          |           |        |         |
| Claims incurred  |      |               |               |        | 33,480   | 33,226   | 40,322   | 50,888   | 54,864   | 65,517   | 79,234   | 90,811   | 448,342   |        |         |
| At end of accident year  |      |               |               |        | (12,415) | (15,068) | (18,867) | (24,166) | (25,247) | (25,589) | (28,934) | (26,001) |           |        |         |
| One year later   |      |               |               |        | (24,497) | (26,581) | (32,700) | (41,105) | (41,418) | (49,414) | (55,416) |          |           |        |         |
| Two year later   |      |               |               |        | (26,526) | (28,607) | (34,616) | (42,906) | (44,933) | (55,312) |          |          |           |        |         |
| Three year later   |      |               |               |        | (28,228) | (29,744) | (36,387) | (44,080) | (48,026) |          |          |          |           |        |         |
| Four year later  |      |               |               |        | (28,677) | (30,292) | (37,881) | (47,214) |          |          |          |          |           |        |         |
| Five year later  |      |               |               |        | (29,730) | (33,116) | (38,006) |          |          |          |          |          |           |        |         |
| Six year later   |      |               |               |        | (30,324) | (32,337) |          |          |          |          |          |          |           |        |         |
| Seven year later   |      |               |               |        | (31,822) |          |          |          |          |          |          |          |           |        |         |
| Payments to date   |      |               |               |        | (31,822) | (32,337) | (38,006) | (47,214) | (48,026) | (55,312) | (55,416) | (26,001) | (334,134) |        |         |
| Net general insurance contract liabilities per statement of financial position |      |               |               |        | 17,621   | 8,031    | 1,658    | 889      | 2,316    | 3,674    | 6,838    | 10,205   | 23,818    | 64,810 | 139,860 |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK

### Market and credit risk

Market risk is the risk of assets or liabilities values being adversely affected by movement in the market prices or rates. This includes interest risk, currency risk, rate risk and market price risk.

The Company manages market risk by setting policies on asset allocation, investment limits and diversification benchmarks. The Company adopts the asset liability matching criteria to minimize the impact of mismatches between the values of assets and liabilities from market movements.

Exposure to fixed income securities provides the Company's largest market risk exposure. The Company monitors its exposure levels through regular stress/sensitivity testing and constant market supervision of the asset prices. There are no investment in derivatives.

### (a) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed rate instrument expose the Company to fair value interest risk. The Company's exposure to interest rate risk arises primarily from investment in fixed income securities and deposits with licensed institutions.

The carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk is as disclosed in Note 7(g).

#### Sensitivity analysis:

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on income or loss and impact on equity. It should be noted that movements in these variables are non-linear.

|                | <----- Increase / (Decrease) -----> |                                   |                  |
|----------------|-------------------------------------|-----------------------------------|------------------|
|                | Changes in basis point              | Effect on net income for the year | Effect on equity |
|                | %                                   | RM'000                            | RM'000           |
| <b>2012</b>    |                                     |                                   |                  |
| Interest rates | + 100 bps                           | -                                 | (197,421)        |
| Interest rates | - 100 bps                           | -                                 | 221,611          |
| <b>2011</b>    |                                     |                                   |                  |
| Interest rates | + 100 bps                           | -                                 | (158,526)        |
| Interest rates | - 100 bps                           | -                                 | 176,565          |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (b) Currency risk

Currency risk is the risk that the fair value or 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) with minimal exposure to foreign currency risks.

### (c) Equity price risk

Equity price risk is the risk that the fair value of equity assets will be adversely affected by movement in market prices (other than those arising from interest risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting similar financial instruments traded in the market.

The Company's exposure to equity price risk arises from its investment in quoted equities traded in the Bursa Malaysia. The Company manages its exposure to equity price risk by setting policies and investment parameters governing asset allocation and investments limits, having regard to such limits stipulated by BNM as well as specific assessment for equity investments falling below 30% of its average historical cost or a prolonged decline for 12 consecutive months.

#### Sensitivity analysis:

Management's best estimate of the effect on the net income for the year and equity due to a reasonably possible change in equity market value with all other variable held constant is indicated in the table below:

|                 | <----- Increase / (Decrease) -----> |   |                               |
|-----------------|-------------------------------------|---|-------------------------------|
|                 | Change in<br>FBMKLCI<br>%           | Effect on<br>net income<br>for the year<br>RM'000 | Effect on<br>equity<br>RM'000 |
| <b>2012</b>     |                                     |   |                               |
| Market indices: |                                     |   |                               |
| Market value    | +5%                                 | -   | 16,001                        |
| Market value    | -5%                                 | -   | (16,001)                      |
| <b>2011</b>     |                                     |   |                               |
| Market indices: |                                     |   |                               |
| Market value    | +5%                                 | -   | 17,700                        |
| Market value    | -5%                                 | -   | (17,700)                      |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (d) Credit risk

Credit risk is the risk of a financial loss resulting from the failure of an intermediary or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

The Company's primary exposure to credit risk arises through its investment in fixed income securities and deposits, obligations of reinsurers through reinsurance contracts and receivables from sales of insurance policies. The Company has in place a credit control policy and investment policy to manage its credit risk.

