Company No.

457556	X

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

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2012

0602A3/lh

Company No.

457556	X

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

CONTENTS

Company No.

457556	X

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 2012.

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	53,663

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 2012.

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.

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.

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
Shingo Toda

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 two 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 Yip Jian Lee and Tan Sri Dato' Dr Yahya Bin Awang at the 2013 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.

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
Shingo Toda

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 one meeting during the financial year which was attended by all members.

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 Tokio Marine group of companies;

(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.

RISK MANAGEMENT AND COMPLIANCE COMMITTEE

Membership

Yeoh Chong Keng (Chairman)
Yip Jian Lee
Tan Sri Dato' Dr Yahya Bin Awang
Lee King Chi Arthur
Shingo Toda

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 all members.

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

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
Shingo Toda

In accordance with Article 95 of the Company's Articles of Association, Yip Jian Lee and Tan Sri Dato' Dr Yahya Bin Awang retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-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:

	Number of ordinary shares			
	At 1.1.2012	Acquired	Disposed	At 31.12.2012
Asia General Holdings Ltd.				
Lee King Chi Arthur *	1	-	-	1
Shingo Toda *	1	-	-	1
Tokio Marine Life Insurance Singapore Ltd.				
Lee King Chi Arthur **	-	1	-	1
Shingo Toda **	-	1	-	1

* As nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd.
** As nominee of Asia General Holdings 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.

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 25 March 2013.

YEOH CHONG KENG DIRECTOR	YIP JIAN LEE DIRECTOR

Company No.

457556	X

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

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 96 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of its financial performance and cash flows for the financial year ended on that date in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 25 March 2013.

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 96 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 25 March 2013, 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 2012, 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 96.

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 Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965, in Malaysia 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.

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

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 give a true and fair view of the financial position of the Company as of 31 December 2012 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

As stated in Note 2.1 to the financial statements, Tokio Marine Life Insurance Malaysia Berhad adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statement of income, comprehensive income, changes in equity and cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.

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

SHIRLEY GOH
(No. 1778/08/14 (J))
Chartered Accountant

25 March 2013
Kuala Lumpur

Company No.

457556	X

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Property, plant and equipment	3	57,777	48,749	49,271
Investment properties	4	211,757	191,863	190,113
Intangible assets	5	31,714	43,649	55,461
Financial investments				
Available-for-sale financial assets	6a	3,590,186	2,902,438	2,404,045
Fair value through profit or loss financial assets	6b	676,121	639,680	691,760
Held-to-maturity financial assets	6c	653,418	723,893	783,418
Loans and receivables	6d	638,180	549,200	582,939
Tax recoverable		2,871	1,929	-
Insurance receivables	7	31,101	18,038	18,157
Financial receivables	8	5,121	4,553	10,847
Other assets	9	4,298	5,902	4,097
Cash and cash equivalents		289,992	365,971	293,024
TOTAL ASSETS		6,192,536	5,495,865	5,083,132
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES				
Share capital	10	100,000	100,000	100,000
Retained earnings	11	217,246	163,583	143,660
Available-for-sale reserve		14,430	12,158	7,838
Asset revaluation reserve		1,827	1,287	1,287
TOTAL EQUITY		333,503	277,028	252,785
Insurance contract liabilities	12	5,443,631	4,908,770	4,547,488
Insurance payables	13	272,506	195,233	164,764
Other financial liabilities	14	4,312	3,088	2,674
Other payables	15	23,355	16,795	19,466
Provision for agency long association benefits	16	24,004	23,571	22,053
Current tax liabilities		-	-	3,752
Deferred tax liabilities	17	91,225	71,380	70,150
TOTAL LIABILITIES		5,859,033	5,218,837	4,830,347
TOTAL EQUITY AND LIABILITIES		6,192,536	5,495,865	5,083,132

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

Company No.

457556	X

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

STATEMENT OF INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Gross earned premium revenue		772,959	789,185
Premiums ceded to reinsurers		(44,511)	(37,404)
Net earned revenue		728,448	751,781
Investment income	18	246,442	221,022
Net realised gains	19	16,706	12,345
Net fair value gains/(losses)	20	94,292	(27,745)
Fee and commission income	21	1,256	932
Other income		358,696	206,554
Gross benefits and claims paid		(412,422)	(423,976)
Claims ceded to reinsurers		25,587	22,295
Gross/net change to insurance contract liabilities		(428,261)	(346,699)
Net insurance benefit and claims		(815,096)	(748,380)
Commission and agency expenses		(88,512)	(89,127)
Management expenses	23	(92,365)	(81,823)
Other operating expenses – net	22	(79)	(316)
Other expenses		(180,956)	(171,266)
Profit before taxation		91,092	38,689
Taxation	24	(37,429)	(18,766)
Net profit for the financial year		53,663	19,923
Basic earnings per share (sen)	25	53.66	19.92

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

Company No.

