

Company No.

457556	X
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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2011

1409A2/lh

Company No.

457556

X

TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
(Incorporated in Malaysia)

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
(Incorporated in Malaysia)

## DIRECTORS' REPORT

The Directors are pleased to submit their report to the member together with the audited financial statements of the Company for the financial year ended 31 December 2011.

### PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of all classes of life insurance business. There has been no significant change in the nature of this activity during the financial year.

### FINANCIAL RESULTS

	RM'000
Profit for the financial year	<u>10,804</u>

### DIVIDENDS

No dividends have been paid or declared by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2011.

### RESERVES AND PROVISIONS

All material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements.

### PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for the insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") issued by Bank Negara Malaysia ("BNM") for insurers.

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**DIRECTORS' REPORT (CONTINUED)**

**BAD AND DOUBTFUL DEBTS**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts, and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors of the Company are not aware of any circumstances which would render the amounts written off for bad debts or the amounts of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

**CURRENT ASSETS**

Before the financial statements of the Company were made out, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

**VALUATION METHODS**

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

**CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of the Company that has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Company which has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**DIRECTORS' REPORT (CONTINUED)**

**CHANGE OF CIRCUMSTANCES**

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

**ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Company for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

**CORPORATE GOVERNANCE**

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers issued by BNM.

In order to strengthen 'fit' and 'proper' regulations and establish performance incentives and evaluation process for board members and senior management, the Company has set up the following four Committees.

**NOMINATION COMMITTEE**

Membership

Yeoh Chong Keng (Chairman)

Yip Jian Lee

Tan Sri Dato' Dr Yahya Bin Awang

Lee King Chi Arthur

Akio Hoshino

Shingo Toda

(resigned on 12 December 2011)

(appointed on 12 December 2011)

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**DIRECTORS' REPORT (CONTINUED)**

**NOMINATION COMMITTEE (CONTINUED)**

Responsibilities

The Committee is responsible for:

- (a) establishing the minimum requirements for the Board of Directors (“the Board”) and the Chief Executive Officer to perform their responsibilities effectively. The Committee shall ensure that the requirements adhere with the guidelines from BNM;
- (b) recommending and assessing the nominees for directorship, the Directors to fill the board committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to BNM;
- (c) establishing mechanisms for the assessment on the effectiveness of the Board, and the performance of the Chief Executive Officer and key senior officers;
- (d) recommending to the Board the removal of Directors, Chief Executive Officer and key senior officers if they are found to be ineffective or negligent in discharging their duties;
- (e) overseeing the management succession planning; and
- (f) ensuring that all Directors undergo appropriate induction programmes and receive continuous training.

The procedures for appointment and assessment must be approved by the Board and disclosed to the shareholders. The Committee is required to report its recommendations to the Board for decision.

The Committee held three meetings during the financial year which were attended by all members.

Having assessed the Directors retiring by rotation in respect of compliance with the prescriptive requirements under Insurance Act, 1996 and Insurance Regulations, 1996, as well as their participation on the Board and Board Committees, the Committee recommended the re-appointment of Lee King Chi Arthur and Shingo Toda at the 2012 Annual General Meeting.

The Committee is of the view that the current Board comprises persons who as a group provide core competencies necessary to meet the Company's targets.

The Committee evaluates the contribution of each Director to the Company. Assessment parameters include demonstration of integrity, commitment and competence, attendance record at meetings of the Board and Committees, vigour and intensity of participation at meetings and special contributions.

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**DIRECTORS' REPORT (CONTINUED)**

**NOMINATION COMMITTEE (CONTINUED)**

Responsibilities (continued)

The Committee also evaluates the Board's performance as a whole. The assessment process looks at both quantitative and qualitative criteria, which include review of discussions as reported in minutes of Board and Committee meetings, various financial benchmarks and performance ratios, the structural characteristics of the Board, the combined contributions and competencies of individual Directors and the effectiveness of the Board in monitoring management's performance.

The Committee is of the view that the Board as a whole provided effective policy and strategic direction for the Company and took active participation in monitoring the performance of the management and accordingly, is satisfied with the effectiveness of the Board as a whole.

**REMUNERATION COMMITTEE**

Membership

Yip Jian Lee (Chairperson)

Lee King Chi Arthur

Yeoh Chong Keng

Akio Hoshino

Shingo Toda

(resigned on 12 December 2011)

(appointed on 12 December 2011)

Responsibilities

The Committee is responsible for:

- (a) developing a framework of remuneration for Directors, Chief Executive Officer and key senior officers. The framework should be approved by the Board and any changes are subjected to the approval of the Board and shareholders, if applicable; and
- (b) recommending specific remuneration packages for Directors, Chief Executive Officer and key senior officers. The remuneration packages should be based on objective considerations and approved by the Board.

The Committee held two meetings during the financial year which were attended by a majority of the members.

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## DIRECTORS' REPORT (CONTINUED)

### AUDIT COMMITTEE

#### Membership

Yip Jian Lee (Chairperson)  
Yeoh Chong Keng  
Lee King Chi Arthur

#### Responsibilities

The Committee is established pursuant to the requirements of BNM's GPI13: Guidelines on Audit Committees and Internal Audit Departments to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to stakeholders, the system of internal controls that the management and the Board of Directors have established and the audit processes. In doing so, the Committee is providing an avenue for external and internal auditors to effectively voice their findings.

The Committee is responsible for:

- (a) appointing the external auditor having regarded their independence, nature and scope of audit, as well as approving any provision of non-audit services by them where required;
- (b) reviewing the financial statements of the Company, including the discussion of the results and findings arising from the external audits;
- (c) considering any related-party transactions that may arise within the Company or Group;
- (d) reviewing the adequacy of the scope, functions and resources of internal audit function, including assessing the necessary authority and performance of its members; and
- (e) reviewing the internal audit programme and findings of the internal audit process and where necessary, ensuring that appropriate actions are taken on the recommendations of internal audit function.

The Committee held four meetings during the financial year which were attended by all members.

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**DIRECTORS' REPORT (CONTINUED)**

**RISK MANAGEMENT AND COMPLIANCE COMMITTEE**

Membership

Yeoh Chong Keng (Chairman)

Yip Jian Lee

Tan Sri Dato' Dr Yahya Bin Awang

Lee King Chi Arthur

Akio Hoshino

Shingo Toda

(resigned on 12 December 2011)

(appointed on 12 December 2011)

Responsibilities

The Committee is responsible for:

- (a) reviewing and recommending risk management strategies, policies and risk tolerance for the Board's approval;
- (b) assessing the adequacy of risk management policies and framework for identifying, measuring, monitoring and controlling risks as well as to the extent to which these are operating effectively;
- (c) ensuring there are adequate infrastructure, resources and systems are in place for effective risk management. This includes ensuring that the staff responsible for implementing risk management systems perform their responsibilities independently of the Company's risk taking activities;
- (d) reviewing reports from management on risk exposure, risk portfolio composition and risk management activities;
- (e) reviewing and evaluating the adequacy of the compliance management framework in the Company;
- (f) reviewing the management of any compliance incidents reported to and managed by the management as well as to provide oversight on compliance reporting requirements; and
- (g) ensuring that adequate infrastructure, resources and systems are in place for effective compliance management. This includes ensuring that the staff responsible for managing compliance is duly empowered to perform their responsibilities independently.

The Committee held four meetings during the financial year which were attended by a majority of the members.

The Committee is supported by the Company's Senior Management, the Risk Management Working Team and the Compliance and Risk Management Department.

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS**

The Directors who have held office during the period since the date of the last report are as follows:

Tan Sri Dato' Dr Yahya Bin Awang (Chairman)

Yeoh Chong Keng

Yip Jian Lee

Lee King Chi Arthur

Akio Hoshino

Shingo Toda

(resigned on 12 December 2011)

(appointed on 12 December 2011)

In accordance with Article 95 of the Company's Articles of Association, Lee King Chi Arthur retires at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

Shingo Toda, being a Director appointed after the last Annual General Meeting, retires at the forthcoming Annual General Meeting in accordance with Article 100 of the Company's Articles of Association, and being eligible, offers himself for election.

**DIRECTORS' INTERESTS IN SHARES**

According to the register of Directors' shareholdings, the particulars of interests of Directors who held office at the end of the financial year in shares in the ultimate holding corporation and related corporations, are as follows:

	<u>Number of ordinary shares</u>			
	<u>At</u> <u>1.1.2011</u>	<u>Acquired</u>	<u>Disposed</u>	<u>At</u> <u>31.12.2011</u>
<u>Tokio Marine Life Insurance Singapore Ltd.</u>				
Lee King Chi Arthur *	1	-	(1)	-
<u>Asia General Holdings Ltd.</u>				
Lee King Chi Arthur *	1	-	-	1

\* As nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd.

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

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than Directors' remuneration disclosed in the Note 23 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

### ULTIMATE HOLDING CORPORATION

The Directors regard Tokio Marine Holdings Inc., a corporation incorporated in Japan, as the Company's ultimate holding corporation.

### AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 March 2012.

YEOH CHONG KENG  
DIRECTOR

YIP JIAN LEE  
DIRECTOR

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**STATEMENT BY DIRECTORS  
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Yeoh Chong Keng and Yip Jian Lee, two of the Directors of Tokio Marine Life Insurance Malaysia Bhd., state that, in the opinion of the Directors, the financial statements set out on pages 13 to 93 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2011 and of its financial performance and cash flows for the financial year ended on that date in accordance with Financial Reporting Standards, being the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, as modified by Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and comply with the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 22 March 2012.

YEOH CHONG KENG  
DIRECTOR

YIP JIAN LEE  
DIRECTOR

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

I, Toi See Jong, the officer primarily responsible for the financial management of Tokio Marine Life Insurance Malaysia Bhd., do solemnly and sincerely declare that the financial statements set out on pages 13 to 93 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.

TOI SEE JONG

Subscribed and solemnly declared by the abovenamed Toi See Jong at Kuala Lumpur in Malaysia on 22 March 2012, before me.

COMMISSIONER FOR OATHS

**INDEPENDENT AUDITORS' REPORT**  
**TO THE MEMBER OF TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
(Incorporated in Malaysia)  
(Company No. 457556-X)

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of Tokio Marine Life Insurance Malaysia Bhd., which comprise the statement of financial position as at 31 December 2011, and the statements of income, comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 13 to 93.

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, being the Malaysian Accounting Standard Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, as modified by Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965, and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBER OF TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
(CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 457556-X)**

**REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)**

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, as modified by Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia pursuant to the Insurance Act, 1996 and the provisions of the Companies Act, 1965, so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the financial year then ended.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

**OTHER MATTERS**

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

PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants

SRIDHARAN NAIR  
(No.2656/05/12 (J))  
Chartered Accountant

Kuala Lumpur

Company No.

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>ASSETS</b>			
Property, plant and equipment	3	48,749	49,271
Investment properties	4	191,863	190,113
Intangible assets	5	43,649	55,461
Financial investments			
Available-for-sale financial assets	6a	2,902,438	2,404,045
Fair value through profit or loss financial assets	6b	639,680	691,760
Held-to-maturity financial assets	6c	723,893	783,418
Loans and receivables	6d	549,200	582,939
Tax recoverable		1,929	-
Insurance receivables	7	18,038	18,157
Other receivables and other assets	8	10,455	14,944
Cash and cash equivalents		365,971	293,024
<b>TOTAL ASSETS</b>		<u>5,495,865</u>	<u>5,083,132</u>
<b>EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>			
Share capital	9	100,000	100,000
Retained earnings	10	85,053	74,249
Available-for-sale reserve		5,390	4,697
<b>TOTAL EQUITY</b>		<u>190,443</u>	<u>178,946</u>
Insurance contract liabilities	11	5,011,439	4,635,542
Insurance payables	12	195,233	164,764
Other financial liabilities	13	3,088	2,674
Other payables	14	16,435	19,128
Provision for staff retirement benefits	15	360	338
Agency long association benefits	16	23,571	22,053
Current tax liabilities		-	3,752
Deferred tax liabilities	17	55,296	55,935
<b>TOTAL LIABILITIES</b>		<u>5,305,422</u>	<u>4,904,186</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>5,495,865</u>	<u>5,083,132</u>