The Company manages the exposure to individual counterparties pertaining to its investment in fixed income securities, by measuring the exposure against internal limits, taking into consideration the credit ratings issued by the authorized rating agencies.

The Company actively monitors and considers the risk of a fall in value of the fixed asset securities from changes in the credit worthiness of the issuer by managing individual exposures as well as the concentration of credit risks in its fixed income portfolio through asset allocation, observing minimum credit rating requirements, maximum limits for corporate debt, maximum duration as well as setting maximum permitted exposures to individual counterparties or group of counterparties.

Cash and deposits are placed with financial institutions licensed under the Banking and Financial Institutions Act 1989 which are regulated by BNM, guided by the Company's approved exposure limits and minimum credit rating requirements.

Reinsurance arrangements are only placed with providers who meet the Company's counterparty credit standards and satisfy the minimum credit rating requirements of the Company. The Company reviews the credit condition of its reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically. The Company cedes business to reinsurers that satisfy the minimum credit rating requirements of the Company.

### Credit exposure

At the reporting date, the Company's maximum exposure to credit risk is represented by the amount of each class of financial assets recognised in the statements of financial position as shown in the table below:

#### Group and Company

|                                       | 2012<br>RM'000 | 2011<br>RM'000 |
|---------------------------------------|----------------|----------------|
| LAR                                   |                |                |
| Deposits with financial institutions  | 355,173        | 289,443        |
| AFS                                   |                |                |
| Malaysian government securities       | 1,211,713      | 1,027,365      |
| Government investment issues          | 388,759        | 38,326         |
| Malaysian government guaranteed bonds | 494,136        | 573,832        |
| Quoted debt securities                | -              | 1,881          |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (d) Credit risk (cont'd)

#### Credit exposure (cont'd)

##### Group and Company (cont'd)

|                                       | 2012<br>RM'000   | 2011<br>RM'000   |
|---------------------------------------|------------------|------------------|
| Unquoted debt securities<br>FVTPL     | 854,763          | 1,062,657        |
| Malaysian government guaranteed bonds | 3,564            | 3,553            |
| Quoted debt securities                | -                | 82               |
| Unquoted debt securities              | 18,939           | 17,911           |
| Reinsurance assets                    | 167,173          | 179,510          |
| Insurance receivables                 | 62,420           | 58,493           |
| Other receivables                     | 69,133           | 59,259           |
| Cash and bank balances                | 44,163           | 19,307           |
|                                       | <u>3,669,936</u> | <u>3,331,619</u> |

The Company's policy loans portfolio is not included in the above. There are no significant credit exposures for policy loans as they are fully secured by the surrender values of related insurance contracts.

#### Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to Rating Agency of Malaysia, Malaysian Rating Corporation Berhad, AM-Best Company and Standards and Poor's credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (d) Credit risk (cont'd)

#### Credit exposure (cont'd)

#### Credit exposure by credit rating (cont'd)

|  | Neither past-due nor impaired              |   |                     |                       |   |                 |
|--|--|---|---------------------|-----------------------|---|-----------------|
|  | Investment grade<br>(BBB to AAA)<br>RM'000 | Non-<br>investment grade<br>(C to BB)<br>RM'000 | Not-rated<br>RM'000 | Unit-linked<br>RM'000 | Past-due<br>but not<br>impaired<br>RM'000 | Total<br>RM'000 |
|  |  |   |                     |                       |   |                 |
| 2012                                     |  |   |                     |                       |   |                 |
| LAR                                      |  |   |                     |                       |   |                 |
| Deposits with<br>financial institutions  | 334,924                                    | -   | 741                 | 19,508                | -   | 355,173         |
| AFS                                      |  |   |                     |                       |   |                 |
| Malaysian government<br>securities       | -  | -   | 1,211,713           | -                     | -   | 1,211,713       |
| Government investment<br>issues          | -  | -   | 388,759             | -                     | -   | 388,759         |
| Malaysian government<br>guaranteed bonds | -  | -   | 494,136             | -                     | -   | 494,136         |
| Unquoted debt securities                 | 854,763                                    | -   | -                   | -                     | -   | 854,763         |
| FVTPL                                    |  |   |                     |                       |   |                 |
| Malaysian government<br>guaranteed bonds | -  | -   | -                   | 3,564                 | -   | 3,564           |
| Unquoted debt securities                 | -  | -   | -                   | 18,939                | -   | 18,939          |
| Reinsurance assets                       | 39,599                                     | -   | 74,676              | -                     | -   | 114,275         |
| Insurance receivables                    | 3,852                                      | -   | 41,384              | -                     | 17,184                                    | 62,420          |
| Other receivables                        | 12,196                                     | -   | 55,372              | -                     | -   | 67,568          |
| Cash and bank balances                   | 42,244                                     | -   | -                   | 1,919                 | -   | 44,163          |
|  | 1,287,578                                  | -   | 2,266,781           | 43,930                | 17,184                                    | 3,615,473       |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (d) Credit risk (cont'd)