457556	X

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Net profit for the financial year		53,663	19,923
Other comprehensive income:			
Fair value change on available-for-sale financial assets:			
Net unrealised gain arising during the financial year		122,436	28,493
Net realised gain transferred to statement of income		(16,706)	(12,345)
Tax effects thereon		(7,929)	(2,316)
Fair value gains, net of tax		97,801	13,832
Change in insurance contract liabilities arising from net fair value gains	12	(95,529)	(9,512)
		2,272	4,320
Asset revaluation reserve:			
Gross asset revaluation surplus	3	8,195	-
Tax effects thereon		(655)	-
Asset revaluation surplus, net of tax		7,540	-
Change in insurance contract liabilities arising from net asset revaluation surplus	12	(7,000)	-
Net asset revaluation surplus		540	-
Total other comprehensive income		2,812	4,320
Total comprehensive income for the financial year		56,475	24,243

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

Company No.

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	Issued and fully paid ordinary shares of RM1 each					
	Number of shares	Nominal value	Available for sale reserve	Asset revaluation reserve	Retained earnings	Total
	'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance at 1 January 2011	100,000	100,000	7,838	1,287	143,660	252,785
Total comprehensive income for the financial year	-	-	4,320	-	19,923	24,243
Balance at 31 December 2011	100,000	100,000	12,158	1,287	163,583	277,028
Total comprehensive income for the financial year	-	-	2,272	540	53,663	56,475
Balance at 31 December 2012	100,000	100,000	14,430	1,827	217,246	333,503

Included in the retained earnings is surplus arising from insurance contracts classified as without discretionary in the Life Fund (net of deferred tax) of RM115.5 million (31 December 2011: RM78.5 million, 1 January 2011: RM69.4 million). These amounts are only distributable upon the actual recommended transfer from Life Fund to the Shareholders' Fund by the Appointed Actuary.

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

Company No.

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

	2012 RM'000	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the financial year	53,663	19,923
Adjustments:		
Investment income	(246,442)	(221,022)
Realised gains recorded in statement of income	(16,706)	(12,345)
Fair value (gains)/loss recorded in statement of income	(93,672)	28,083
Foreign exchange gains arising from disposal of financial assets	-	284
Depreciation of property, plant and equipment	2,862	3,096
Write-offs of property, plant and equipment	3	15
(Gain)/loss on disposal of property, plant and equipment	(4)	56
Amortisation of intangible assets	12,706	12,851
Write back of impairment loss of AFS financial assets	(620)	(338)
Write back of impairment of insurance receivables	-	(274)
Provision for agency long association benefits	3,419	3,457
Taxation	37,429	18,766
Changes in working capital:		
Proceeds from disposal of investment property	-	530
Purchases of financial assets	(956,276)	(899,875)
Proceeds from maturity or disposal of financial assets	511,121	520,825
(Increase)/decrease in fixed and call deposits	(84,000)	26,300
(Increase)/decrease in loans	(4,914)	7,191
(Increase)/decrease in insurance receivables	(13,063)	393
(Increase)/decrease in other receivables	(187)	3,269
Increase in insurance contract liabilities	432,333	351,770
Increase in other financial liabilities	1,224	414
Increase in insurance payables	77,273	30,469
Increase/(decrease) in other payables	6,560	(2,671)
Cash used in operating activities	(277,291)	(108,833)

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

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

	2012 RM'000	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)		
Dividend income received	51,679	46,534
Interest income received	177,970	161,082
Rental income received	5,733	4,205
Agency long association benefits paid	(2,986)	(1,939)
Income tax paid	(27,112)	(25,533)
Net cash (outflows)/inflows from operating activities	(72,007)	75,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	70	115
Purchase of property, plant and equipment	(3,271)	(1,645)
Purchase of intangible assets	(771)	(1,039)
Net cash outflows from investing activities	(3,972)	(2,569)
Net (decrease)/increase in cash and cash equivalents	(75,979)	72,947
Cash and cash equivalents at the beginning of the financial year	365,971	293,024
Cash and cash equivalents at the end of the financial year	289,992	365,971
Cash and cash equivalents comprise:		
Cash and bank balances	36,568	32,098
Fixed and call deposits with maturity of less than three months	253,424	333,873
	289,992	365,971

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

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 25 March 2013.

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 provisions of the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the provisions of the Companies Act, 1965.

The financial statements of the Company for the financial year ended 31 December 2012 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1, 'First-time Adoption of Malaysian Financial Reporting Standards'. Subject to certain transition elections and change in accounting policies disclosed in Note 36, the Company have consistently applied the same accounting policies in its opening MFRS statements of financial position at 1 January 2011 (the transition date) and throughout all financial years presented, as if these policies had always been in effect. Note 36 disclose the impact of the transition to MFRS on the Company's reported financial position, financial performance and cash flows.

Comparative figures for 2011 in these financial statements have been restated to give effect to these changes. Subsequent to the transition in the financial reporting framework to MFRS on 1 January 2012, the restated comparative information has not been audited. However, the comparative statements of financial position as at 31 December 2011, comparative statements of income, comprehensive income, changes in equity and cash flows for the financial year then ended prepared under the previous financial reporting framework, Financial Reporting Standards in Malaysia have been audited. The reconciliation of comparative figures of statements of financial position as at 31 December 2011 and statement of income for the financial year ended 31 December 2011 from audited FRS to MFRS are disclosed in Note 37.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of Preparation (continued)

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 MFRS 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(a) Property, plant and equipment (continued)

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.