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

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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STATEMENT OF INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
Gross earned premium revenue		789,185	700,721
Premiums ceded to reinsurers		(37,404)	(32,302)
Net earned revenue		<u>751,781</u>	<u>668,419</u>
Investment income	18	221,022	202,268
Net realised gains	19	12,345	19,839
Net fair value (losses)/gains	20	(27,745)	90,932
Fee and commission income	21	932	796
Other income		<u>206,554</u>	<u>313,835</u>
Gross benefits and claims paid		(423,976)	(358,136)
Claims ceded to reinsurers		22,295	17,818
Gross/net change to insurance contract liabilities		(357,686)	(467,182)
Net insurance benefit and claims		<u>(759,367)</u>	<u>(807,500)</u>
Commission and agency expenses		(89,127)	(74,348)
Management expenses	23	(81,823)	(55,765)
Other operating expenses – net	22	(316)	(179)
Other expenses		<u>(171,266)</u>	<u>(130,292)</u>
Profit before taxation		27,702	44,462
Taxation	24	(16,898)	(29,460)
Net profit for the financial year		<u>10,804</u>	<u>15,002</u>
Basic earnings per share (sen)	25	<u>10.80</u>	<u>15.00</u>

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

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
Net profit for the financial year		10,804	15,002
Other comprehensive income:			
Available-for-sale reserve			
Net gain arising during the financial year		1,094	4,009
Net realised gain transferred to statement of income		(151)	(3,500)
		<hr/>	<hr/>
Tax effects thereon	17	943 (250)	509 (127)
		<hr/>	<hr/>
		693	382
		<hr/>	<hr/>
Total comprehensive income for the financial year		<u>11,497</u>	<u>15,384</u>

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

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<u>Note</u>	Issued and fully paid ordinary shares of RM1 each		Non-	Distributable	<u>Total</u> RM'000
		<u>Number</u> <u>of shares</u> '000	<u>Nominal</u> <u>value</u> RM'000	Available-	<u>Retained</u>	
				for-sale	<u>earnings</u>	
				<u>reserve</u>	<u>RM'000</u>	
				RM'000	RM'000	RM'000
Balance at 1 January 2010		100,000	100,000	4,315	75,252	179,567
Total comprehensive income for the financial year		-	-	382	15,002	15,384
Dividends paid:						
- final dividend for the financial year ended 31 December 2009	26	-	-	-	(16,005)	(16,005)
Balance at 31 December 2010		100,000	100,000	4,697	74,249	178,946
Total comprehensive income for the financial year		-	-	693	10,804	11,497
Balance at 31 December 2011		100,000	100,000	5,390	85,053	190,443

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

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit for the financial year	10,804	15,002
Adjustments:		
Investment income	(221,022)	(202,268)
Realised gains recorded in statement of income	(12,345)	(19,446)
Fair value loss/(gains) recorded in statement of income	28,083	(91,372)
Foreign exchange loss arising from disposal of financial assets	284	-
Proceeds from disposal of investment property	530	6,093
Purchases of financial assets	(899,875)	(746,901)
Proceeds from maturity or disposal of financial assets	520,825	379,267
Decrease in fixed and call deposits	26,300	8,950
Decrease in loans	7,191	2,985
Depreciation of property, plant and equipment	3,096	2,956
Write-offs of property, plant and equipment	15	5
Loss on disposal of property, plant and equipment	56	-
Gain on disposal of investment properties	-	(393)
Amortisation of intangible assets	12,851	6,705
Impairment loss of AFS financial assets	-	440
(Writeback of)/allowance for impairment of insurance receivables	(274)	513
Provision for staff retirement benefits	22	135
Provision for agency long association benefits	3,457	3,129
Taxation	16,898	29,460
Changes in working capital:		
Decrease/(increase) in insurance receivables	393	(1,857)
Decrease/(increase) in other receivables	2,931	(11,021)
Increase in insurance contract liabilities	362,757	467,182
Increase/(decrease) in other financial liabilities	414	(21,527)
Increase in insurance payables	30,469	31,219
(Decrease)/increase in other payables	(2,693)	844
Cash used in operating activities	<u>(108,833)</u>	<u>(139,900)</u>

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TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b> (continued)		
Dividend income received	46,534	40,847
Interest income received	161,082	148,942
Rental income received	4,205	5,132
Staff retirement benefits paid	-	(137)
Agency long association benefits paid	(1,939)	(1,736)
Income tax paid	(25,533)	(11,723)
Net cash inflows from operating activities	<u>75,516</u>	<u>41,425</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property, plant and equipment	115	-
Purchase of property, plant and equipment	(1,645)	(3,361)
Purchase of intangible assets	(1,039)	(60,934)
Net cash outflows from investing activities	<u>(2,569)</u>	<u>(64,295)</u>
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Dividend paid	-	(16,005)
Net cash outflow from financing activity	<u>-</u>	<u>(16,005)</u>
Net increase/(decrease) in cash and cash equivalents	72,947	(38,875)
Cash and cash equivalents at the beginning of the financial year	<u>293,024</u>	<u>331,899</u>
Cash and cash equivalents at the end of the financial year	<u>365,971</u>	<u>293,024</u>
Cash and cash equivalents comprise:		
Cash and bank balances	32,098	26,574
Fixed and call deposits with maturity of less than three months	333,873	266,450
	<u>365,971</u>	<u>293,024</u>

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

Company No.

457556

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011**

**1 PRINCIPAL ACTIVITIES AND GENERAL INFORMATION**

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

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 7, Menara Tokio Marine Life, 189 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia. The principal place of business of the Company is located at Ground Floor, Menara Tokio Marine Life, 189 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

The holding corporation is Tokio Marine Life Insurance Singapore Ltd., a corporation incorporated in Singapore. The Directors regard Tokio Marine Holdings Inc., a corporation incorporated in Japan, as the Company's ultimate holding corporation.

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 22 March 2012.

**2 SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

**2.1 Basis of Preparation**

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies, and comply with the Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, as modified by Guidelines on Financial Reporting for Insurers issued by Bank Negara Malaysia ("BNM") pursuant to the Insurance Act, 1996, and comply with the provisions of the Companies Act, 1965.

Insurance liabilities have been computed in accordance with the valuation methods specified in the Risk-Based Capital ("RBC") Framework issued by BNM. The Company has met the minimum capital requirements as prescribed by the RBC Framework as at the date of the statement of financial position.

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

The preparation of financial statements in conformity with the FRS, being the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, as modified by Guidelines on Financial Reporting for Insurers issued by BNM pursuant to the Insurance Act, 1996 requires the Directors to exercise their judgement in the process of applying the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results could differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in Note 2.3 to the financial statements.

**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of Significant Accounting Policies**

**(a) Property, plant and equipment**

Property, plant and equipment are initially stated at cost. Land and buildings are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

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 statement of income during the financial year in which they are incurred.

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to the statement of income.

Freehold land is not depreciated as it has an infinite life. Depreciation is provided so as to write off the cost of other property, plant and equipment on a straight line basis to allocate their cost to their residual values over the expected useful lives of the assets. The expected useful lives of the assets are as follows:

Motor vehicles	5 years
Office equipment, furniture and fittings	10 years
Computer equipment	4 years
Renovation	10 years
Leasehold land	Lease period ranging from 51 to 913 years
Leasehold buildings	Lease period subject to a maximum of 50 years
Freehold buildings	50 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2.2(d) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the statement of income. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of Significant Accounting Policies (continued)**

**(b) Investment properties**

Investment properties, comprising principally land and buildings, are held for long-term rental yields or for capital appreciation or both, and are not occupied by the Company.

Investment properties are initially stated at cost including related and incidental expenditure incurred, and are subsequently carried at fair value, representing open market value determined by independent professional valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years or earlier if the carrying values of the investment properties are materially higher than the fair values. Changes in fair values are recognised in the statement of income.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised (eliminated from the statement of financial position). The difference between the net disposal proceeds and the carrying amount is recognised in the statement of income in the financial year of the retirement or disposal.

**(c) Intangible assets**

All intangible assets are stated at cost less accumulated depreciation and impairment losses.

**(i) Computer software**

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised internal-use software costs include external direct costs of materials and services consumed in developing or obtaining the software, payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the project is substantially completed and ready for its intended purpose. These costs are amortised over their expected useful life of 4 years on a straight-line basis, with the useful lives being reviewed annually.

The assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. See accounting policy Note 2.2(d) on impairment of non-financial assets.

**(ii) Exclusive bancassurance agreement**

The exclusive bancassurance agreement provides the Company with an exclusive right to the use of the bancassurance network of a bank. The fee for this right is amortised over its useful life of 5 years using the straight line method. The asset is reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. See accounting policy Note 2.2(d) on impairment of non-financial assets.

TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(d) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

Assets that are subject to amortisation are reviewed for impairment losses, whenever events or changes in circumstances indicate that the carrying amount may be impaired. An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. Recoverable amount is estimated for an individual asset, or, if it is not possible, for the cash-generating unit. Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the statement of income immediately.

A subsequent increase 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. The reversal is recognised in the statement of income immediately.

(e) Financial investments

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

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.

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.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(e) Financial investments (continued)

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL include held-for-trading ("HFT") financial assets and those designated at FVTPL at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated as at FVTPL, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

(ii) HTM financial assets

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 financial assets are measured at amortised cost, using the effective yield method, less impairment losses. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables ("LAR")

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(e) Financial investments (continued)

(iv) AFS financial assets

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.

Fair value gains and losses of monetary and non-monetary securities are reported as a separate component of equity until the investment is derecognised or investment is determined to be impaired except that for the life business, such fair value gains and losses are reported as a separate component of contract liabilities. Fair value gains and losses of monetary securities denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in statement of income; translation differences on non-monetary securities are reported as a separate component of equity until the investment is derecognised.

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

(f) Fair value of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

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 date of the statement of financial position.

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of Significant Accounting Policies (continued)**

**(f) Fair value of financial instruments (continued)**

For financial instruments where there is not an 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. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument.

Certain financial instruments are valued using pricing models that consider, among other factors, contractual and market prices, co-relation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values.

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 date of the statement of financial position.

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 of financial assets are also included in the cost of the financial assets except for FVTPL financial assets, where the transaction cost are expensed in the statement of income as they are incurred.

The carrying values of financial assets and financial liabilities with maturity period of less than one year are assumed to approximate their fair values.

**(g) Impairment of financial instruments**

The Company assesses at each date of the statement of financial position whether there is objective evidence that a security is impaired. A security is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the security that can be reliably estimated.

**(i) Assets carried at amortised cost**

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 the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(g) Impairment of financial instruments (continued)

(i) Assets carried at amortised cost (continued)

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 date of the statement of the financial position.

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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in other comprehensive income, is transferred from other comprehensive income to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognised in the statement of income. Reversals of impairment losses on debt instruments classified as AFS are reversed through the statement of income if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the statement of income.

(h) Derecognition of financial assets

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.

(i) Insurance contracts

The Company issues contracts that transfer mainly insurance risk.

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

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(i) Insurance contracts (continued)

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. Such contracts may also transfer financial risk. 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.

Investment contracts are those contracts that do not transfer significant insurance risk. Currently, the Company does not issue any investment 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 expired.

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

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

Local statutory regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based (the DPF surplus) and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders. At least 90% of the surplus must be attributed to the contract holders as a group (which can include future contract holders), while the amount and timing of the distribution to individual contract holders is at the discretion of the Company, approved by the Board of Directors based on the advice of the Appointed Actuary.

The recognition and measurement of the insurance contracts are set out in Note 2.2 (k) and (m).

(j) Reinsurance

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Note 2.2(i) to the financial statements are classified as ceded reinsurance contracts.

TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.  
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(j) Reinsurance (continued)

Premium ceded and claims reimbursed are recognised in the same accounting period as the original policies to which the reinsurance relates.

The benefits to which the Company is entitled under its reinsurance contracts are recognised as reinsurance assets. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

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

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. An allowance for impairment loss is established using the same method used for all financial assets carried at amortised cost. These processes are described in Note 2.2(g) to the financial statements.

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

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

(k) Life insurance contracts

Premiums

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

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

Premium income of the Investment-linked 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 that contract. Net creation of units is recognised on a receipt basis.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(k) Life insurance contracts (continued)

Commission and agency expenses

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the statement of income in the financial year in which they are incurred.

Benefits, claims and expenses

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

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

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates;
- (b) 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;
- (c) benefits payable under investment-linked, contract include net cancellation of units and are recognised as surrender; and
- (d) bonus on DPF policy upon its declaration

(l) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the statement of income. 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 2.2(g) to the financial statements.

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

**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of Significant Accounting Policies (continued)**

(m) Life insurance contract liabilities

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

Life insurance contract liabilities comprise (i) provision for outstanding claims, (ii) actuarial liabilities, (iii) unallocated surplus, (iv) AFS reserve, (v) asset revaluation reserve and (vi) net asset value attributable to unitholders.

(i) Provision for outstanding claims

Provision for outstanding claims represent the amounts payable under a life insurance policy in respect of claims including settlement costs, are accounted for using the case-by-case method as set out above under benefits, claims and expenses.