#### Credit exposure (cont'd)

#### Credit exposure by credit rating (cont'd)

|                                       | Neither past-due nor impaired              |   |                     |                       |  | Total<br>RM'000  |
|---------------------------------------|--|---|---------------------|-----------------------|--|------------------|
|                                       | Investment grade<br>(BBB to AAA)<br>RM'000 | Non-investment grade<br>(C to BB)<br>RM'000 | Not-rated<br>RM'000 | Unit-linked<br>RM'000 | Past-due but not<br>impaired<br>RM'000 |                  |
| <b>2011</b>                           |  |   |                     |                       |  |                  |
| LAR                                   |  |   |                     |                       |  |                  |
| Deposits with financial institutions  | 281,438                                    | -   | -                   | 8,005                 | -                                      | 289,443          |
| AFS                                   |  |   |                     |                       |  |                  |
| Malaysian government securities       | -  | -   | 1,027,365           | -                     | -                                      | 1,027,365        |
| Government investment issues          | -  | -   | 38,326              | -                     | -                                      | 38,326           |
| Malaysian government guaranteed bonds | -  | -   | 573,832             | -                     | -                                      | 573,832          |
| Quoted debt securities                | -  | 1,881                                       | -                   | -                     | -                                      | 1,881            |
| Unquoted debt securities              | 1,062,657                                  | -   | -                   | -                     | -                                      | 1,062,657        |
| FVTPL                                 |  |   |                     |                       |  |                  |
| Malaysian government guaranteed bonds | -  | -   | -                   | 3,553                 | -                                      | 3,553            |
| Quoted debt securities                | -  | -   | -                   | 82                    | -                                      | 82               |
| Unquoted debt securities              | -  | -   | -                   | 17,911                | -                                      | 17,911           |
| Reinsurance assets                    | 83,168                                     | -   | 96,342              | -                     | -                                      | 179,510          |
| Insurance receivables                 | 1,035                                      | 587   | 33,971              | -                     | 22,900                                 | 58,493           |
| Other receivables                     | -  | -   | 59,259              | -                     | -                                      | 59,259           |
| Cash and bank balances                | 16,919                                     | -   | -                   | 2,388                 | -                                      | 19,307           |
|                                       | <u>1,445,217</u>                           | <u>2,468</u>                                | <u>1,829,095</u>    | <u>31,939</u>         | <u>22,900</u>                          | <u>3,331,619</u> |

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

The Company has not provided the credit risk analysis for the financial assets of the unit linked business where the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholders do not have direct exposure to any credit risk in those assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (d) Credit risk (cont'd)

#### Credit exposure (cont'd)

#### Age analysis of financial assets past-due but not impaired:

|                       | < 30<br>days<br>RM'000 | 31 to 60<br>days<br>RM'000 | 61 to 90<br>days<br>RM'000 | 91 to 180<br>days<br>RM'000 | Total<br>RM'000 |
|-----------------------|------------------------|----------------------------|----------------------------|-----------------------------|-----------------|
| <b>2012</b>           |                        |                            |                            |                             |                 |
| Insurance receivables | -                      | -                          | 3,897                      | 13,287                      | 17,184          |
| <b>2011</b>           |                        |                            |                            |                             |                 |
| Insurance receivables | -                      | -                          | 11,489                     | 11,411                      | 22,900          |

#### Reconciliation of allowance account

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

|   | AFS financial<br>assets<br>RM'000 | Loans<br>receivable<br>RM'000 | Insurance<br>receivables<br>RM'000 | Total<br>RM'000 |
|---|-----------------------------------|-------------------------------|------------------------------------|-----------------|
| At 1 July 2010                                  | 2,883                             | 401                           | 3,720                              | 7,004           |
| Allowance made during the year                  | -                                 | -                             | 2,078                              | 2,078           |
| At 30 June 2011                                 | 2,883                             | 401                           | 5,798                              | 9,082           |
| At 1 July 2011                                  | 2,883                             | 401                           | 5,798                              | 9,082           |
| Allowance made during the year                  | 77                                | 2,629                         | 4,071                              | 6,777           |
| Amount written back in respect<br>of disposal   | (1,451)                           | -                             | -                                  | (1,451)         |
| Amount written back in respect<br>of recoveries | -                                 | (15)                          | -                                  | (15)            |
| At 30 June 2012                                 | 1,509                             | 3,015                         | 9,869                              | 14,393          |

### (e) Cash flow and liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations due to insufficient liquid resources, or would have to incur excessive cost in meeting the obligations. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries.

The Company manages the liquidity risk by monitoring daily cash inflows and outflows and by ensuring a reasonable amount of financial assets are kept in liquid instruments at all times. The Company also practices asset-liability management and ensures that the average investment duration and maturity profiles match the Company's liabilities.



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (e) Cash flow and 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/profit payable and receivable.