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.

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.

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 HFT. 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.

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. 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.

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.

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.

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.

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

<u>Premiums</u>

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.

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.

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 of (i) provision for outstanding claims, (ii) actuarial liabilities, (iii) unallocated surplus, (iv) AFS fair value adjustment, (v) asset revaluation surplus adjustment 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 zerorisation.

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. Unallocated surpluses of the DPF where the amount of surplus allocation to either policyholders or shareholders has yet to be determined by the end of the financial year is held within insurance contract liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(m) Life insurance contract liabilities (continued)

(iv) AFS fair value adjustment

Where unrealised fair value gains and losses arise on AFS financial assets of the DPF fund, the adjustment to the life insurance contract liabilities equal to the effect that the realisation of those gains or losses at the end of the reporting period would have on those liabilities is recognised directly in other comprehensive income.

(v) Asset revaluation surplus adjustment

Where asset revaluation surplus arises on the self-occupied properties of the DPF fund, the adjustment to the life insurance contract liabilities equal to the effect that the realisation of those surpluses at the end of the reporting period would have on those liabilities is recognised directly in other comprehensive income.

The surpluses arising from the revaluation of the DPF'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 of 10% of the market value of the revalued property, whichever is lower.

(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.

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.

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.

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 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) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of Significant Accounting Policies (continued)

(t) Dividends

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

(u) Provisions

Provisions for agency long association benefits 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.

(v) 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.

(w) 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.

(X) Statement of cash flows

The Company classifies the cash flows for the purpose and disposal of investment in financial asset and investment properties in its operating cash flows as the purchase are funded from the cash flows associated with the origination of insurance contracts, net of the cash flows for payments of insurance and claims benefits.

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 cash flow 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 2012, based on the change in one specific assumption while holding all other assumptions constant as disclosed in the Note 32 to the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Standards, amendments to published standards and interpretations to existing standards that are applicable and relevant to the Company but not yet effective

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 2013

- 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.

- Amendment to MFRS 101, 'Presentation of Items of Other Comprehensive Income' (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' ('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 amendments do not address which items are presented in OCI.

- Amendment to MFRS 119, 'Employee benefits' (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment.

- Amendment to MFRS 7, 'Financial Instruments: Disclosures' (effective from 1 January 2013) requires more extensive disclosures focusing on quantitative information about recognized financial instruments that are offset in the statement of financial position and those that are subject to master netting or similar arrangements irrespective of whether they are offset

Financial year beginning on/after 1 January 2014

- Amendment to MFRS 132, 'Financial Instruments: Presentation' (effective from 1 January 2014) does not change the current offsetting model in MFRS 132. It clarifies the meaning of 'currently has a legally enforceable right of set-off' that the right of set-off must be available today (not contingent on a future event) and legally enforceable for all counterparties in the normal course of business. It clarifies that some gross settlement mechanisms with features that are effectively equivalent to net settlement will satisfy the MFRS 132 offsetting criteria.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial year beginning on/after 1 January 2015

- 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 recognise changes in the fair value due to changes in the liability's credit risk directly in 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.

  MFRS 7 requires disclosures on transition from MFRS 139 to MFRS 9.

The Company is reviewing the adoption of the above accounting standards, amendments to published standards and interpretation to existing standards and will complete the process prior to the reporting requirement deadline. Notwithstanding, the above standards, amendments to published standards and interpretations to existing standards are not anticipated to have any significant impact on the financial statements of the Company in the year of initial application.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

3 PROPERTY, PLANT AND EQUIPMENT

	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
Cost/Valuation									
At 1 January 2012	1,233	3,803	11,875	11,300	10,696	3,733	25,300	2,374	70,314
Additions	153	456	284	2,378	-	-	-	-	3,271
Disposals/write-offs	(111)	(29)	(7)	-	-	-	-	-	(147)
Reclassification from investment properties (Note 4)	-	-	-	-	1,114	-	1,997	-	3,111
Reclassification to investment properties (Note 4)	-	-	-	-	(422)	(1,716)	(479)	(270)	(2,887)
Elimination of accumulated depreciation arising from revaluation	-	-	-	-	-	(86)	(1,873)	(86)	(2,045)
Revaluation surplus for the financial year	-	-	-	-	4,075	1,326	2,457	337	8,195
At 31 December 2012	1,275	4,230	12,152	13,678	15,463	3,257	27,402	2,355	79,812
Cost	1,275	4,230	12,152	13,678	-	-	-	-	31,335
Valuation	-	-	-	-	15,463	3,257	27,402	2,355	48,477
At 31 December 2012	1,275	4,230	12,152	13,678	15,463	3,257	27,402	2,355	79,812