(ii) Actuarial liabilities

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating life policies, the guaranteed benefits liabilities of participating life policies, and non-unit liabilities of investment-linked policies. The valuation basis, including the determination of the appropriate risk discount rate, is in accordance with Appendix VII: Valuation Basis for Life Insurance Liabilities of the RBC Framework, and any related circulars issued by BNM relevant to the guideline.

The reinsurance recoverable of the liabilities is insignificant and hence is not accounted for in the measurement of the liabilities.

The liability in respect of policies of a participating insurance fund shall be taken as the higher of the guaranteed benefits liabilities or the total benefits liabilities at the fund level (derived in the method as stated in the above paragraph) as stipulated under paragraph 3.2, Appendix VII of the RBC Framework.

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

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.2 Summary of Significant Accounting Policies (continued)**

(m) Life insurance contract liabilities (continued)

(ii) Actuarial liabilities (continued)

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

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

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

At each reporting date, an assessment is made of whether the recognised actuarial liabilities are adequate, net of present value of in-force business ("PVIF") and by using an existing liability adequacy test based on the RBC Framework.

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

(iii) Unallocated surplus

Surpluses in the DPF are distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company, however, has the discretion over the amount and timing of the distribution of these surpluses to policyholders and shareholders. Surpluses in the non-DPF fund are attributable wholly to the shareholders, and the amount and timing of the distribution to the shareholders is subject to the advice of the Company's Appointed Actuary.

As required by BNM Guidelines on Financial Reporting for Insurers (BNM/RH/GL003-28), unallocated surpluses of the DPF and non-DPF funds where the amount of surplus allocation to either policyholders or shareholders has yet to be determined by the end of the financial year, are held within insurance contract liabilities.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(m) Life insurance contract liabilities (continued)

(iv) AFS reserves

Fair value gains and losses of AFS financial assets of the insurance business are reported as a separate component of insurance contract liabilities until the AFS financial assets are derecognised or the financial assets are determined to be impaired.

As required by Guidelines on Financial Reporting Standards for Insurers issued by BNM, AFS reserves are held within the insurance contract liabilities.

(v) Asset revaluation reserve

The asset revaluation reserve represents surplus arising from the revaluation of self-occupid properties of the Life fund.

The surplus arising from the revaluation of the Life fund's assets may be distributed by way of bonuses to life policyholders, subject to the limit that the amount distributed should not be more than 30% of the addition to revaluation reserve or 10% of the market value of the revalued property, whichever is lower.

As required by Guidelines on Financial Reporting Standards for Insurers issued by BNM, asset revaluation reserve are held within the insurance contract liabilities.

(vi) Net asset value attributable to unitholders

The unit liability of investment-link contract is equal to the net asset value of the investment-linked funds, which represents net premium received and investment returns credited to the policy less deduction for mortality and morbidity costs and expense charges.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(n) Other revenue recognition

Interest income for all interest-bearing financial instruments including financial instruments measured at FVTPL, are recognised within investment income in the statement of income using the effective interest rate method. 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.

Rental income is recognised on an accrual basis.

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

Gains or losses arising on disposal of investments are credited or charged to the statement of income.

Insurance 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, they are deferred and recognised over those future periods

(o) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on the straight line basis over the lease period.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(p) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and include all taxes based upon the taxable profits. The tax expense on the Life fund is based on the method prescribed under the Income Tax Act, 1967 for life insurance business.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purpose and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax assets is realised or the deferred tax liability is settled.

(q) Foreign currencies

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(r) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and bonuses are accrued in the financial year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

Defined benefit plan

The Company operates a staff retirement benefit scheme which is an unfunded defined benefit scheme. Provision for retirement benefits is calculated based on the current salaries of eligible staff and the length of their services up to the extent of the Company's contractual liability.

This scheme was withdrawn with effect from 1 January 2000 and replaced by additional contributions to the Employees' Provident Fund. A compound interest of 5% per annum is calculated on the total liability determined at 1 January 2000 for the previous scheme, and the retirement benefit for eligible staff will be paid upon resignation or retirement, whichever is earlier.

Defined contribution plan

The Company's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the statement of income in the financial year to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(s) Agency long association benefits

Agency long association benefit is a provision provided for the Company's agency force on the basis of defined contribution retirement benefit scheme. Provision for the benefits is based on the production of agents and interest is credited at the end of the financial year on the outstanding balance before crediting the production for the financial year.

The long association benefit that has been accrued shall become vested and payable upon fulfillment of the following conditions:

- The agency agreement had been in force for at least 10 continuous years;
- The agent has attained the age of 55 years; and
- Only if the agent has resigned or has been terminated for non-production and further does not join another life insurance company before attaining the age of 55.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(t) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(u) Dividends

Dividends are recognised as liabilities when the obligation to pay is established. No provision is made for a proposed dividend.

(v) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

(w) Insurance payables and other payables

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

(x) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, and fixed and call deposits with original maturities of three months or less. It excludes deposits which are held for investment purpose.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.3 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts 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 judgements in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy could materially affect the reported results and financial position of the Company. However, the Directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

(b) Key sources of estimation, uncertainty and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Actuarial liabilities of life policyholders' fund

The principles on which the valuation of the actuarial liabilities of life insurance contracts was determined by the Appointed Actuary having regard to the statutory requirements determined by BNM.

The actuarial valuation was carried out using a prospective cashflow method, known as gross premium valuation method. The policy liabilities are determined first by projecting future cash flows using realistic assumptions and then discounting these cash flow streams at appropriate interest rates. For participating policies, the policy liability includes provision for future payments arising for both guaranteed and non-guaranteed benefits. Additional provision may be required in the valuation assumptions to allow for any adverse deviation from the best estimate experience and to reflect the inherent uncertainty of the best estimate of the actuarial liabilities held.

The Company conducted a sensitivity analysis on the gross premium actuarial liabilities as at 31 December 2011, based on the change in one specific assumption while holding all other assumptions constant as disclosed in the Note 32 to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of preparation

The new accounting standards, amendments and improvements to published standards and interpretations that are effective and applicable for the Company's financial year beginning on or after 1 January 2011 are as follows:

FRSs/Interpretations	Effective date
• Amendment to FRS 132 "Financial instruments: Presentation" on classification of rights issues	1 March 2010
• FRS 3 (revised) "Business combinations"	1 July 2010
• Amendments to FRS 5 "Non-current assets held for sale and discontinued operations"	1 July 2010
• Amendments to FRS 138 "Intangible assets"	1 July 2010
• Amendments to IC Interpretation 9 "Reassessment of embedded derivatives"	1 July 2010
• Amendments to FRS 2 "Share-based Payment"	1 July 2010
• Amendment to FRS 2 "Share-based Payment: Group cash-settled share-based payment transactions"	1 January 2011
• Amendments to FRS 1 "First-time adoption of financial reporting standards"	1 January 2011
• Amendments to FRS 7 "Financial instruments: Disclosures"	1 January 2011
• IC Interpretation 4: "Determining whether an arrangement contains a lease"	1 January 2011
• Improvements to FRSs (2010)	1 January 2011

The adoption of the above new accounting standards, amendments and improvements to published standards and interpretations does not have any significant impact to the financial statements of the Company, except as stated below:

- FRS 7 (Amendment) "Financial instruments: Disclosures" effective for annual period beginning or after 1 January 2011.

Fair value

An entity shall disclose for each class of financial instruments, the methods and when valuation techniques is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it. An entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of Preparation (continued)

(a) The new accounting standards, amendments and improvements to published standards and interpretations that are effective and applicable for the Company's financial year beginning on or after 1 January 2011 are as follows: (continued)

- FRS 7 (Amendment) "Financial instruments: Disclosures" effective for annual period beginning or after 1 January 2011. (continued)

Liquidity risk

An entity shall disclose:

- (a) A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities;
  - (b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and
  - (c) A description of how it managed the liquidity risk inherent in (a) and (b).
- Improvements to FRS 101 "Presentation of financial statements" effective from 1 January 2011 clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

The adoption of the above amendment does not have significant impact to the financial statements of the Company other than additional disclosures.

2.5 Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows:

The Company will apply the new standards, amendments to published standards and interpretations that are issued but not yet effective in the following financial years:

Financial year beginning on/after 1 January 2012

In the next financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.5 Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows: (continued)

##### Financial year beginning on/after 1 January 2012 (continued)

The Company is still assessing the impact to financial statements arise from the adoption of MFRS. The MFRSs that are applicable and relevant to the Company include the following:

- Amendment to MFRS 112 “Income taxes” (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 “Investment property”. As a result of the amendments, IC Interpretation 121 “Income taxes - recovery of revalued non-depreciable assets” will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn. The Company will apply this standard from financial period beginning on 1 January 2012.

##### Financial year beginning on/after 1 January 2013

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognises changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (“OCI”). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply. The Company will apply this standard from financial period beginning on 1 January 2013.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective are as follows: (continued)

Financial year beginning on/after 1 January 2013 (continued)

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones. The Company will apply this standard from financial period beginning on 1 January 2013.
- Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 July 2011) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation. The Company will apply this standard from financial period beginning on 1 January 2013.
- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial period beginning on 1 January 2013.
- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in OCI in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The Company will apply this standard from financial period beginning on 1 January 2013.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

<u>Cost/Valuation</u>	<u>Motor vehicles</u> RM'000	<u>Office equipment, furniture and fittings</u> RM'000	<u>Computer equipment</u> RM'000	<u>Renovation</u> RM'000	<u>Freehold land</u> RM'000	<u>Leasehold land</u> RM'000	<u>Freehold buildings</u> RM'000	<u>Leasehold buildings</u> RM'000	<u>Total</u> RM'000
At 1 January 2011	990	3,783	11,238	11,024	10,313	3,587	24,882	2,209	68,026
Additions	443	191	735	276	-	-	-	-	1,645
Disposals/write-offs	(200)	(171)	(98)	-	-	-	-	-	(469)
Reclassification from investment properties (Note 4)	-	-	-	-	402	218	451	229	1,300
Reclassification to investment properties (Note 4)	-	-	-	-	(19)	(72)	(33)	(64)	(188)
At 31 December 2011	<u>1,233</u>	<u>3,803</u>	<u>11,875</u>	<u>11,300</u>	<u>10,696</u>	<u>3,733</u>	<u>25,300</u>	<u>2,374</u>	<u>70,314</u>
Cost	1,233	3,803	11,875	11,300	-	-	-	-	28,211
Valuation	-	-	-	-	10,696	3,733	25,300	2,374	42,103
At 31 December 2011	<u>1,233</u>	<u>3,803</u>	<u>11,875</u>	<u>11,300</u>	<u>10,696</u>	<u>3,733</u>	<u>25,300</u>	<u>2,374</u>	<u>70,314</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Motor vehicles	Office equipment, furniture and fittings	Computer equipment	Renovation	Freehold land	Leasehold land	Freehold buildings	Leasehold buildings	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>									
At 1 January 2011	98	1,548	10,176	5,986	-	342	579	26	18,755
Charge for the financial year (Note 23)	229	311	743	1,116	-	83	584	30	3,096
Reclassification to investment properties (Note 4)	-	-	-	-	-	(3)	-	-	(3)
Disposals/write-offs	(33)	(157)	(93)	-	-	-	-	-	(283)
At 31 December 2011	294	1,702	10,826	7,102	-	422	1,163	56	21,565
<u>Net book value</u>									
At 31 December 2011	939	2,101	1,049	4,198	10,696	3,311	24,137	2,318	48,749

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Renovation RM'000	Freehold land RM'000	Leasehold land RM'000	Freehold buildings RM'000	Leasehold buildings RM'000	Total RM'000
<u>Cost/Valuation</u>									
At 1 January 2010	645	3,351	10,931	9,075	9,010	3,442	21,721	1,672	59,847
Additions	345	505	562	1,949	-	-	-	-	3,361
Disposals/write-offs	-	(73)	(255)	-	-	-	-	-	(328)
Reclassification from investment properties (Note 4)	-	-	-	-	1,560	158	3,691	548	5,957
Reclassification to investment properties (Note 4)	-	-	-	-	(257)	(13)	(530)	(11)	(811)
At 31 December 2010	990	3,783	11,238	11,024	10,313	3,587	24,882	2,209	68,026
Cost	990	3,783	11,238	11,024	-	-	-	-	27,035
Valuation	-	-	-	-	10,313	3,587	24,882	2,209	40,991
At 31 December 2010	990	3,783	11,238	11,024	10,313	3,587	24,882	2,209	68,026

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Motor vehicles RM'000	Office equipment, furniture and fittings RM'000	Computer equipment RM'000	Renovation RM'000	Freehold land RM'000	Leasehold land RM'000	Freehold buildings RM'000	Leasehold buildings RM'000	Total RM'000
<u>Accumulated depreciation</u>									
At 1 January 2010	78	1,285	9,627	4,874	-	259	-	-	16,123
Charge for the financial year (Note 23)	20	337	798	1,112	-	84	579	26	2,956
Reclassification to investment properties (Note 4)	-	-	-	-	-	(1)	-	-	(1)
Disposals/write-offs	-	(74)	(249)	-	-	-	-	-	(323)
At 31 December 2010	98	1,548	10,176	5,986	-	342	579	26	18,755
<u>Net book value</u>									
At 31 December 2010	892	2,235	1,062	5,038	10,313	3,245	24,303	2,183	49,271

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

The net book value of revalued land and buildings, had these assets been carried at cost less accumulated depreciation is as follows:

	<u>Freehold land</u> RM'000	<u>Leasehold land</u> RM'000	<u>Freehold buildings</u> RM'000	<u>Leasehold buildings</u> RM'000	<u>Total</u> RM'000
At 31 December 2011	4,245	1,712	19,037	1,967	26,961
At 31 December 2010	4,229	1,596	19,090	1,794	26,709

The self-occupied properties stated at valuation were appraised in 2009 by an independent professional valuer, Raine Horne International Zaki & Partners Sdn. Bhd., at open market value on an existing use basis.