For insurance contract 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 from 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.

## 40. FINANCIAL RISK (cont'd)

### (e) Cash flow and liquidity risk (cont'd)

#### Maturity profiles (cont'd)

2012

|  | Carrying<br>value<br>RM'000 | Up to a<br>year<br>RM'000 | 1 - 5<br>years<br>RM'000 | 5-15<br>years<br>RM'000 | Over 15<br>years<br>RM'000 | No maturity<br>date<br>RM'000 | Total<br>RM'000  |
|--|-----------------------------|---------------------------|--------------------------|-------------------------|----------------------------|-------------------------------|------------------|
| Financial investments:                           |                             |                           |                          |                         |                            |                               |                  |
| LAR  | 751,412                     | 603,151                   | 35,510                   | 10,517                  | 5,638                      | 96,596                        | 751,412          |
| AFS  | 3,308,869                   | 58,107                    | 615,467                  | 1,820,361               | 455,436                    | 359,498                       | 3,308,869        |
| FVTPL  | 80,455                      | 10,070                    | 3,564                    | 8,868                   | -                          | 57,953                        | 80,455           |
| Reinsurance assets*                              | 114,275                     | 56,792                    | 55,269                   | 2,214                   | -                          | -                             | 114,275          |
| Insurance receivables                            | 62,420                      | 60,071                    | 2,342                    | 7                       | -                          | -                             | 62,420           |
| Other receivables**                              | 67,568                      | 67,399                    | -                        | 169                     | -                          | -                             | 67,568           |
| Cash and bank balances                           | 44,163                      | 44,163                    | -                        | -                       | -                          | -                             | 44,163           |
| <b>Total financial and insurance assets</b>      | <b>4,429,162</b>            | <b>899,753</b>            | <b>712,152</b>           | <b>1,842,136</b>        | <b>461,074</b>             | <b>514,047</b>                | <b>4,429,162</b> |
| Insurance contract liabilities*                  | 3,306,949                   | 534,336                   | 804,580                  | 968,107                 | 997,303                    | 2,623                         | 3,306,949        |
| Insurance payables                               | 155,582                     | 100,983                   | 43,849                   | 10,747                  | 3                          | -                             | 155,582          |
| Other payables                                   | 68,280                      | 57,277                    | 11,003                   | -                       | -                          | -                             | 68,280           |
| <b>Total financial and insurance liabilities</b> | <b>3,530,811</b>            | <b>692,596</b>            | <b>859,432</b>           | <b>978,854</b>          | <b>997,306</b>             | <b>2,623</b>                  | <b>3,530,811</b> |
| <b>Liquidity gap</b>                             | <b>898,351</b>              | <b>207,157</b>            | <b>(147,280)</b>         | <b>863,282</b>          | <b>(536,232)</b>           | <b>511,424</b>                | <b>898,351</b>   |

\* Excluded premium liabilities, AFS reserves, asset revaluation reserves and unallocated surplus.

\*\* Excluded prepayments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (e) Cash flow and liquidity risk (cont'd)

#### Maturity profiles (cont'd)

|  | Carrying value<br>RM'000 | Up to a year<br>RM'000 | 1 - 5 years<br>RM'000 | 5-15 years<br>RM'000 | Over 15 years<br>RM'000 | No maturity date<br>RM'000 | Total<br>RM'000  |
|--|--------------------------|------------------------|-----------------------|----------------------|-------------------------|----------------------------|------------------|
| <b>2011</b>                                      |                          |                        |                       |                      |                         |                            |                  |
| Financial investments:                           |                          |                        |                       |                      |                         |                            |                  |
| LAR  | 686,103                  | 290,600                | 1,710                 | 3,856                | 17,785                  | 372,152                    | 686,103          |
| AFS  | 3,098,513                | 5,075                  | 897,112               | 1,507,375            | 294,499                 | 394,452                    | 3,098,513        |
| FVTPL  | 86,683                   | -                      | 17,400                | 4,146                | -                       | 65,137                     | 86,683           |
| Reinsurance assets*                              | 123,393                  | 59,971                 | 58,290                | 5,132                | -                       | -                          | 123,393          |
| Insurance receivables                            | 58,493                   | 56,140                 | 1,897                 | 456                  | -                       | -                          | 58,493           |
| Other receivables**                              | 55,714                   | 55,714                 | -                     | -                    | -                       | -                          | 55,714           |
| Cash and bank balances                           | 19,307                   | 19,307                 | -                     | -                    | -                       | -                          | 19,307           |
| <b>Total financial and insurance assets</b>      | <b>4,128,206</b>         | <b>486,807</b>         | <b>976,409</b>        | <b>1,520,965</b>     | <b>312,284</b>          | <b>831,741</b>             | <b>4,128,206</b> |
| Insurance contract liabilities*                  | 3,113,858                | 526,347                | 775,005               | 921,735              | 890,771                 | -                          | 3,113,858        |
| Insurance payables                               | 148,262                  | 146,800                | 1,462                 | -                    | -                       | -                          | 148,262          |
| Other payables                                   | 61,266                   | 61,266                 | -                     | -                    | -                       | -                          | 61,266           |
| <b>Total financial and insurance liabilities</b> | <b>3,323,386</b>         | <b>734,413</b>         | <b>776,467</b>        | <b>921,735</b>       | <b>890,771</b>          | <b>-</b>                   | <b>3,323,386</b> |
| <b>Liquidity gap</b>                             | <b>804,820</b>           | <b>(247,606)</b>       | <b>199,942</b>        | <b>599,230</b>       | <b>(578,487)</b>        | <b>831,741</b>             | <b>804,820</b>   |

\* Excluded premium liabilities, AFS reserves, asset revaluation reserves and unallocated surplus.