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
Accumulated depreciation									
At 1 January 2012	294	1,702	10,826	7,102	-	422	1,163	56	21,565
Charge for the financial year (Note 23)	108	367	411	1,304	-	15	627	30	2,862
Reclassification from investment properties (Note 4)	-	-	-	-	-	-	94	-	94
Reclassification to investment properties (Note 4)	-	-	-	-	-	(351)	(11)	-	(362)
Disposals/write-offs	(46)	(29)	(4)	-	-	-	-	-	(79)
Elimination of accumulated depreciation arising from revaluation	-	-	-	-	-	(86)	(1,873)	(86)	(2,045)
At 31 December 2012	356	2,040	11,233	8,406	-	-	-	-	22,035
Net book value									
At 31 December 2012	919	2,190	919	5,272	15,463	3,257	27,402	2,355	57,777

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
Cost/Valuation									
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	1,233	3,803	11,875	11,300	10,696	3,733	25,300	2,374	70,314
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	1,233	3,803	11,875	11,300	10,696	3,733	25,300	2,374	70,314

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
Accumulated depreciation									
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
Net book value									
At 31 December 2011	939	2,101	1,049	4,198	10,696	3,311	24,137	2,318	48,749

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
Cost/Valuation									
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 2012 (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
Accumulated depreciation									
At 1 January 2010	78	1,285	9,627	4,874	-	259	-	-	16,123
Charge for the financial year	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
Net book value									
At 31 December 2010	892	2,235	1,062	5,038	10,313	3,245	24,303	2,183	49,271

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:

	Freehold land RM'000	Leasehold land RM'000	Freehold buildings RM'000	Leasehold buildings RM'000	Total RM'000
At 31 December 2012	4,469	1,672	19,628	1,923	27,692
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 2013 by an independent professional valuer, Raine Horne International Zaki & Partners Sdn. Bhd., at open market value on an existing use basis.

4 INVESTMENT PROPERTIES

	2012 RM'000	2011 RM'000	2010 RM'000
At the beginning of the financial year	191,863	190,113	185,008
Disposals	-	(530)	(5,700)
Reclassification to property, plant and equipment (Note 3)	(3,017)	(1,300)	(5,957)
Reclassification from property, plant and equipment (Note 3)	2,525	185	810
Fair value changes for the financial year (Note 20)	20,386	3,395	15,952
At the end of the financial year	211,757	191,863	190,113

The investment properties stated at valuation were appraised in 2013 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:

	2012 RM'000	2011 RM'000	2010 RM'000
Rental income	11,091	9,912	10,404
Direct operating expenses	(5,301)	(5,539)	(5,662)

5 INTANGIBLE ASSETS

	Bancassurance fee RM'000	Computer software RM'000	Total RM'000
Net book value			
2012			
At 1 January 2012	42,280	1,369	43,649
Addition for the financial year	-	771	771
Amortisation charged to statement of income (Note 23)	(12,080)	(626)	(12,706)
At 31 December 2012	30,200	1,514	31,714
Cost	60,400	4,469	64,869
Accumulated amortisation	(30,200)	(2,955)	(33,155)
At 31 December 2012	30,200	1,514	31,714
2011			
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	42,280	1,369	43,649
Cost	60,400	3,698	64,098
Accumulated amortisation	(18,120)	(2,329)	(20,449)
At 31 December 2011	42,280	1,369	43,649
2010			
At 1 January 2010	-	1,232	1,232
Addition for the financial year	60,400	534	60,934
Amortisation charged to statement of income	(6,040)	(665)	(6,705)
At 31 December 2010	54,360	1,101	55,461
Cost	60,400	2,659	63,059
Accumulated amortisation	(6,040)	(1,558)	(7,598)
At 31 December 2010	54,360	1,101	55,461

6 FINANCIAL INVESTMENTS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Malaysian Government securities	457,485	457,208	351,882
Malaysian Government guaranteed bonds	641,979	458,629	288,980
Government Investment Issues	77,949	62,062	35,841
Corporate debt securities	2,059,226	1,776,239	1,609,442
Equity securities	1,342,126	1,295,945	1,298,078
Collective investment schemes	297,171	167,874	206,580
Structured investment products	37,659	37,654	78,184
Investment linked funds	6,130	10,400	10,236
Loans	534,180	529,200	536,639
Fixed and call deposits	104,000	20,000	46,300
	5,557,905	4,815,211	4,462,162

The Company's financial investments are summarised by the following categories:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
AFS financial assets	3,590,186	2,902,438	2,404,045
FVTPL - HFT financial assets	676,121	639,680	691,760
HTM financial assets	653,418	723,893	783,418
Loans and receivables	638,180	549,200	582,939
	5,557,905	4,815,211	4,462,162

6a AFS FINANCIAL ASSETS

At fair value:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Malaysian Government securities	223,399	223,296	137,208
Malaysian Government guaranteed bonds	523,110	368,518	191,647
Government Investment Issues	67,804	51,911	10,361
Corporate debt securities	1,704,445	1,317,765	1,104,833
Equity securities	955,785	919,701	912,424
Collective investment schemes	109,682	10,847	37,336
Investment-linked funds	5,961	10,400	10,236
	3,590,186	2,902,438	2,404,045
Current	190,794	70,505	65,743
Non-current	3,399,392	2,831,933	2,338,302
	3,590,186	2,902,438	2,404,045