**4 INVESTMENT PROPERTIES**

	<u>2011</u> Market value RM'000	<u>2010</u> Market value RM'000
At the beginning of the financial year	190,113	185,008
Disposals	(530)	(5,700)
Reclassification to property, plant and equipment (Note 3)	(1,300)	(5,957)
Reclassification from property, plant and equipment (Note 3)	185	810
Fair value changes for the financial year (Note 20)	3,395	15,952
At the end of the financial year	191,863	190,113

The investment properties stated at valuation were appraised in 2011 by an independent professional valuer, Raine Horne International Zaki & Partners Sdn. Bhd., at open market value on an existing use basis.

The rental income and direct operating expenses arising from investment properties that have been recognised in statement of income during the financial year are:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Rental income	9,912	10,404
Direct operating expenses	(5,539)	(5,662)

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

5 INTANGIBLE ASSETS

	Bancassurance fee RM'000	Computer software RM'000	Total RM'000
<u>Net book value</u>			
<u>2011</u>			
At 1 January 2011	54,360	1,101	55,461
Addition for the financial year	-	1,039	1,039
Amortisation charged to statement of income (Note 23)	(12,080)	(771)	(12,851)
At 31 December 2011	<u>42,280</u>	<u>1,369</u>	<u>43,649</u>
Cost	60,400	3,698	64,098
Accumulated amortisation	(18,120)	(2,329)	(20,449)
At 31 December 2011	<u>42,280</u>	<u>1,369</u>	<u>43,649</u>
<u>2010</u>			
At 1 January 2010	-	1,232	1,232
Addition for the financial year	60,400	534	60,934
Amortisation charged to statement of income (Note 23)	(6,040)	(665)	(6,705)
At 31 December 2010	<u>54,360</u>	<u>1,101</u>	<u>55,461</u>
Cost	60,400	2,659	63,059
Accumulated amortisation	(6,040)	(1,558)	(7,598)
At 31 December 2010	<u>54,360</u>	<u>1,101</u>	<u>55,461</u>

6 FINANCIAL INVESTMENTS

	2011 RM'000	2010 RM'000
Malaysian Government securities	457,208	351,882
Malaysian Government guaranteed bonds	458,629	288,980
Government Investment Issues	62,062	35,841
Corporate debt securities	1,776,239	1,609,442
Equity securities	1,295,945	1,298,078
Collective investment schemes	167,874	206,580
Structured investment products	37,654	78,184
Investment linked funds	10,400	10,236
Loans	529,200	536,639
Fixed and call deposits	20,000	46,300
	<u>4,815,211</u>	<u>4,462,162</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

6 FINANCIAL INVESTMENTS (CONTINUED)

	<u>2011</u>	<u>2010</u>
	RM'000	RM'000
The Company's financial investments are summarised by the following categories:		
AFS financial assets	2,902,438	2,404,045
FVTPL - HFT financial assets	639,680	691,760
HTM financial assets	723,893	783,418
Loans and receivables	549,200	582,939
	<u>4,815,211</u>	<u>4,462,162</u>
<b>6a AFS FINANCIAL ASSETS</b>		
At fair value:		
Malaysian Government securities	223,296	137,208
Malaysian Government guaranteed bonds	368,518	191,647
Government Investment Issues	51,911	10,361
Corporate debt securities	1,317,765	1,104,833
Equity securities	919,701	912,424
Collective investment schemes	10,847	37,336
Investment-linked funds	10,400	10,236
	<u>2,902,438</u>	<u>2,404,045</u>
<b>6b FVTPL - HFT FINANCIAL ASSETS</b>		
At fair value:		
Corporate debt securities	68,755	58,678
Equity securities	376,244	385,654
Collective investment schemes	157,027	169,244
Structured investment products	37,654	78,184
	<u>639,680</u>	<u>691,760</u>
<b>6c HTM FINANCIAL ASSETS</b>		
At amortised cost:		
Malaysian Government securities	233,912	214,674
Malaysian Government guaranteed bonds	90,111	97,333
Government Investment Issues	10,151	25,480
Corporate debt securities	389,719	445,931
	<u>723,893</u>	<u>783,418</u>

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6 FINANCIAL INVESTMENTS (CONTINUED)

6c HTM FINANCIAL ASSETS (CONTINUED)

	<u>2011</u> RM'000	<u>2010</u> RM'000
Current	34,322	79,612
Non-current	689,571	703,806
	<u>723,893</u>	<u>783,418</u>
At fair value:		
Malaysian Government securities	243,917	219,112
Malaysian Government guaranteed bonds	91,865	98,169
Government Investment Issues	10,352	25,522
Corporate debt securities	405,744	457,494
	<u>751,878</u>	<u>800,297</u>

The fair values of HTM financial assets are their quoted prices on the stock exchanges or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristic.

6d LOANS AND RECEIVABLES

	<u>2011</u> RM'000	<u>2010</u> RM'000
At amortised cost:		
Secured:		
Policy loans	527,188	534,214
Mortgage loans	1,645	1,896
Other loans	367	524
Unsecured loans	-	5
Fixed and call deposits	20,000	46,300
	<u>549,200</u>	<u>582,939</u>

The carrying values of loans and receivables approximate the fair values at the date of the statement of financial position.

	<u>2011</u> RM'000	<u>2010</u> RM'000
Current	20,000	37,301
Non-current	529,200	545,638
	<u>549,200</u>	<u>582,939</u>

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6 FINANCIAL INVESTMENTS (CONTINUED)

6e MOVEMENTS IN THE CARRYING VALUES OF FINANCIAL INSTRUMENTS

	<u>AFS</u> RM'000	<u>FVTPL</u> RM'000	<u>HTM</u> RM'000	<u>LAR</u> RM'000	<u>Total</u> RM'000
At 1 January 2010	1,913,682	549,650	783,873	594,839	3,842,044
Purchases	497,774	183,997	65,130	-	746,901
Maturities	(26,800)	(5,000)	(57,482)	-	(89,282)
Disposals	(167,069)	(111,107)	(11,453)	-	(289,629)
Decrease in loans	-	-	-	(2,985)	(2,985)
Decrease in fixed and call deposits	-	-	-	(8,950)	(8,950)
Movement of investment income accrued	1,425	(844)	107	35	723
Fair value gains recorded in:					
Statement of income (Note 20)	-	75,064	-	-	75,064
Other comprehensive income	4,009	-	-	-	4,009
Insurance contract liabilities (Note 11)	177,775	-	-	-	177,775
Movement in impairment allowance	(440)	-	-	-	(440)
Amortisation adjustment	3,689	-	3,243	-	6,932
At 31 December 2010	<u>2,404,045</u>	<u>691,760</u>	<u>783,418</u>	<u>582,939</u>	<u>4,462,162</u>
Purchases	724,775	109,832	65,268	-	899,875
Maturities	(196,517)	(1,000)	(70,000)	-	(267,517)
Disposals	(67,905)	(127,840)	(56,296)	-	(252,041)
Decrease in loans	-	-	-	(7,191)	(7,191)
Decrease in fixed and call deposits	-	-	-	(26,300)	(26,300)
Movement of investment income accrued	3,636	(17)	(2,207)	(248)	1,164
Fair value gains recorded in:					
Statement of income (Note 20)	-	(32,745)	-	-	(32,745)
Other comprehensive income	1,094	-	-	-	1,094
Insurance contract liabilities (Note 11)	27,399	-	-	-	27,399
Foreign exchange gains/(loss)	26	(310)	-	-	(284)
Movement in impairment allowance	338	-	-	-	338
Amortisation adjustment	5,547	-	3,710	-	9,257
At 31 December 2011	<u><u>2,902,438</u></u>	<u><u>639,680</u></u>	<u><u>723,893</u></u>	<u><u>549,200</u></u>	<u><u>4,815,211</u></u>

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6 FINANCIAL INVESTMENTS (CONTINUED)

6f FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	<u>AFS</u> RM'000	<u>FVTPL</u> - <u>HFT</u> RM'000	<u>Total</u> RM'000
<u>31 December 2011</u>			
Level 1	936,296	570,925	1,507,221
Level 2	1,961,490	68,755	2,030,245
Level 3	4,652	-	4,652
	<u>2,902,438</u>	<u>639,680</u>	<u>3,542,118</u>
<u>31 December 2010</u>			
Level 1	935,090	632,930	1,568,020
Level 2	1,464,970	58,830	1,523,800
Level 3	3,985	-	3,985
	<u>2,404,045</u>	<u>691,760</u>	<u>3,095,805</u>

Level 1 financial instruments are measured in whole or in part by reference to published quotes in an active market. 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.

Level 2 financial instruments are 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.

Level 3 financial instruments are determined in whole or in part using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset class in this category are unquoted equity securities. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the instrument at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the instrument (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

6 FINANCIAL INVESTMENTS (CONTINUED)

6f FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table presents the changes in Level 3 instruments:

	2011	AFS 2010
	RM'000	RM'000
At the beginning of the financial year	3,985	2,246
Fair value gains and (losses) recognised in		
- other comprehensive income	667	1,869
- statement of income	-	(130)
At the end of the financial year	<u>4,652</u>	<u>3,985</u>

7 INSURANCE RECEIVABLES

	2011	2010
	RM'000	RM'000
Due premiums including agents/brokers balances	16,355	18,706
Due from reinsurers and cedants	2,271	313
	<u>18,626</u>	<u>19,019</u>
Impairment loss	(588)	(862)
	<u>18,038</u>	<u>18,157</u>

The carrying values disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

8 OTHER RECEIVABLES AND OTHER ASSETS

	<u>2011</u> RM'000	<u>2010</u> RM'000
<u>Financial receivables</u>		
Rental and interest income receivable	2,438	1,877
Outstanding proceeds from sale of investments	169	1,570
Outstanding proceeds from sale of property	478	5,484
Amount due from holding company	-	15
Deposits	633	637
Others	835	1,264
	<u>4,553</u>	<u>10,847</u>
<u>Other assets</u>		
Advance payment for purchases	3,952	2,735
Prepayment of expenses	1,950	1,362
	<u>5,902</u>	<u>4,097</u>
Total	<u><u>10,455</u></u>	<u><u>14,944</u></u>

The amount due from holding company is non-interest bearing, unsecured and has no fixed repayment terms.

The carrying values of financial receivables disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

9 SHARE CAPITAL

	<u>2011</u>		<u>2010</u>	
	<u>No of shares</u> '000	RM'000	<u>No of shares</u> '000	RM'000
Authorised ordinary shares of RM1 each: At the beginning and end of the financial year	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>
Issued and fully paid up ordinary shares of RM1 each: At the beginning and end of the financial year	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

10 RETAINED EARNINGS

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 credit under Section 108 of the Income Tax Act, 1967 ("Section 108 balance") and opt to pay dividends under the single-tier system. The change in the tax legislation also provides for the Section 108 balance to be locked in as at 31 December 2007 in accordance 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 31 December 2007 to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act, 2007.