\*\* Excluded prepayments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 40. FINANCIAL RISK (cont'd)

### (e) Cash flow and liquidity risk (cont'd)

#### Maturity profiles (cont'd)

The table below summarises the expected utilisation or settlement of assets.

| 2012                        | Current*<br>RM'000 | Non-current<br>RM'000 | Unit linked<br>RM'000 | Total<br>RM'000  |
|-----------------------------|--------------------|-----------------------|-----------------------|------------------|
| <b>Assets</b>               |                    |                       |                       |                  |
| Property and equipment      | -                  | 120,616               | -                     | 120,616          |
| Investment properties       | -                  | 1,860                 | -                     | 1,860            |
| Intangible assets           | -                  | 1,380                 | -                     | 1,380            |
| Prepaid land lease payments | -                  | 266                   | -                     | 266              |
| Financial investments:      |                    |                       |                       |                  |
| LAR                         | 583,643            | 148,261               | 19,508                | 751,412          |
| AFS                         | 58,107             | 3,250,762             | -                     | 3,308,869        |
| FVTPL                       | -                  | -                     | 80,455                | 80,455           |
| Reinsurance assets          | 56,792             | 57,483                | -                     | 114,275          |
| Insurance receivables       | 60,071             | 2,349                 | -                     | 62,420           |
| Other receivables**         | 66,940             | 169                   | 459                   | 67,568           |
| Cash and bank balances      | 42,244             | -                     | 1,919                 | 44,163           |
| <b>Total assets</b>         | <b>867,797</b>     | <b>3,583,146</b>      | <b>102,341</b>        | <b>4,553,284</b> |

\* Expected utilisation or settlement within 12 months from the reporting date.

\*\* Excluded prepayments.

| 2011                        | Current*<br>RM'000 | Non-current<br>RM'000 | Unit linked<br>RM'000 | Total<br>RM'000  |
|-----------------------------|--------------------|-----------------------|-----------------------|------------------|
| Property and equipment      | -                  | 84,254                | -                     | 84,254           |
| Investment properties       | -                  | 1,790                 | -                     | 1,790            |
| Intangible assets           | -                  | 1,398                 | -                     | 1,398            |
| Prepaid land lease payments | -                  | 278                   | -                     | 278              |
| Financial investments:      |                    |                       |                       |                  |
| LAR                         | 282,595            | 395,503               | 8,005                 | 686,103          |
| AFS                         | 5,076              | 3,093,437             | -                     | 3,098,513        |
| FVTPL                       | -                  | -                     | 86,683                | 86,683           |
| Reinsurance assets          | 116,088            | 63,422                | -                     | 179,510          |
| Insurance receivables       | 56,140             | 2,353                 | -                     | 58,493           |
| Other receivables**         | 58,800             | -                     | 459                   | 59,259           |
| Cash and bank balances      | 17,388             | -                     | 1,919                 | 19,307           |
| Assets held for sale        | 7,305              | -                     | -                     | 7,305            |
| <b>Total assets</b>         | <b>543,392</b>     | <b>3,642,435</b>      | <b>97,066</b>         | <b>4,282,893</b> |

\* Expected utilisation or settlement within 12 months from the reporting date.

\*\* Excluded prepayments.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 41. OPERATIONAL RISKS

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.

The Company mitigates operational risks by establishing a proper framework for controls and procedures, which includes total risk profiling, documented procedures, proper segregation of duties, access controls, authorization and reconciliation procedures and staff training.

The Compliance department assesses the effectiveness of the operational compliance and report to the GRCC and BRMC.