6 FINANCIAL INVESTMENTS (CONTINUED)

6b FVTPL - HFT FINANCIAL ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At fair value:			
Corporate debt securities	64,463	68,755	58,678
Equity securities	386,341	376,244	385,654
Collective investment schemes	187,489	157,027	169,244
Structured investment products	37,659	37,654	78,184
Investment-linked funds	169	0	0
	676,121	639,680	691,760
Current	43,693	-	6,713
Non-current	632,428	639,680	685,047
	676,121	639,680	691,760

6c HTM FINANCIAL ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At amortised cost:			
Malaysian Government securities	234,086	233,912	214,674
Malaysian Government guaranteed bonds	118,869	90,111	97,333
Government Investment Issues	10,145	10,151	25,480
Corporate debt securities	290,318	389,719	445,931
	653,418	723,893	783,418
Current	40,376	34,322	79,612
Non-current	613,042	689,571	703,806
	653,418	723,893	783,418
At fair value:			
Malaysian Government securities	250,785	245,941	221,176
Malaysian Government guaranteed bonds	124,553	93,003	99,346
Government Investment Issues	10,404	10,481	25,973
Corporate debt securities	303,608	405,573	462,775
	689,350	758,998	809,270

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.

6 FINANCIAL INVESTMENTS (CONTINUED)

6d LOANS AND RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At amortised cost:			
Secured:			
Policy loans	532,116	527,188	534,214
Mortgage loans	1,318	1,645	1,896
Other loans	746	367	524
Unsecured loans	-	-	5
Fixed and call deposits	104,000	20,000	46,300
	638,180	549,200	582,939

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Current	104,000	20,000	37,301
Non-current	534,180	529,200	545,638
	638,180	549,200	582,939

6 FINANCIAL INVESTMENTS (CONTINUED)

6e MOVEMENTS IN THE CARRYING VALUES OF FINANCIAL INSTRUMENTS

	AFS RM'000	FVTPL RM'000	HTM RM'000	LAR RM'000	Total RM'000
At 1 January 2011	2,404,045	691,760	783,418	582,939	4,462,162
Purchases	724,775	109,832	65,268	-	899,875
Maturities	(196,517)	(1,000)	(70,000)	-	(267,517)
Disposals	(67,905)	(127,840)	(57,563)	-	(253,308)
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)	1,267	-	(31,478)
Other comprehensive income	28,493	-	-	-	28,493
Foreign exchange gains/(loss)	26	(310)	-	-	(284)
Movement in impairment allowance (Note 20)	338	-	-	-	338
Amortisation adjustment	5,547	-	3,710	-	9,257
At 31 December 2011	2,902,438	639,680	723,893	549,200	4,815,211
Purchases	861,338	64,671	30,267	-	956,276
Maturities	(159,664)	-	(25,000)	-	(184,664)
Disposals	(148,677)	(93,099)	(84,681)	-	(326,457)
Decrease in loans	-	-	-	4,914	4,914
Decrease in fixed and call deposits	-	-	-	84,000	84,000
Movement of investment income accrued	7,885	(68)	237	66	8,120
Fair value gains recorded in:					
Statement of income (Note 20)	-	64,937	8,349	-	73,286
Other comprehensive income	122,436	-	-	-	122,436
Movement in impairment allowance (Note 20)	620	-	-	-	620
Amortisation adjustment	3,810	-	353	-	4,163
At 31 December 2012	3,590,186	676,121	653,418	638,180	5,557,905

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:

	AFS RM'000	FVTPL - HFT RM'000	Total RM'000
31 December 2012			
Level 1	1,065,967	574,000	1,639,967
Level 2	2,518,758	102,121	2,620,879
Level 3	5,461	-	5,461
	3,590,186	676,121	4,266,307
31 December 2011			
Level 1	936,296	533,319	1,469,615
Level 2	1,961,490	106,361	2,067,851
Level 3	4,652	-	4,652
	2,902,438	639,680	3,542,118
1 January 2011			
Level 1	935,090	554,746	1,489,836
Level 2	1,464,970	137,014	1,601,984
Level 3	3,985	-	3,985
	2,404,045	691,760	3,095,805

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.