The Company has sufficient Section 108 balance of RM17.4 million (2010: RM22.7 million) and the tax-exempt account balance of RM0.9 million (2010: RM0.9 million) to frank the payment of dividends out of its entire retained earnings as at 31 December 2011 subject to the agreement of the Inland Revenue Board.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

11 INSURANCE CONTRACT LIABILITIES

	<u>2011</u> Gross/net RM'000	<u>2010</u> Gross/net RM'000
Life insurance contract liabilities	5,011,439	4,635,542

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

	<u>2011</u> Gross/net RM'000	<u>2010</u> Gross/net RM'000
Actuarial liabilities	3,492,857	3,067,192
Unallocated surplus	930,713	959,972
Provision for outstanding claims	15,473	10,406
AFS reserve	445,814	432,674
Asset revaluation reserve	12,503	12,503
Net asset value attributable to unitholders (Note 35)	114,079	152,795
	<u>5,011,439</u>	<u>4,635,542</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

11 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	With DPE RM'000	Without DPE RM'000	Gross/net Total RM'000
At 1 January 2011	4,155,396	480,146	4,635,542
Premiums received	529,808	260,082	789,890
Liabilities paid for death, maturities, surrenders, benefits and claims	(310,483)	(113,493)	(423,976)
Net investment income	171,477	9,842	181,319
Benefits and claims experience variation	21,199	(29,592)	(8,393)
Fees deducted	(93,683)	(73,502)	(167,185)
Net other income	3,147	988	4,135
Transfers to shareholders' fund	(11,613)	-	(11,613)
Adjustments due to changes in assumptions:			
Mortality/morbidity	-	17	17
Lapse and surrender rates	(5)	3,786	3,781
Expenses	(6)	(603)	(609)
Discount rate	-	7,631	7,631
Unit fund growth rate	-	15	15
Others	-	98	98
Unallocated surplus	(28,637)	10,987	(17,650)
Available-for-sale reserve:			
Fair value gains on AFS financial assets (Note 6)	23,382	4,017	27,399
Fair value changes transferred to statement of income during the financial year	(12,094)	(100)	(12,194)
Net asset value attributable to unitholders	-	230	230
Movement in provision for outstanding claims	4,470	597	5,067
Deferred tax effects:			
Available-for-sale reserve (Note 17)	(1,533)	(532)	(2,065)
At 31 December 2011	4,450,825	560,614	5,011,439

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11 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	With DPF RM'000	Without DPF RM'000	Gross/net Total RM'000
At 1 January 2010	3,639,648	380,001	4,019,649
Premiums received	517,031	184,111	701,142
Liabilities paid for death, maturities, surrenders, benefits and claims	(289,804)	(68,718)	(358,522)
Net investment income	260,969	12,156	273,125
Benefits and claims experience variation	(5,301)	(6,585)	(11,886)
Fees deducted	(90,433)	(37,129)	(127,562)
Net other income	(10,307)	831	(9,476)
Transfers to shareholders' fund	(11,240)	-	(11,240)
Adjustments due to changes in assumptions:			
Mortality/morbidity	-	(458)	(458)
Lapse and surrender rates	-	-	-
Expenses	-	(10,318)	(10,318)
Discount rate	-	1,987	1,987
Unit fund growth rate	-	-	-
Others	355	265	620
Unallocated surplus	(657)	6,224	5,567
Available-for-sale reserve:			
Fair value gains on AFS financial assets (Note 6)	174,508	3,267	177,775
Fair value changes transferred to statement of income during the financial year	(15,770)	(176)	(15,946)
Net asset value attributable to unitholders	-	13,798	13,798
Movement in provision for outstanding claims	(733)	1,138	405
Deferred tax effects:			
Available-for-sale reserve (Note 17)	(12,870)	(248)	(13,118)
At 31 December 2010	<u>4,155,396</u>	<u>480,146</u>	<u>4,635,542</u>

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12 INSURANCE PAYABLES

	<u>2011</u> RM'000	<u>2010</u> RM'000
Due to agents, brokers and insureds	73,163	62,744
Due to reinsurers and cedants	3,262	3,306
Cash bonus and interest outstanding	118,808	98,714
	<u>195,233</u>	<u>164,764</u>

The carrying values disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

13 OTHER FINANCIAL LIABILITIES

	<u>2011</u> RM'000	<u>2010</u> RM'000
Outstanding purchases of investment securities	216	-
Tenant deposits	2,872	2,674
	<u>3,088</u>	<u>2,674</u>

The carrying values disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

14 OTHER PAYABLES

	<u>2011</u> RM'000	<u>2010</u> RM'000
Accrued expenses	6,182	7,248
Other payables	10,253	11,880
	<u>16,435</u>	<u>19,128</u>

The carrying values disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

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15 PROVISION FOR STAFF RETIREMENT BENEFITS

	<u>2011</u> RM'000	<u>2010</u> RM'000
At 1 January	338	340
Charged to statement of income (Note 23)	22	135
Paid during the financial year	-	(137)
	<u>360</u>	<u>338</u>
At 31 December	<u>360</u>	<u>338</u>
Payable after 12 months	<u>360</u>	<u>338</u>

The provision for staff retirement benefits of RM0.36 million (2010: RM0.338 million) represents the present value of the unfunded obligation of the Life fund. The provision for the financial year of RM0.022 million (2010: RM0.135 million) is in respect of the current service cost incurred by the Life fund.

16 AGENCY LONG ASSOCIATION BENEFITS

	<u>2011</u> RM'000	<u>2010</u> RM'000
At 1 January	22,053	20,660
Charged to statement of income	3,457	3,129
Paid during the financial year	(1,939)	(1,736)
	<u>23,571</u>	<u>22,053</u>
At 31 December	<u>23,571</u>	<u>22,053</u>
Payable within 12 months	3,051	2,855
Payable after 12 months	20,520	19,198
	<u>23,571</u>	<u>22,053</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

17 DEFERRED TAX LIABILITIES

	<u>2011</u> RM'000	<u>2010</u> RM'000
At 1 January	55,935	37,244
Recognised in:		
Statement of income (Note 24)	(2,954)	5,446
Other comprehensive income	250	127
Insurance contract liabilities (Note 11)	2,065	13,118
	<u>55,296</u>	<u>55,935</u>
At 31 December	<u>55,296</u>	<u>55,935</u>

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.

The following amounts, determined before and after appropriate offsetting, are shown in the statement of financial position:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Deferred tax liabilities	<u>55,296</u>	<u>55,935</u>

	<u>Property, plant and equipment</u> RM'000	<u>Self- occupied properties</u> RM'000	<u>Investment properties</u> RM'000	<u>Financial investments</u> RM'000	<u>Total</u> RM'000
At 1 January 2010	52	1,087	5,940	30,165	37,244
Recognised in:					
Statement of income (Note 25)	-	-	1,276	4,170	5,446
Other comprehensive Income	-	-	-	127	127
Insurance contract liabilities (Note 11)	-	-	-	13,118	13,118
	<u>52</u>	<u>1,087</u>	<u>7,216</u>	<u>47,580</u>	<u>55,935</u>
At 31 December 2010	52	1,087	7,216	47,580	55,935
Recognised in:					
Statement of income (Note 25)	-	-	(294)	(2,660)	(2,954)
Other comprehensive Income	-	-	-	250	250
Insurance contract liabilities (Note 11)	-	-	-	2,065	2,065
	<u>52</u>	<u>1,087</u>	<u>6,922</u>	<u>47,235</u>	<u>55,296</u>
At 31 December 2011	<u>52</u>	<u>1,087</u>	<u>6,922</u>	<u>47,235</u>	<u>55,296</u>

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18 INVESTMENT INCOME

	<u>2011</u> RM'000	<u>2010</u> RM'000
Rental income from investment properties	4,367	4,585
HFT financial assets		
Interest	3,307	3,905
Dividend	11,871	9,304
AFS financial assets		
Interest	74,790	62,515
Dividend	34,485	31,246
Accretion of discounts - net	5,547	3,689
HTM financial assets		
Interest	35,535	38,335
Accretion of discounts - net	3,710	3,243
Interest from loans	37,320	37,053
Interest from fixed and call deposits	11,850	9,733
	<u>222,782</u>	<u>203,608</u>
Less: Investment expenses	(1,760)	(1,340)
	<u>221,022</u>	<u>202,268</u>

19 NET REALISED GAINS

Realised gains/(losses):		
Investment properties	-	393
AFS financial assets		
- Equity securities	12,378	16,822
- Debt securities	(33)	2,624
	<u>12,345</u>	<u>19,839</u>

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20 NET FAIR VALUE (LOSSES)/GAINS

	<u>2011</u> RM'000	<u>2010</u> RM'000
Investment properties (Note 4)	3,395	15,952
HFT financial assets (Note 6)	(32,745)	75,064
Early redemption of HTM financial assets by issuers	1,267	356
Impairment of AFS financial assets	338	(440)
	<u>(27,745)</u>	<u>90,932</u>

21 FEES AND COMMISSION INCOME

Policyholder administration fees	706	439
Management service charges	226	357
	<u>932</u>	<u>796</u>

22 OTHER OPERATING (EXPENSES)/INCOME - NET

Loss on disposal/write off of property, plant and equipment	(71)	(5)
Realised net foreign exchange loss	(284)	(56)
Others	39	(118)
	<u>(316)</u>	<u>(179)</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

23 MANAGEMENT EXPENSES

	<u>2011</u> RM'000	<u>2010</u> RM'000
Staff salaries and bonuses	26,917	19,916
Contribution to Employees' Provident Fund	3,699	2,704
Staff retirement benefits (Note 15)	22	135
Others	2,062	1,496
	<hr/>	<hr/>
Staff costs	32,700	24,251
	<hr/>	<hr/>
Non-executive Directors		
- fees	185	186
- other remuneration	-	18
	<hr/>	<hr/>
Directors' remuneration	185	204
	<hr/>	<hr/>
Depreciation of property, plant and equipment (Note 3)	3,096	2,956
Amortisation of intangible assets (Note 5)	12,851	6,705
Auditors' remuneration		
- statutory audit	237	218
- other audit services	92	85
(Decrease)/increase in impairment loss of insurance receivables (Note 33)	(274)	513
Printing and stationery	1,719	1,457
Postage, telephone and telex	1,395	957
EDP expenses	2,134	1,853
Advertising and marketing expenses	13,287	6,844
Rental of properties	228	258
Management fees	1,665	1,149
Training related expenses	807	1,345
Others	11,701	6,970
	<hr/>	<hr/>
	48,938	31,310
	<hr/>	<hr/>
Total	<u>81,823</u>	<u>55,765</u>

The remuneration including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM1.24 million (2010: RM1.05 million).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

24 TAXATION

	<u>2011</u> RM'000	<u>2010</u> RM'000
Current tax	19,852	24,014
Deferred tax (Note 17)	(2,954)	5,446
Taxation	<u>16,898</u>	<u>29,460</u>
 <u>Current tax</u>		
Current financial year	21,973	23,527
(Over)/under provision in prior financial years	(2,121)	487
	<u>19,852</u>	<u>24,014</u>
 <u>Deferred tax</u>		
Origination and reversal of temporary differences	(2,954)	5,446
	<u>16,898</u>	<u>29,460</u>

The explanation of the relationship between taxation, and profit before taxation and change in insurance contract liabilities is as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Profit before taxation	<u>27,702</u>	<u>44,462</u>
Tax calculated at the Malaysian tax rate of 25% (2010: 25%)	6,926	11,116
Tax effects of:		
- tax rate differential of 17% in respect to Life Fund	(4,229)	(7,559)
- expenses not deductible for tax purposes	74,451	42,284
- income not subject to tax	(56,367)	(15,968)
- Section 110B credit	(929)	(900)
- (over)/under provision of tax in prior financial years	(2,954)	487
	<u>16,898</u>	<u>29,460</u>

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**24 TAXATION (CONTINUED)**

The tax expense of the Life fund is based on the method prescribed under the Income Tax Act, 1967 for the life business, where the income tax in the life fund is calculated at 8% (2010:8%) on investment income. The income tax for the Shareholders' fund is calculated based on the tax rate of 25% (2010: 25%) of the estimated assessable profit for the financial year. The taxes of the respective funds are disclosed in Note 34 to the financial statements.

In 2008, the Ministry of Finance has gazetted an order on the allowance of income tax set-off /credit for the tax charged on the surplus transferred from the Life fund to the Shareholders' fund with effect from year of assessment 2008 under Section 110B of the Income Tax Act, 1967.

**25 BASIC EARNINGS PER SHARE**

The earnings per share has been calculated based on the net profit for the financial year of RM10.8 million (2010: RM15.0 million) and the weighted average number of ordinary shares of the Company in issue during the financial year of 100 million (2010: 100 million) shares.