## 42. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following tables show financial investments recorded at fair value analysed by the different basis of fair values as follows:

|   | Level 1 -<br>Quoted<br>market<br>price<br>RM'000 | Level 2 -<br>Valuation<br>Techniques<br>- Market<br>observable<br>inputs<br>RM'000 | Total fair<br>value<br>RM'000 |
|---|--|--|-------------------------------|
| <b>2012</b>   |  |  |                               |
| <b>AFS financial assets</b>                         |  |  |                               |
| Malaysian government securities                     | -  | 1,211,713  | 1,211,713                     |
| Government investment issues                        | -  | 388,759  | 388,759                       |
| Malaysian government guaranteed bonds               | -  | 494,136  | 494,136                       |
| Unquoted debt securities                            | -  | 854,763  | 854,763                       |
| Quoted equity securities                            | 215,531  | -  | 215,531                       |
| Quoted unit and property trust funds                | 136,628  | -  | 136,628                       |
| <b>Designated upon initial recognition of FVTPL</b> |  |  |                               |
| Malaysian government guaranteed bonds               | -  | 3,564  | 3,564                         |
| Unquoted debt securities                            | -  | 18,939   | 18,939                        |
| Quoted equity securities                            | 55,969   | -  | 55,969                        |
| Quoted unit and property trust funds                | 1,983  | -  | 1,983                         |
|   | 410,111  | 2,971,874  | 3,381,985                     |
| <b>2011</b>   |  |  |                               |
| <b>AFS financial assets</b>                         |  |  |                               |
| Malaysian government securities                     | -  | 1,027,365  | 1,027,365                     |
| Government investment issues                        | -  | 38,326   | 38,326                        |
| Malaysian government guaranteed bonds               | -  | 573,832  | 573,832                       |
| Quoted debt securities                              | 1,881  | -  | 1,881                         |
| Unquoted debt securities                            | -  | 1,062,657  | 1,062,657                     |
| Quoted equity securities                            | 285,127  | -  | 285,127                       |
| Quoted unit and property trust funds                | 101,986  | -  | 101,986                       |
| <b>Designated upon initial recognition of FVTPL</b> |  |  |                               |
| Malaysian government guaranteed bonds               | -  | 3,553  | 3,553                         |
| Quoted debt securities                              | 82   | -  | 82                            |
| Unquoted debt securities                            | -  | 17,911   | 17,911                        |
| Quoted equity securities                            | 63,269   | -  | 63,269                        |
| Quoted unit and property trust funds                | 1,868  | -  | 1,868                         |
|   | 454,213  | 2,723,644  | 3,177,857                     |





## NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

### 42. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (cont'd)

The Company categorises its fair value measurements in accordance to the fair value hierarchy which is based on the priority of inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets, a lower priority to valuation techniques based on observable inputs and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis.

A level is assigned to each fair value measurement based on the lowest level input significant to the fair value measurement in its entirety. The three-level hierarchy is defined as follows:

The three level hierarchy is defined as follows:

Level 1 - Quoted prices in active markets

Fair value measurements that reflect unadjusted, quoted prices in active markets for identical assets that the Company has the ability to access at the measurement date. Valuations are based on quoted prices reflecting market transactions involving assets or liabilities identical to those being measured.

Level 2 - Valuation technique supported by observable inputs

Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly or indirectly. These include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs that are observable that are no prices (such as interest rates, credit risks, etc) and inputs that are derived from or corroborated by observable market data.

Level 3 - Valuation technique supported by unobservable inputs

Fair value measurements using significant non market observable inputs. These include valuations for assets and liabilities that are derived using data, some or all of which is not market observable, including assumptions about risks.

There has been no transfers of financial assets between Level 1 and Level 2 during the financial years ended 30 June 2012 and 2011.

### 43. INSURANCE FUNDS

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

The statements of financial position and income statement have been further analysed by funds and the Shareholders' and General Funds have been presented together as one fund.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 43. INSURANCE FUNDS (cont'd)

### **Life Insurance Par Fund**

The Life Insurance Par Fund contains all the individual participating life insurance contracts and certain non participating life insurance contracts.

Participating life insurance contracts are contracts that contain a discretionary participating feature ("DPF"). This feature entitles the policyholders to receive additional benefits in the form of annual and terminal bonuses. The amount or timing of the bonus declaration is not guaranteed, and is at the sole discretion of the Company.

### **Life Insurance Non-Par Fund**

The Life Insurance Non-Par Fund contains the health insurance and group term insurance businesses & contains no discretionary participating feature ("DPF").

### **Investment linked Fund**

The Investment linked Fund contains the business of all investment-linked insurance contracts.

### **General Insurance Fund**

The General Insurance Fund contains the business of all the general insurance contracts.

### **Shareholders' Fund**

The Shareholders' Fund contains the capital contributions made by shareholders, net of transfers to and from the insurance funds and net assets relating to other non-insurance businesses.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 43. INSURANCE FUNDS (cont'd)

The Company's activities are organised by funds and segregated into the Shareholders' and General, Life and Investment linked funds in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996. The statements of financial position and income statements by funds are presented as follows:

### Statements of financial position by funds As at 30 June 2012

|                                     | Shareholders' and<br>General Funds |                | Life Fund        |                  | Investment linked Fund |                | Total            |                  |
|-------------------------------------|------------------------------------|----------------|------------------|------------------|------------------------|----------------|------------------|------------------|
|                                     | 2012<br>RM'000                     | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000   | 2012<br>RM'000         | 2011<br>RM'000 | 2012<br>RM'000   | 2011<br>RM'000   |
| <b>Assets</b>                       |                                    |                |                  |                  |                        |                |                  |                  |
| Property and equipment              | 367                                | 798            | 120,249          | 83,456           | -                      | -              | 120,616          | 84,254           |
| Investment properties               | -                                  | -              | 1,860            | 1,790            | -                      | -              | 1,860            | 1,790            |
| Intangible assets                   | 1                                  | 1              | 1,379            | 1,397            | -                      | -              | 1,380            | 1,398            |
| Prepaid land lease payments         | -                                  | -              | 266              | 278              | -                      | -              | 266              | 278              |
| Investments                         | 593,168                            | 540,095        | 3,447,605        | 3,236,516        | 99,963                 | 94,688         | 4,140,736        | 3,871,299        |
| Reinsurance assets                  | 165,524                            | 175,360        | 1,649            | 4,150            | -                      | -              | 167,173          | 179,510          |
| Insurance receivables               | 27,811                             | 32,532         | 34,609           | 25,961           | -                      | -              | 62,420           | 58,493           |
| Other receivables                   | 33,787                             | 24,283         | 34,887           | 34,204           | 459                    | 772            | 69,133           | 59,259           |
| Cash and bank balances              | 7,268                              | 7,512          | 34,976           | 9,407            | 1,919                  | 2,388          | 44,163           | 19,307           |
| Asset held for sale                 | -                                  | -              | -                | 7,305            | -                      | -              | -                | 7,305            |
| <b>Total assets</b>                 | <b>827,926</b>                     | <b>780,581</b> | <b>3,677,480</b> | <b>3,404,464</b> | <b>102,341</b>         | <b>97,848</b>  | <b>4,607,747</b> | <b>4,282,893</b> |
| <b>Total equity</b>                 | <b>347,002</b>                     | <b>315,556</b> | <b>-</b>         | <b>-</b>         | <b>-</b>               | <b>-</b>       | <b>347,002</b>   | <b>315,556</b>   |
| <b>Liabilities</b>                  |                                    |                |                  |                  |                        |                |                  |                  |
| Insurance contract liabilities      | 391,879                            | 384,539        | 3,516,994        | 3,255,495        | 99,948                 | 93,975         | 4,008,821        | 3,734,009        |
| Deferred tax liabilities            | 1,798                              | 395            | 9,730            | 9,915            | 1,265                  | 995            | 12,793           | 11,305           |
| Insurance payables                  | 69,961                             | 66,961         | 85,621           | 81,301           | -                      | -              | 155,582          | 148,262          |
| Provision for taxation              | 8,659                              | 4,970          | 6,439            | 2,202            | 171                    | 105            | 15,269           | 7,277            |
| Other payables                      | 8,627                              | 8,160          | 58,696           | 55,551           | 957                    | 2,773          | 68,280           | 66,484           |
| <b>Total liabilities</b>            | <b>480,924</b>                     | <b>465,025</b> | <b>3,677,480</b> | <b>3,404,464</b> | <b>102,341</b>         | <b>97,848</b>  | <b>4,260,745</b> | <b>3,967,337</b> |
| <b>Total equity and liabilities</b> | <b>827,926</b>                     | <b>780,581</b> | <b>3,677,480</b> | <b>3,404,464</b> | <b>102,341</b>         | <b>97,848</b>  | <b>4,607,747</b> | <b>4,282,893</b> |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 43. INSURANCE FUNDS (cont'd)

### Income statements/revenue accounts by funds

For the financial year ended 30 June 2012

|  | Shareholders' and<br>General Funds |           | Life Fund |           | Total     |           |
|--|------------------------------------|-----------|-----------|-----------|-----------|-----------|
|  | 2012                               | 2011      | 2012      | 2011      | 2012      | 2011      |
|  | RM'000                             | RM'000    | RM'000    | RM'000    | RM'000    | RM'000    |
| <b>Operating revenue</b>                             | 280,027                            | 277,495   | 685,787   | 664,711   | 965,814   | 942,206   |
| Gross earned premiums                                | 269,958                            | 247,426   | 527,073   | 511,814   | 797,031   | 759,240   |
| Premiums ceded to reinsurers                         | (118,544)                          | (111,835) | (7,128)   | (6,049)   | (125,672) | (117,884) |
| <b>Net earned premiums</b>                           | 151,414                            | 135,591   | 519,945   | 505,765   | 671,359   | 641,356   |
| Investment income                                    | 20,478                             | 19,306    | 158,714   | 152,896   | 179,192   | 172,202   |
| Realised gains / (losses)                            | 6,914                              | 862       | 93,964    | 36,910    | 100,878   | 37,772    |
| Fair value gains / (losses)                          | -                                  | -         | 3,695     | 9,239     | 3,695     | 9,239     |
| Fee, commission income and other operating revenue   | 28,292                             | 26,781    | 5,006     | 2,986     | 33,298    | 29,767    |
| <b>Other revenue</b>                                 | 55,684                             | 46,949    | 261,379   | 202,031   | 317,063   | 248,980   |
| Gross benefits and claims paid                       | (98,397)                           | (103,209) | (333,971) | (340,482) | (432,368) | (443,691) |
| Claims ceded to reinsurers                           | 22,763                             | 36,470    | 1,551     | 940       | 24,314    | 37,410    |
| Gross change to contract liabilities                 | (17,749)                           | (29,141)  | (261,748) | (180,750) | (279,497) | (209,891) |
| Change in contract liabilities ceded to reinsurers   | (6,618)                            | (231)     | (2,501)   | 788       | (9,119)   | 557       |
| <b>Net benefits and claims</b>                       | (100,001)                          | (96,111)  | (596,669) | (519,504) | (696,670) | (615,615) |
| Fee, commission expense and other operating expenses | (33,408)                           | (31,682)  | (98,011)  | (102,229) | (131,419) | (133,911) |
| Management expenses                                  | (29,867)                           | (27,769)  | (58,284)  | (55,965)  | (88,151)  | (83,734)  |
| <b>Other expenses</b>                                | (63,275)                           | (59,451)  | (156,295) | (158,194) | (219,570) | (217,645) |
| <b>Profit from operations</b>                        | 43,822                             | 26,978    | 28,360    | 30,098    | 72,182    | 57,076    |
| Transfer from revenue accounts*                      | 12,817                             | 12,873    | (12,817)  | (12,873)  | -         | -         |
| <b>Profit / surplus before taxation</b>              | 56,639                             | 39,851    | 15,543    | 17,225    | 72,182    | 57,076    |
| Taxation   | (15,574)                           | (7,967)   | (15,543)  | (17,225)  | (31,117)  | (25,192)  |
| <b>Net profit / surplus for the year</b>             | 41,065                             | 31,884    | -         | -         | 41,065    | 31,884    |