6 FINANCIAL INVESTMENTS (CONTINUED)

6f FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the changes in Level 3 instruments:

	AFS		
	2012	2011	2010
	RM'000	RM'000	RM'000
At the beginning of the financial year	4,652	3,985	2,246
Fair value gains and (losses) recognised in			
- other comprehensive income	809	667	1,869
- statement of income	-	-	(130)
At the end of the financial year	5,461	4,652	3,985

7 INSURANCE RECEIVABLES

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Due premiums including agents/brokers balances	20,964	16,355	18,706
Due from reinsurers and cedants	10,725	2,271	313
	31,689	18,626	19,019
Impairment loss	(588)	(588)	(862)
	31,101	18,038	18,157

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

8 FINANCIAL RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Rental and interest income receivable	3,300	2,438	1,877
Outstanding proceeds from sale of investments	205	169	1,570
Outstanding proceeds from sale of property	-	478	5,484
Amount due from holding company	-	-	15
Deposits	638	633	637
Others	978	835	1,264
	5,121	4,553	10,847

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 OTHER ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Advance payment for purchases	3,648	3,952	2,735
Prepayment of expenses	650	1,950	1,362
	4,298	5,902	4,097

10 SHARE CAPITAL

	31.12. 2012		31.12. 2011		1.1.2011	
	No of shares '000	RM'000	No of shares '000	RM'000	No of shares '000	RM'000
Authorised ordinary shares of RM1 each:						
At the beginning and end of the financial year	500,000	500,000	500,000	500,000	500,000	500,000
Issued and fully paid up ordinary shares of RM1 each:						
At the beginning and end of the financial year	100,000	100,000	100,000	100,000	100,000	100,000

11 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 (2011: RM17.4 million) and the tax-exempt account balance of RM3.4 million (2011: RM0.9 million) to frank the payment of dividends out of its entire retained earnings as at 31 December 2012 subject to the agreement of the Inland Revenue Board.

12 INSURANCE CONTRACT LIABILITIES

	31.12.2012 Gross/net RM'000	31.12.2011 Gross/net RM'000	1.1.2011 Gross/net RM'000
Life insurance contract liabilities	5,443,631	4,908,770	4,547,488

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

	31.12.2012 Gross/net RM'000	31.12.2011 Gross/net RM'000	1.1.2011 Gross/net RM'000
Actuarial liabilities	3,825,066	3,492,857	3,067,192
Unallocated surplus	927,370	836,100	876,346
Provision for outstanding claims	19,546	15,473	10,406
AFS reserve	534,575	439,046	429,534
Asset revaluation reserve	18,215	11,215	11,215
Net asset value attributable to unitholders (Note 35)	118,859	114,079	152,795
	5,443,631	4,908,770	4,547,488

12 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross/net		
	With DPF RM'000	Without DPF RM'000	Total RM'000
At 1 January 2012	4,448,998	459,772	4,908,770
Premiums received	511,092	262,856	773,948
Liabilities paid for death, maturities, surrenders, benefits and claims	(310,506)	(101,915)	(412,421)
Net investment income	289,398	24,442	313,840
Benefits and claims experience variation	(135,703)	(63,098)	(198,801)
Fees deducted	(95,401)	(81,431)	(176,832)
Net other income	(2,416)	409	(2,007)
Adjustments due to changes in assumptions:			
Mortality/morbidity	-	8,854	8,854
Lapse and surrender rates	-	583	583
Discount rate	-	3,627	3,627
Others	17,034	-	17,034
Movement in unallocated surplus	91,270	-	91,270
Available-for-sale fair value adjustment	95,529	-	95,529
Asset revaluation surplus adjustment	7,000	-	7,000
Net asset value attributable to unitholders	-	9,164	9,164
Movement in provision for outstanding claims	1,302	2,771	4,073
At 31 December 2012	4,917,597	526,034	5,443,631

12 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross/net		
	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000
At 1 January 2011	4,155,396	392,092	4,547,488
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	19,615	(28,008)	(8,393)
Fees deducted	(93,683)	(73,502)	(167,185)
Net other income	3,147	988	4,135
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
Movement in unallocated surplus	(40,250)	-	(40,250)
Available-for-sale fair value adjustment	9,512	-	9,512
Net asset value attributable to unitholders	-	230	230
Movement in provision for outstanding claims	4,470	597	5,067
At 31 December 2011	4,448,998	459,772	4,908,770

13 INSURANCE PAYABLES

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Due to agents, brokers and insureds	87,363	73,163	62,744
Due to reinsurers and cedants	26,797	3,262	3,306
Cash bonus and interest outstanding	158,346	118,808	98,714
	272,506	195,233	164,764

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 FINANCIAL LIABILITIES

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Outstanding payable on purchases of investment securities	1,292	216	-
Tenant deposits	3,020	2,872	2,674
	4,312	3,088	2,674

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

15 OTHER PAYABLES

	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000
Accrued expenses	7,388	6,182	7,248
Other payables	15,967	10,613	12,218
	23,355	16,795	19,466

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

16 PROVISION OF AGENCY LONG ASSOCIATION BENEFITS

	2012 RM'000	2011 RM'000	2010 RM'000
At 1 January	23,571	22,053	20,660
Charged to statement of income	3,419	3,457	3,129
Paid during the financial year	(2,986)	(1,939)	(1,736)
At 31 December	24,004	23,571	22,053
Payable within 12 months	3,107	3,051	2,855
Payable after 12 months	20,897	20,520	19,198
	24,004	23,571	22,053

17 DEFERRED TAX LIABILITIES

	2012 RM'000	2011 RM'000	2010 RM'000
At 1 January	71,380	70,150	50,402
Recognised in:			
Statement of income (Note 24)	11,261	(1,086)	6,503
Other comprehensive income	8,584	2,316	13,245
At 31 December	91,225	71,380	70,150

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.