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

**26 DIVIDENDS**

	<u>2011</u>		<u>2010</u>	
	<u>Gross dividend per share</u>	<u>Amount of dividend, net of tax</u>	<u>Gross dividend per share</u>	<u>Amount of dividend, net of tax</u>
	Sen	RM'000	Sen	RM'000
Final dividend for financial year 2009 but recognised in financial year 2010	-	-	21.34	16,005

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27 CAPITAL COMMITMENTS

Capital expenditure not provided for in the financial statements are as follows:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Authorised and contracted for:		
- Plant and equipment	2,769	1,382
	<u>2,769</u>	<u>1,382</u>

28 OPERATING LEASE COMMITMENTS

Commitments under non-cancellable operating leases where the Company is a lessee:

Payable within one year	277	75
Payable after one year	345	233
	<u>622</u>	<u>308</u>

Commitments under non-cancellable operating leases where the Company is a lessor:

Receivable within one year	5,372	7,222
Receivables after one year	3,603	2,876
	<u>8,975</u>	<u>10,098</u>

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29 RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company, are as follows:

	<u>Country of incorporation</u>	<u>Relationship</u>
Tokio Marine Holdings Inc.	Japan	Ultimate holding corporation
Tokio Marine Life Insurance Singapore Ltd. ("TMLIS")	Singapore	Holding corporation
Asia General Asset Berhad ("AGAB")	Malaysia	Subsidiary of ultimate holding corporation
Tokio Marine Asia Pte. Ltd. ("TMAP")	Singapore	Subsidiary of ultimate holding corporation
Tokio Marine Insurans (Malaysia) Berhad ("TMIM")	Malaysia	Subsidiary of ultimate holding corporation
Tokio Marine Asset Management International Pte. Ltd. ("TMAMI")	Singapore	Subsidiary of ultimate holding corporation
Key management personnel	-	Key management personnel includes the Directors, Chief Executive Officer ("CEO") and senior management who report directly to the CEO

In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its holding and ultimate holding corporations and other corporations deemed related parties by virtue of them being members of Tokio Marine Holdings Inc. group of corporations.

The related party balances as at the date of the statement of financial position and significant related party transactions arising from normal business transactions during the financial year are set out below.

(i) Related party balances

	<u>2011</u> RM'000	<u>2010</u> RM'000
<u>Other receivables (Note 8)</u>		
Amount due from TMIM	106	-
Amount due from TMAP	95	-
Amount due from Tokio Marine Nichido Fire	79	-
	<u>          </u>	<u>          </u>
<u>Insurance receivables (Note 7)</u>		
Amount due from TMLIS	-	58
	<u>          </u>	<u>          </u>
<u>Other payables (Note 14)</u>		
Amount due to TMAP	-	37
Amount due to TMLIS	101	-
	<u>          </u>	<u>          </u>
<u>Financial investments (Note 6)</u>		
Investment in TMAMI's funds	156,239	168,989
	<u>          </u>	<u>          </u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Significant related party transactions

	<u>2011</u> RM'000	<u>2010</u> RM
Transactions with TMLIS:		
Recharge of other expenses incurred	101	127
Dividend paid	-	16,005
	<u>          </u>	<u>          </u>
Transactions with TMAMI:		
Cost of purchase of financial investments	18,846	20,493
Proceeds from disposal of financial investments	(4,104)	(3,904)
	<u>          </u>	<u>          </u>
Transactions with TMIM:		
Management fee receivable	(103)	(357)
	<u>          </u>	<u>          </u>
Transactions with TMAP:		
Recharge of other expenses incurred	-	68
Expenses paid on behalf	(95)	-
	<u>          </u>	<u>          </u>

(iii) Key management compensation

Salaries and bonuses	4,096	3,884
Directors' remuneration	185	231
Contribution to Employees' Provident Fund	554	548
Other allowances	175	71
Benefits-in-kind	133	58
	<u>          </u>	<u>          </u>
	<u>5,143</u>	<u>4,792</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 RISK MANAGEMENT FRAMEWORK**

The Company being a member of the Tokio Marine Holdings, Inc. Group of Companies takes into consideration the risk management philosophy and business strategy of Tokio Marine Group when managing the risk of the Company.

The Board of Directors is responsible for the overall establishment, supervision and review of all risk management processes in the Company. The Board of Directors is assisted by the Company's Risk Management And Compliance Committee in the identification, evaluation and assessment of risks in the Company.

The compositions, functions and the responsibilities of Risk Management And Compliance Committee are explained in the Directors' Report.

The Company's risk management strategy includes maintaining sound, robust and effective risk management processes which are appropriate to the nature, scale and complexity of the Company's life insurance business to safeguard the interests of Company's shareholders as well as to protect the Company's policyholders' interests. The risks are categorised into broad categories to streamline the risk management processes and are not meant to be restrictive as to the risk identification and evaluation process.

The following are the three broad categories of risks faced by the Company:

**A. Business Risks**

Business risks arise from the Company's business strategy, the environment in which the Company operates, and its ability to provide suitable products and services to customers. The Company provides insurance protection against risks such as mortality and morbidity risks.

Pricing risks arise with respect to the adequacy of insurance premium rate levels, provisions with respect to insurance liabilities and solvency capital, changes in interest rates, developments in mortality, morbidity, lapses and expenses as well as general market conditions.

Within the business risks, insurance risk has significant impact on business results. The definition and management of insurance risks are explained in Note 33 to the financial statements.

These risks are managed through various risk management techniques. New risks are carefully assessed before they are considered for acceptance.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**30 RISK MANAGEMENT FRAMEWORK (CONTINUED)**

**B. Financial Risks**

Financial risks pertain to market risks, which include the Company's exposure to interest rate, currency, equity price and credit risks.

The Company is exposed to market risk arising from its investment in debt securities, equities and properties. Changes in interest rates, foreign exchange rates, and equity prices will impact the financial position of the Company as any reaction to market changes will affect the present and future earnings of the Company for the life insurance operations and shareholders' equity.

The definition and management of financial risks are explained in Note 33 to the financial statements.

**C. Operational Risks**

Operational risks may arise from inadequate or failed internal processes and controls, poor corporate governance or from external events such as sudden disasters crippling the operations of the Company. Such risks, although difficult to quantify, have the potential to impose significant costs upon, and possibly seriously upset, the financial soundness and ongoing business of the Company. Business continuity risks are the risks of not being able to resume normal business operations in view of disruption which include civil, economic, natural disasters etc. Such risks may cause the Company to be unable to continue business as a going concern due to significant financial losses or the destruction of lives and infrastructures arising from natural disasters. The Company has in place measures to control and minimise the Company's exposure to operational risks.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

31 CAPITAL MANAGEMENT

The Company's capital management objective is to maintain a strong capital position with optimum buffer to meet obligations towards policyholders and to comply with the required capital requirements.

A. Investment Management

The investment portfolio of the Company which forms the largest asset pool is managed by an investment team through setting of investment policy and strategic asset allocation. The investment limits are set and monitored at various levels to ensure that all investment activities are within the guidelines set by the local statutory requirements governed by BNM.

B. Regulatory Capital Framework

Regulatory capital is the minimum amount of assets that must be held throughout the financial year to meet statutory solvency requirements governed under the RBC Framework. As part of the statutory requirements, the Company is required to provide its capital position on a quarterly basis to BNM.

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

	<u>Note</u>	<u>2011</u> RM'000	<u>2010</u> RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	9	100,000	100,000
Reserves, including retained earnings		1,538,771	1,595,915
Tier 2 Capital		463,707	449,875
Amount deducted from capital		(42,280)	(54,360)
Total capital available		<u>2,060,198</u>	<u>2,091,430</u>

The Company has met both the minimum and internal capital requirements specified in the RBC Framework for the financial year ended 2011 and 2010.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**32 INSURANCE RISKS**

The risk under any one life insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits will vary from year to year from the estimate. A more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. A dynamic solvency testing is performed annually to monitor its solvency position.

**Concentration of life insurance contract liabilities**

The table below shows the concentration of life insurance contract liabilities (comprise actuarial liabilities, unallocated surplus, provision for outstanding claims and net asset value attributable to unitholders) by types of contract:

	<u>Gross/net</u>		
	<u>With DPF</u> RM'000	<u>Without DPF</u> RM'000	<u>Total</u> RM'000
<u>31 December 2011</u>			
Whole life	1,227,404	74,331	1,301,735
Endowment	2,719,917	84,901	2,804,818
Term-mortgage	-	190,350	190,350
Term-others	-	112,345	112,345
Medical and health	-	30,432	30,432
Riders	(8,439)	45,084	36,645
Other plans	59,854	16,943	76,797
Total	<u>3,998,736</u>	<u>554,386</u>	<u>4,553,122</u>

	<u>Gross/net</u>		
	<u>With DPF</u> RM'000	<u>Without DPF</u> RM'000	<u>Total</u> RM'000
<u>31 December 2010</u>			
Whole life	1,164,259	72,865	1,237,124
Endowment	2,551,477	127,170	2,678,647
Term-mortgage	-	156,984	156,984
Term-others	-	64,869	64,869
Medical and health	-	1,000	1,000
Riders	(2,674)	44,007	41,333
Other plans	-	10,408	10,408
Total	<u>3,713,062</u>	<u>477,303</u>	<u>4,190,365</u>

There is no annuity business in force as at 31 December 2011 and 31 December 2010.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

32 **INSURANCE RISKS (CONTINUED)**

**Key assumptions**

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. All assumptions are reviewed and updated, if necessary, each financial year in order to value insurance contract liabilities that reflect the Company's experience. The assumptions are required to be on best estimate basis, where actual experience has equal chance of being better or worse than estimated.

(i) **Mortality and morbidity**

Mortality assumptions used are based on annual investigation into their respective mortality experience over the recent financial years and are expressed as a percentage of a standard mortality table.

The morbidity assumptions for Dread Disease benefits are based on a percentage of the reinsurer's risk premium rates.

(ii) **Discount rate**

For the participating business, discount rates used to value insurance contract liabilities is determined based on the best estimate investment returns.

To determine the best estimate investment returns, the Company has broken down the assets in the fund as at the reporting date into various asset classes, and has applied long term expected returns to each class. A weighted average rate of investment return is then derived by combining different proportions of the various asset classes.

There are no changes to the discount rate assumptions for participating business.

Contract liabilities for non-participating business and guaranteed liability of the participating business are computed by discounting policy cash flows using risk-free interest rates. The risk-free rates used are derived from the gross yields to redemption of benchmark Government securities as at the date of valuation.

(iii) **Lapse and surrender rates**

Lapse and surrender assumptions are based on an annual investigation into their respective withdrawal experience over the recent financial years and are expressed as rates of withdrawal, split by duration in-force.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

32 INSURANCE RISKS (CONTINUED)

**Key assumptions (continued)**

The key assumptions used in the valuation of insurance contract liabilities are as follows:

	<u>2011</u>	<u>2010</u>
Mortality	50% of M8388 (Traditional)	50% of M8388 (Traditional)
	35% of M8388 (Investment-linked)	35% of M8388 (Investment-linked)
Morbidity	45% of Swiss Re All	45% of Swiss Re All
Discount rate (best estimate)	Par Fund: 5.98% (after tax investment return)	Par Fund: 5.98% (after tax investment return)
Risk-free discount rate	Malaysian Government security as at 31 December 2011	Malaysian Government security as at 31 December 2010 with temporary flexibility
Lapse and surrender rates	Year 1: 10% Year 2: 8% Year 3: 6% Year 4 to 30: 4% Year 30 onwards: 0% (Traditional & investment -linked)	Year 1: 10% Year 2: 8% Year 3: 6% Year 4 to 30: 4% Year 30 onwards: 0% (Traditional)  Year 1: 10% Year 2: 5% Year 3: 4% Year 4 to 30: 3% Year 30 onwards: 0% (Investment-linked)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

32 **INSURANCE RISKS (CONTINUED)**

**Sensitivities**

The Company conducted a sensitivity analysis on the actuarial liabilities as at 31 December 2011, based on the change in one specific assumption while holding all other assumptions constant. Sensitivity information will also vary according to the current economic assumptions.

<u>31 December 2011</u>		<u>Impact on gross/net liabilities</u>
<u>Variable</u>	<u>Change in variable</u>	RM'000
Worsening of mortality/morbidity	+25%	105,619
Improvement in mortality/morbidity	-25%	(114,405)
Worsening of lapse and surrender rates	+25%	(15,829)
Improvement in lapse and surrender rates	-25%	17,893
Increase in discount rate	100 basis points upward shift	(384,829)
Decrease in discount rate	100 basis points downward shift	503,409

<u>31 December 2010</u>		<u>Impact on gross/net liabilities</u>
<u>Variable</u>	<u>Change in variable</u>	RM'000
Worsening of mortality/morbidity	+25%	89,591
Improvement in mortality/morbidity	-25%	(97,682)
Worsening of lapse and surrender rates	+25%	(15,582)
Improvement in lapse and surrender rates	-25%	18,096
Increase in discount rate	100 basis points upward shift	(368,152)
Decrease in discount rate	100 basis points downward shift	483,770

The impact on profit before tax and equity as at 31 December 2011 is Nil (2010: Nil) as the impact from the changes in the above assumption is retained within the insurance contract liabilities for contracts without DPF and the Company has the flexibility to adjust the policyholders' future bonus or dividends for contracts with DPF.

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**33 FINANCIAL RISKS**

The Company is exposed to a range of financial risks, including credit risk, liquidity risk and market risk.