\* The amount transferred from the Life Fund's Revenue Accounts to the Shareholders' Fund's income statement is net of tax.

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 43. INSURANCE FUNDS (cont'd)

### Statements of cash flows by funds

For the financial year ended 30 June 2012

|   | Shareholders' and General Funds |          | Life Fund |         | Total    |          |
|---|---------------------------------|----------|-----------|---------|----------|----------|
|   | 2012                            | 2011     | 2012      | 2011    | 2012     | 2011     |
|   | RM'000                          | RM'000   | RM'000    | RM'000  | RM'000   | RM'000   |
| <b>Cash flows from:</b>                           |                                 |          |           |         |          |          |
| Operating activities                              | 11,161                          | 17,098   | 39,722    | 2,988   | 50,883   | 20,086   |
| Investing activities                              | (122)                           | (63)     | (14,623)  | (8,376) | (14,745) | (8,439)  |
| Financing activities                              | (11,282)                        | (11,282) | -         | -       | (11,282) | (11,282) |
| <b>Net increase in cash and cash equivalents:</b> | (243)                           | 5,753    | 25,099    | (5,388) | 24,856   | 365      |
| At beginning of year                              | 7,511                           | 1,758    | 11,796    | 17,184  | 19,307   | 18,942   |
| At end of year                                    | 7,268                           | 7,511    | 36,895    | 11,796  | 44,163   | 19,307   |

### Investment-linked fund

#### Statements of financial position

As at 30 June 2012

|                                 | 2012    | 2011   |
|---------------------------------|---------|--------|
|                                 | RM'000  | RM'000 |
| <b>Assets</b>                   |         |        |
| Investments                     | 99,963  | 94,688 |
| Other receivables               | 459     | 772    |
| Cash and bank balances          | 1,919   | 2,388  |
| <b>Total assets</b>             | 102,341 | 97,848 |
| <b>Liabilities</b>              |         |        |
| Deferred tax liabilities        | 1,265   | 995    |
| Provision for taxation          | 171     | 105    |
| Other payables                  | 957     | 2,773  |
| <b>Total liabilities</b>        | 2,393   | 3,873  |
| <b>Net asset value of funds</b> | 99,948  | 93,975 |



# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

## 43. INSURANCE FUNDS (cont'd)

### Income statements

For the financial year ended 30 June 2012

|                             | 2012<br>RM'000 | 2011<br>RM'000 |
|-----------------------------|----------------|----------------|
| Investment income           | 4,048          | 3,934          |
| Realised gains and losses   | (338)          | 131            |
| Fair value gains and losses | 3,625          | 9,149          |
|                             | 7,335          | 13,214         |
| Management expenses         | (1,127)        | (1,022)        |
| Other income / (expenses)   | 1,249          | (17)           |
| Profit before taxation      | 7,457          | 12,175         |
| Taxation                    | (567)          | (1,009)        |
| Net profit for the year     | 6,890          | 11,166         |

### Statements of changes in equity

For the financial year ended 30 June 2012

|                         | 2012<br>RM'000 | 2011<br>RM'000 |
|-------------------------|----------------|----------------|
| At beginning of year    | 93,975         | 81,926         |
| Net profit for the year | 6,890          | 11,166         |
| Creation of units       | 23,343         | 24,270         |
| Cancellation of units   | (24,260)       | (23,387)       |
| At end of year          | 99,948         | 93,975         |

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