17 DEFERRED TAX LIABILITIES (CONTINUED)

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax liabilities	91,225	71,380	70,150

	Unallocated surplus arising from non-DPF RM'000	Property, plant and equipment RM'000	Self-occupied properties RM'000	Investment properties RM'000	Financial investments RM'000	Total RM'000
At 1 January 2011	14,215	52	1,088	7,216	47,579	70,150
Recognised in:						
Statement of income (Note 24)	1,868	-	-	(294)	(2,660)	(1,086)
Other comprehensive Income	-	-	-	-	2,316	2,316
At 31 December 2011	16,083	52	1,088	6,922	47,235	71,380
Recognised in:						
Statement of income (Note 24)	7,563	-	-	1,631	2,067	11,261
Other comprehensive Income	-	-	655	-	7,929	8,584
At 31 December 2012	23,646	52	1,743	8,553	57,231	91,225

18 INVESTMENT INCOME

	2012 RM'000	2011 RM'000
Rental income from investment properties	5,677	4,367
HFT financial assets		
Interest	3,449	3,307
Dividend	12,838	11,871
AFS financial assets		
Interest	102,071	74,790
Dividend	38,820	34,485
Accretion of discounts - net	3,810	5,547
HTM financial assets		
Interest	33,863	35,535
Accretion of discounts - net	353	3,710
Interest from loans	36,763	37,320
Interest from fixed and call deposits	10,971	11,850
	248,615	222,782
Less: Investment expenses	(2,173)	(1,760)
	246,442	221,022

19 NET REALISED GAINS

	2012 RM'000	2011 RM'000
Realised gains/(losses):		
AFS financial assets		
- Equity securities	4,699	12,378
- Debt securities	12,007	(33)
	16,706	12,345

20 NET FAIR VALUE GAINS/(LOSSES)

	2012 RM'000	2011 RM'000
Investment properties (Note 4)	20,386	3,395
HFT financial assets (Note 6)	64,937	(32,745)
Early redemption of HTM financial assets by issuers (Note 6)	8,349	1,267
Write back of impairment of AFS financial assets	620	338
	94,292	(27,745)

21 FEES AND COMMISSION INCOME

Policyholder administration fees	989	706
Management service charges	267	226
	1,256	932

22 OTHER OPERATING (EXPENSES)/INCOME - NET

Loss on disposal/write off of property, plant and equipment	1	(71)
Realised net foreign exchange loss	(103)	(284)
Others	23	39
	(79)	(316)

23 MANAGEMENT EXPENSES

	2012 RM'000	2011 RM'000
Staff salaries and bonuses	32,366	26,917
Contribution to Employees' Provident Fund	3,828	3,699
Others	2,152	2,084
Staff costs	38,346	32,700
Non-executive Directors		
- fees	196	185
- other remuneration	-	-
Directors' remuneration	196	185
Depreciation of property, plant and equipment (Note 3)	2,862	3,096
Amortisation of intangible assets (Note 5)	12,706	12,851
Auditors' remuneration		
- statutory audit	345	237
- other audit services	-	92
Decrease in impairment loss of insurance receivables (Note 33)	-	(274)
Printing and stationery	1,482	1,719
Postage, telephone and telex	1,392	1,395
EDP expenses	3,537	2,134
Advertising and marketing expenses	10,489	13,287
Rental of properties	232	228
Management fees	1,903	1,665
Training related expenses	2,351	807
Others	16,524	11,701
	53,823	48,938
Total	92,365	81,823

The remuneration including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the financial year amounted to RM2.15 million (2011: RM1.24 million).

24 TAXATION

	2012 RM'000	2011 RM'000
Current tax	26,168	19,852
Deferred tax (Note 17)	11,261	(1,086)
Taxation	37,429	18,766
Current tax		
Current financial year	29,252	21,973
Over provision in prior financial years	(3,084)	(2,121)
	26,168	19,852
Deferred tax		
Origination and reversal of temporary differences	11,261	(1,086)
	37,429	18,766

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

	2012 RM'000	2011 RM'000
Profit before taxation	91,092	38,689
Tax calculated at the Malaysian tax rate of 25% (2011: 25%)	22,773	9,672
Tax effects of:		
- tax rate differential in respect to Life Fund	(4,290)	(4,229)
- expenses not deductible for tax purposes	85,079	75,644
- income not subject to tax	(58,370)	(58,392)
- Section 110B credit	(4,679)	(1,808)
- over provision of tax in prior financial years	(3,084)	(2,121)
	37,429	18,766

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% (2011: 8%) on investment income. The income tax for the Shareholders' fund is calculated based on the tax rate of 25% (2011: 25%) of the estimated assessable profit for the financial year.