Financial risks of investment-linked investment is not further provided and analysed as the financial risks in respect of investment-linked investments are generally wholly borne by the policyholders, and do not directly affect the profit before tax of the Company. Furthermore, investment-linked policyholders are responsible for allocation of the policy values amongst investment options offered by the Company. Although profit before tax is not affected by investment-linked investments, the investment return from such financial investments is included in the Company's statement of income, as the Company has selected the fair value option for all investment-linked investments with corresponding change in insurance contract liabilities for investment-linked contracts.

**Credit Risk**

The Company is exposed to credit risk through investments in cash, money market and debt instruments, lending activities and exposure to counterparty's credit in reinsurance contracts.

For all three types of exposures, financial loss may materialise as a result of default by the borrower or counterparty. For investments in cash, money market and debt instruments, financial loss may also materialise as a result of a default by the issuer on coupon payment or even the principal amount that causes a widening of credit spread or a downgrade of credit rating. The Company has internal limits by issuer or counterparty and by investment grades. These limits are actively monitored to manage the credit and concentration risk. These limits are reviewed on a regular basis by the management.

The creditworthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

The Company manages its lending activities by extending loans against collateral pledged to the Company. Regular monitoring and review of the payments of loans are performed by the Company to identify any non-performing loans. Any non-performing loan identified is communicated to the management. Appropriate actions will be taken for the possible course of recovery and provision of these loans.

There were no significant changes to the credit risk management of the Company.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 33 FINANCIAL RISKS (CONTINUED)

Credit Risk (continued)

**Credit exposure by credit rating**

The table below provides information regarding the credit risk exposure of the Company by classifying financial assets in accordance with the Company's credit ratings of counterparties:

	Neither past due nor impaired				Past due and partial impaired	Total
	Investment grade (AAA to A-)	Investment grade (BBB+ to BB+)	Investment grade (BB and below)	Not rated	Not rated	
<u>31 December 2011</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
AFS financial assets						
Equity securities	-	-	-	833,066	101,861	934,927
Debt securities	1,389,622	-	-	577,889	-	1,967,511
HFT financial assets						
Equity securities	-	-	-	570,925	-	570,925
Debt securities	64,006	4,749	-	-	-	68,755
HTM financial assets						
Debt securities	409,741	-	-	314,152	-	723,893
Loans and receivables						
Loans	-	-	-	529,200	-	529,200
Fixed and call deposits	20,000	-	-	-	-	20,000
Insurance receivables	-	-	-	14,718	3,320	18,038
Other receivables	-	-	-	10,455	-	10,455
Cash and cash equivalents	365,971	-	-	-	-	365,971
	<u>2,249,340</u>	<u>4,749</u>	<u>-</u>	<u>2,850,405</u>	<u>105,181</u>	<u>5,209,675</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

**Credit Risk (continued)**

	Neither past due nor impaired			Past due and partial impaired		Total RM'000
	Investment grade (AAA to A-) RM'000	Investment grade (BBB+ to BB+) RM'000	Investment grade (BB and below) RM'000	Not rated RM'000	Not rated RM'000	
<u>31 December 2010</u>						
AFS financial assets						
Equity securities	-	-	-	846,463	113,533	959,996
Debt securities	1,153,671	-	-	290,378	-	1,444,049
HFT financial assets						
Equity securities	-	-	-	633,082	-	633,082
Debt securities	54,037	4,641	-	-	-	58,678
HTM financial assets						
Debt securities	500,089	20,193	-	263,136	-	783,418
Loans and receivables						
Loans	-	-	-	536,639	-	536,639
Fixed and call deposits	46,300	-	-	-	-	46,300
Insurance receivables	-	-	-	15,988	2,169	18,157
Other receivables	-	-	-	10,847	-	10,847
Cash and cash equivalents	293,024	-	-	-	-	293,024
	<u>2,047,121</u>	<u>24,834</u>	<u>-</u>	<u>2,596,533</u>	<u>115,702</u>	<u>4,784,190</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

33 **FINANCIAL RISKS (CONTINUED)**

Credit Risk (continued)

The financial assets are classified according to the credit rating by rating agencies approved by BNM.

The financial assets which are not rated mainly comprise Malaysian Government securities, companies listed on Bursa Malaysia Stock Exchange and loans. The companies were not rated as the issuer did not obtain any credit rating from the respective rating agencies. Such issues although not rated are issued by companies which have sound financial and high creditworthiness. The creditworthiness is monitored on any downgrade news related to any investment in the debt portfolio.

The Company's loans receivable include policy loans, mortgage loans and other secured loans to staff and policyholders. Policy loans and mortgage loans are generally secured by collateral. The amount of loan is based on the valuation of collateral as well as an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of the types of collateral and the valuation parameters. The type of collaterals, held by the Company as lender, for which it is entitled to in the event of default is as follows:

	<u>Type of collaterals</u>	Carrying value <u>2011</u> RM'000	Carrying value <u>2010</u> RM'000
Policy loans	Cash surrender value	527,188	534,214
Mortgage loans	Properties	1,645	1,896
Secured loans	Computers	367	524
Unsecured loans	Nil	-	5
		<u>529,200</u>	<u>536,639</u>

As at 31 December 2011, the impairment provision of impaired insurance receivables of RM3.3 million is RM0.6 million (2010: RM0.9 million) and impaired AFS financial assets of RM101.9 million is RM30.1 million (2010: RM30.4 million). Impairment of insurance receivables is performed based on a collective assessment. No collateral is held as security for any impaired assets. The AFS financial assets that is subject to impairment is rigorously assessed as explained under Note 2.2(g)(ii) to the financial statements. The Company records impairment loss for both insurance receivables and AFS financial assets in separate provision accounts. A reconciliation of the allowance for impairment losses for insurance receivables and AFS financial assets is as follows:

	<u>Insurance receivables</u>		<u>AFS financial assets</u>	
	<u>2011</u> RM'000	<u>2010</u> RM'000	<u>2011</u> RM'000	<u>2010</u> RM'000
At 1 January	862	349	30,414	29,974
Increase/(decrease) during the financial year	(274)	513	(338)	440
At 31 December	<u>588</u>	<u>862</u>	<u>30,076</u>	<u>30,414</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

33 **FINANCIAL RISKS (CONTINUED)**

**Liquidity Risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. 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 liquidity demands of the Company are met through ongoing operations which includes continuous premium income and investment income. The expected liquidity needs are often met through projection of outflows from the in-force insurance policy contract liabilities; the liabilities include renewal commissions, claims and other benefits (maturity and surrender). While the nature of these outflows is deemed to be largely stable and can be assumed at outset, the Company remains susceptible to exceptional experiences (surrender or catastrophic events) for its insurance portfolio. Also, the Company may be subject to unexpected liquidity tightening due to adverse implications from the wider economic factors (domestic or global) or undue volatilities and unexpected losses experienced within investments.

Liquidity risk is reduced by having insurance contract liabilities that are well diversified by product and policyholder. The Company designs insurance products to encourage policyholders to maintain their policies-in-force, thereby generating a diversified and stable flow of recurring premium income.

The Company adopts prudent liquidity risk management by monitoring daily liquidity and cash movements to ensure liquidity is available and cash is employed optimally. The Company has cash and cash equivalents of RM366.0 million as at 31 December 2011 to meet its liquidity requirements.

Demands for funds can usually be met through ongoing normal operations, premiums received, sale of assets or borrowings. Unexpected demands for liquidity may be triggered by negative publicity, deterioration of the economy, reports of problems in other companies in the same or similar lines of business, unanticipated policy claims, or other unexpected cash demands from policyholders. Expected liquidity demands are managed through a combination of treasury, investment and capital management practices, which are monitored on an ongoing basis. Actual and projected cash inflows and outflows are monitored and a reasonable amount of assets are kept in liquid instruments at all times. The projected cash flows from the in-force insurance policy contract liabilities consist of renewal premiums, commissions, claims, maturities and surrenders. Renewal premiums, commissions, claims and maturities are generally stable and predictable. Surrenders can be more uncertain although it has been quite stable over the past several years. Unexpected liquidity demands are managed through a combination of product design, diversification limits, investment strategies and systematic monitoring. The existence of surrender penalty in insurance contracts also protects the Company from losses due to unexpected surrender trends as well as reduces the sensitivity of surrenders to changes in interest rates.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

Liquidity Risk (continued)

**Maturity profiles of financial assets**

The table below summarises the maturity profile of the financial assets of the Company:

	Up to 1 <u>year</u> RM'000	1 – 5 <u>year</u> RM'000	Over 5 <u>year</u> RM'000	No maturity <u>date</u> RM'000	<u>Total</u> RM'000
<u>31 December 2011</u>					
AFS financial assets	70,505	501,779	1,395,227	934,927	2,902,438
HFT financial assets	-	38,031	30,724	570,925	639,680
HTM financial assets	34,322	216,638	472,933	-	723,893
Loans and receivables	20,000	-	-	529,200	549,200
Insurance receivables	18,038	-	-	-	18,038
Other receivables	10,455	-	-	-	10,455
Cash and cash equivalents	365,971	-	-	-	365,971
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	519,291	756,448	1,898,884	2,035,052	5,209,675
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>31 December 2010</u>					
AFS financial assets	65,743	341,107	1,037,431	959,764	2,404,045
HFT financial assets	6,713	22,050	30,067	632,930	691,760
HTM financial assets	79,612	200,373	503,433	-	783,418
Loans and receivables	37,301	20,000	-	525,638	582,939
Insurance receivables	18,157	-	-	-	18,157
Other receivables	10,847	-	-	-	10,847
Cash and cash equivalents	293,024	-	-	-	293,024
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	511,397	583,530	1,570,931	2,118,332	4,784,190
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

33 **FINANCIAL RISKS (CONTINUED)**

Liquidity Risk (continued)

**Maturity profiles of financial liabilities**

The table below summarises the maturity profile of the financial liabilities of the Company:

	Up to 1 <u>year</u> RM'000	1 – 5 <u>year</u> RM'000	Over 5 <u>year</u> RM'000	<u>Total</u> RM'000
<u>31 December 2011</u>				
Insurance contract liabilities*:				
Without DPF	172,456	54,414	327,516	554,386
With DPF	11,711	276,089	3,710,935	3,998,736
Insurance payables	195,233	-	-	195,233
Other financial liabilities	3,088	-	-	3,088
Other payables	16,435	-	-	16,435
	<u>398,923</u>	<u>330,503</u>	<u>4,038,451</u>	<u>4,767,878</u>
<u>31 December 2010</u>				
Insurance contract liabilities*:				
Without DPF	202,974	46,813	227,516	477,303
With DPF	7,240	155,909	3,549,913	3,713,062
Insurance payables	164,764	-	-	164,764
Other financial liabilities	2,674	-	-	2,674
Other payables	19,128	-	-	19,128
	<u>396,780</u>	<u>202,722</u>	<u>3,777,429</u>	<u>4,376,931</u>

\* Excluding AFS reserve and asset revaluation reserve

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

Unit-linked liabilities are repayable or transferable on demand and are included in the "up to 1 year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

33 **FINANCIAL RISKS (CONTINUED)**

Market Risk

(i) **Currency Risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's primary transactions are carried out in Ringgit Malaysia (RM). The Company is exposed to foreign exchange risk primarily from transactions denominated in foreign currencies such as Singapore Dollar ("SGD") and others pertaining to investment activities. The management manages foreign currency risk by setting limits and monitoring the exposure to foreign currency on a regular basis.

As the Company's business is conducted primarily in Malaysia, the Company's financial assets are also primarily maintained in Malaysia as required under the Insurance Act, 1996, and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. Thus, the main foreign exchange risk from recognised assets and liabilities arises from transactions other than those in which insurance contract liabilities are expected to be settled.

Currency risk arising from investments in foreign currency instruments is generally not hedged as the Company's exposure is minimal.

The analysis below summarises the currency exposure of the Company.

<u>31 December 2011</u>	<u>'000</u>			
<b>Financial assets</b>	<u>SGD</u>	<u>RM</u>	<u>Others</u>	<u>Total</u>
AFS financial assets	12,194	2,890,244	-	2,902,438
HFT financial assets	-	483,441	156,239	639,680
HTM financial assets	-	723,893	-	723,893
Loans and receivables	-	549,200	-	549,200
Insurance receivables	-	18,038	-	18,038
Other receivables	-	10,455	-	10,455
Cash and cash equivalents	-	365,971	-	365,971
	<u>12,194</u>	<u>5,041,242</u>	<u>156,239</u>	<u>5,209,675</u>
<b>Financial liabilities</b>				
Insurance contract liabilities*:				
Without DPF	-	554,386	-	554,386
With DPF	-	3,998,736	-	3,998,736
Insurance payables	-	195,233	-	195,233
Other financial liabilities	-	3,088	-	3,088
Other payables	-	16,435	-	16,435
	<u>-</u>	<u>4,767,878</u>	<u>-</u>	<u>4,767,878</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

Market Risk

(i) Currency Risk (continued)

<u>31 December 2010</u>	<u>'000</u>			
	<u>SGD</u>	<u>RM</u>	<u>Others</u>	<u>Total</u>
<b>Financial assets</b>				
AFS financial assets	17,484	2,386,561	-	2,404,045
HFT financial assets	-	522,771	168,989	691,760
HTM financial assets	-	783,418	-	783,418
Loans and receivables	-	582,939	-	582,939
Insurance receivables	-	18,157	-	18,157
Other receivables	-	10,847	-	10,847
Cash and cash equivalents	-	293,024	-	293,024
	<u>17,484</u>	<u>4,597,717</u>	<u>168,989</u>	<u>4,784,190</u>
<b>Financial liabilities</b>				
Insurance contract liabilities*:				
Without DPF	-	477,303	-	477,303
With DPF	-	3,713,062	-	3,713,062
Insurance payables	-	164,764	-	164,764
Other financial liabilities	-	2,674	-	2,674
Other payables	-	19,128	-	19,128
	<u>-</u>	<u>4,376,931</u>	<u>-</u>	<u>4,376,931</u>

\* Excluding AFS reserve and asset revaluation reserve

The potential impacts arising from currency risk are deemed insignificant. Accordingly, no sensitivity analysis is being disclosed.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

33 FINANCIAL RISKS (CONTINUED)

Market Risk (continued)

(ii) Interest Rate/Profit Yield 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 rate/profit yield.

A study of movement in risk-free rate is undertaken for the market. A 40 (2010: 100) basis point movement in the interest rate market is considered to be reasonable basis for interest rate sensitivity analysis. Investments in debt securities held-to-maturity are excluded as these are accounted for at amortised cost, and their carrying amounts are not sensitive to changes in the level of interest rates.

For investment-linked funds, the risk exposure to the Company is limited only to the underwriting aspect as all investment risks are borne by the policyholders.

The analysis below summarises the Company's sensitivity analysis.

	Increase/ (decrease) in insurance contract <u>liabilities</u> RM'000	Increase/ (decrease) in profit <u>before tax</u> RM'000	Increase/ (decrease) <u>in equity</u> RM'000
31 December 2011			
<u>Change in variables</u>			
+ 40 basis points	(3,782)	(61)	(473)
- 40 basis points	558	60	(289)
	<u>                    </u>	<u>                    </u>	<u>                    </u>
31 December 2010			
<u>Change in variables</u>			
+ 100 basis points	(2,677)	(139)	(214)
- 100 basis points	6,149	139	214
	<u>                    </u>	<u>                    </u>	<u>                    </u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

33 FINANCIAL RISKS (CONTINUED)

Market Risk (continued)

(iii) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

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

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year, and has no significant concentration of price risk.

The analysis below summarises the Company's price risk analysis.

<u>Market indices</u>		Increase/ (decrease) in insurance contract liabilities RM'000	Increase/ (decrease) in profit before tax RM'000	Increase/ (decrease) in equity RM'000
<u>31 December 2011</u>				
Bursa Malaysia	+10%	83,831	64,958	-
Bursa Malaysia	-10%	(83,831)	(64,958)	-
<u>31 December 2010</u>				
Bursa Malaysia	+30%	256,311	204,020	-
Bursa Malaysia	-30%	(256,311)	(206,447)	-

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## TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 34 INSURANCE FUNDS

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund ("SHF") in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996. The Company's statement of financial position and statement of income have been further analysed by funds which includes Life Fund, Investment-linked Fund ("ILF") and the SHF. The Life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Unit-linked products.

Statement of Financial Position by Funds as at 31 December 2011

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Investment-linked Fund</u>		<u>Inter-fund Elimination</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>ASSETS</b>										
Property, plant and equipment	-	-	48,749	49,271	-	-	-	-	48,749	49,271
Investment properties	-	-	191,863	190,113	-	-	-	-	191,863	190,113
Intangible assets	14,000	18,000	29,649	37,461	-	-	-	-	43,649	55,461
Financial investments										
AFS financial assets	148,936	123,470	2,753,502	2,280,575	-	-	-	-	2,902,438	2,404,045
HFT financial assets	2,088	-	526,896	540,574	110,696	151,186	-	-	639,680	691,760
HTM financial assets	7,060	22,682	716,833	760,736	-	-	-	-	723,893	783,418
Loans and receivables	2,000	2,005	547,200	580,934	-	-	-	-	549,200	582,939
Tax recoverable	1,485	-	899	-	-	-	-	-	2,384	-
Insurance receivables	-	-	18,038	18,157	-	-	-	-	18,038	18,157
Other receivables	11,637	8,594	1,763	14,504	1,306	1,354	(4,550)	(9,508)	10,455	14,944
Cash and bank balances	6,836	7,396	355,478	283,733	3,657	1,895	-	-	365,971	293,024
<b>TOTAL ASSETS</b>	<b>194,042</b>	<b>182,147</b>	<b>5,190,870</b>	<b>4,756,058</b>	<b>115,659</b>	<b>154,435</b>	<b>(4,550)</b>	<b>(9,508)</b>	<b>5,496,320</b>	<b>5,083,132</b>

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## TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 34 INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds as at 31 December 2011 (continued)

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Investment-linked Fund</u>		<u>Inter-fund Elimination</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES</b>										
Share capital	100,000	100,000	-	-	-	-	-	-	100,000	100,000
Retained earnings	85,053	74,249	-	-	-	-	-	-	85,053	74,249
AFS reserve	5,390	4,697	-	-	-	-	-	-	5,390	4,697
<b>TOTAL EQUITY</b>	<b>190,443</b>	<b>178,946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>190,443</b>	<b>178,946</b>
Insurance contract liabilities	-	-	4,897,360	4,482,747	114,079	152,795	-	-	5,011,439	4,635,542
Insurance payables	-	-	195,233	164,764	-	-	-	-	195,233	164,764
Other financial liabilities	1,561	-	5,562	12,182	216	-	(4,550)	(9,508)	3,088	2,674
Other payables	-	-	16,435	19,128	-	-	-	-	16,435	19,128
Provision for staff retirement benefits	-	-	360	338	-	-	-	-	360	338
Agency long association benefit	-	-	23,571	22,053	-	-	-	-	23,571	22,053
Current tax liabilities	-	1,761	-	1,603	455	388	-	-	455	3,752
Deferred tax liabilities	2,038	1,440	52,349	53,243	909	1,252	-	-	55,296	55,935
<b>TOTAL POLICYHOLDERS' FUNDS AND LIABILITIES</b>	<b>3,599</b>	<b>3,201</b>	<b>5,190,870</b>	<b>4,756,058</b>	<b>115,659</b>	<b>154,435</b>	<b>(4,550)</b>	<b>(9,508)</b>	<b>5,305,877</b>	<b>4,904,186</b>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

34 **INSURANCE FUNDS (CONTINUED)**

Statement of Financial Position by Funds as at 31 December 2011 (continued)

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Investment-linked Fund</u>		<u>Inter-fund Elimination</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES	194,042	182,147	5,190,870	4,756,058	115,659	154,435	(4,550)	(9,508)	5,496,320	5,083,132

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## TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 34 INSURANCE FUNDS (CONTINUED)

Statement of Income by Funds for the Financial Year Ended 31 December 2011

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Investment-linked Fund</u>		<u>Inter-fund Elimination</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	6,695	6,355	1,001,351	894,245	2,161	2,389	-	-	1,010,207	902,989
Gross earned premiums	-	-	789,185	700,721	-	-	-	-	789,185	700,721
Premiums ceded to reinsurers	-	-	(37,404)	(32,302)	-	-	-	-	(37,404)	(32,302)
Net earned premiums	-	-	751,781	668,419	-	-	-	-	751,781	668,419
Investment income	6,695	6,355	212,166	193,524	2,161	2,389	-	-	221,022	202,268
Realised gains and losses	151	3,500	12,194	16,339	-	-	-	-	12,345	19,839
Fair value gains and losses	(4)	-	(27,081)	77,201	(660)	13,731	-	-	(27,745)	90,932
Fee and commission income	-	-	1,910	796	-	-	-	-	1,910	796
Other revenue	6,842	9,855	199,189	287,860	1,501	16,120	-	-	207,532	313,835

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## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

## 34 INSURANCE FUNDS (CONTINUED)

Statement of Income by Funds for the Financial Year Ended 31 December 2011

	<u>Shareholders' Fund</u>		<u>Life Fund</u>		<u>Investment-linked Fund</u>		<u>Inter-fund Elimination</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross benefits and claims paid	-	-	(423,976)	(358,540)	-	-	-	-	(423,976)	(358,540)
Claims ceded to reinsurers	-	-	22,295	17,818	-	-	-	-	22,295	17,818
Gross/net change to insurance contract liabilities	-	-	(357,686)	(466,778)	-	-	-	-	(357,686)	(466,778)
Net claims	-	-	(759,367)	(807,500)	-	-	-	-	(759,367)	(807,500)
Commission and agency expenses	-	-	(89,127)	(74,348)	-	-	-	-	(89,127)	(74,348)
Management expenses	(4,015)	(2,013)	(77,785)	(52,649)	(1,001)	(1,103)	-	-	(82,801)	(55,765)
Other operating expenses - net	-	-	(68)	(184)	(248)	5	-	-	(316)	(179)
Other expenses	(4,015)	(2,013)	(166,980)	(127,181)	(1,249)	(1,098)	-	-	(172,244)	(130,292)
Inter-fund transfer:										
From Life Fund to SHF	11,614	11,240	(11,614)	(11,240)	-	-	-	-	-	-
From ILF to Life Fund	-	-	231	13,796	(231)	(13,796)	-	-	-	-
Profit before taxation	14,441	19,082	13,240	24,154	21	1,226	-	-	27,702	44,462
Taxation	(3,637)	(4,080)	(13,240)	(24,154)	(21)	(1,226)	-	-	(16,898)	(29,460)
Net profit for the financial year	10,804	15,002	-	-	-	-	-	-	10,804	15,002

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**TOKIO MARINE LIFE INSURANCE MALAYSIA BHD.**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)**

**35 INVESTMENT-LINKED FUND**

The statement of financial position and statement of income of investment-linked fund represent the assets, liabilities and net asset values of Asia Jade Fund (“AJF”), Asia Orient Fund (“AOF”), AsiaPartner Enterprise Fund (“APEF”) and AsiaPartner Bond Fund (“APBF”). The statement of financial position of the investment-linked fund is represented by:

	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>UNITHOLDERS' LIABILITIES</b>		
At the beginning of the financial year	152,795	152,839
Net creation of units	24,387	24,370
Net cancellation of units	(21,787)	(38,213)
Maturity of Asia Trimax Fund	(41,547)	-
Net surplus for the financial year after taxation	231	13,799
	<hr/>	<hr/>
At the end of the financial year (Note 11)	<u>114,079</u>	<u>152,795</u>

The statement of financial position has been adjusted for the following assets, liabilities and net asset value of AsiaPartner Managed Fund (“APMF”) which have been eliminated as APMF invested mainly in APEF and APBF during the financial year:

	<u>2011</u> RM'000	<u>2010</u> RM'000
<b>ASSETS</b>		
Investments in other linked funds of insurer	13,002	12,976
Cash and cash equivalents	1	1
	<hr/>	<hr/>
	<u>13,003</u>	<u>12,977</u>
<b>LIABILITIES</b>		
Other payables	-	-
	<hr/>	<hr/>
<b>NET ASSET VALUE OF APMF</b>	<u>13,003</u>	<u>12,977</u>

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

35 INVESTMENT-LINKED FUND (CONTINUED)

The statement of income of investment-linked fund in Note 34 to the financial statements has been adjusted for the following income and expenditure of APMF which have been eliminated as APMF invested mainly in APEF and APBF during the financial year:

	<u>2011</u> RM'000	<u>2010</u> RM'000
Net asset value of APMF at the beginning of the financial year	12,977	14,625
Net creation of units – included in gross earned premiums	2,491	2,011
Net cancellation of units – included in gross benefits paid	(2,757)	(5,891)
	<u>12,711</u>	<u>10,745</u>
Realised gains on investments	399	1,219
Fair value (loss)/gain on investments	(104)	1,016
Management expenses:		
Auditors' remuneration	(3)	(3)
Others	-	-
	<u>292</u>	<u>2,232</u>
Net profit for the financial year	292	2,232
Net asset value of APMF at the end of the financial year	<u><u>13,003</u></u>	<u><u>12,977</u></u>