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 RM53.66 million (2011: RM19.92 million) and the weighted average number of ordinary shares of the Company in issue during the financial year of 100 million (2011: 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

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

27 CAPITAL COMMITMENTS

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

	2012 RM'000	2011 RM'000
Authorised and contracted for:		
- Plant and equipment	1,925	2,769

28 OPERATING LEASE COMMITMENTS

	2012 RM'000	2011 RM'000
Commitments under non-cancellable operating leases where the Company is a lessee:		
Payable within one year	166	277
Payable after one year	194	345
	360	622
Commitments under non-cancellable operating leases where the Company is a lessor:		
Receivable within one year	8,425	5,372
Receivables after one year	4,418	3,603
	12,843	8,975

29 RELATED PARTY DISCLOSURES

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

	Country of incorporation	Relationship
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

	2012 RM'000	2011 RM'000
Other receivables (Note 8)		
Amount due from TMIM	99	106
Amount due from TMAP	301	95
Amount due from Tokio Marine Nichido Fire	-	79
Other payables (Note 15)		
Amount due to TMLIS	-	101
Financial investments (Note 6)		
Investment in TMAMI's funds	185,891	156,239

29 RELATED PARTY DISCLOSURES (CONTINUED)

(ii) Significant related party transactions

	2012 RM'000	2011 RM
Transactions with TMLIS:		
Recharge of other expenses incurred	-	101
Transactions with TMAMI:		
Cost of purchase of financial investments	6,894	18,846
Proceeds from disposal of financial investments	(1,468)	(4,104)
Transactions with TMIM:		
Management fee receivable	(98)	(103)
Transactions with TMAP:		
Expenses paid on behalf	(301)	(95)

(iii) Key management compensation

Salaries and bonuses	4,865	4,096
Directors' remuneration	196	185
Contribution to Employees' Provident Fund	607	554
Other allowances	225	175
Benefits-in-kind	159	133
	6,052	5,143

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 32 to the financial statements.

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

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.

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 2012, as prescribed under the RBC Framework is provided below:

	Note	2012 RM'000	2011 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	10	100,000	100,000
Reserves, including retained earnings		1,695,078	1,538,771
Tier 2 Capital		569,048	463,707
Amount deducted from capital		(30,200)	(42,280)
Total capital available		2,333,926	2,060,198

The Company has met both the minimum and internal capital requirements specified in the RBC Framework for the financial year ended 2012 and 2011.

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. Stress testing on the financial condition is conducted twice a year to assess its ability to withstand adverse deviations in various assumptions 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:

	Gross/net		
	With DPF	Without DPF	Total
31 December 2012	RM'000	RM'000	RM'000
Whole life	1,386,947	75,022	1,461,969
Endowment	2,917,478	78,388	2,995,866
Term-mortgage	-	181,075	181,075
Term-others	-	115,655	115,655
Medical and health	-	8,653	8,653
Riders	10,730	36,833	47,563
Other plans	49,652	30,410	80,062
Total	4,364,807	526,036	4,890,843

	Gross/net		
	With DPF	Without DPF	Total
31 December 2011	RM'000	RM'000	RM'000
Whole life	1,223,809	71,914	1,295,723
Endowment	2,711,951	74,853	2,786,803
Term-mortgage	-	147,822	147,822
Term-others	-	87,244	87,244
Medical and health	-	23,633	23,633
Riders	(8,415)	35,011	26,597
Other plans	71,390	19,295	90,685
Total	3,998,735	459,772	4,458,507

There is no annuity business in force as at 31 December 2012 and 31 December 2011.

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.

32 INSURANCE RISKS (CONTINUED)

Sensitivities

The Company conducted a sensitivity analysis on the actuarial liabilities as at 31 December 2012, 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.

Variable	Change in variable	Impact on gross/net liabilities	Impact on profit before tax	Impact on equity
31 December 2012		RM'000	RM'000	RM'000
Worsening of mortality/morbidity	+25%	113,831	(50,233)	(37,675)
Improvement in mortality/morbidity	-25%	(120,318)	51,171	38,378
Worsening of lapse and surrender rates	+25%	29,380	(5,115)	(3,837)
Improvement in lapse and surrender rates	-25%	(34,347)	5,828	4,371
Increase in discount rate	100 basis points upward shift	(389,271)	31,323	23,492
Decrease in discount rate	100 basis points downward shift	520,719	(39,675)	(29,756)
31 December 2011				
Worsening of mortality/morbidity	+25%	105,619	(41,593)	(31,195)
Improvement in mortality/morbidity	-25%	(114,405)	42,645	31,983
Worsening of lapse and surrender rates	+25%	15,829	(5,657)	(4,242)
Improvement in lapse and surrender rates	-25%	(17,893)	6,641	4,981
Increase in discount rate	100 basis points upward shift	(384,829)	25,841	19,381
Decrease in discount rate	100 basis points downward shift	503,409	(31,095)	(23,321)

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

33 FINANCIAL RISKS

The Company is expoxsed 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.

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	
31 December 2012	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	Total RM'000
AFS financial assets						
Equity securities	-	-	-	953,412	113,115	1,066,527
Debt securities	1,755,831	-	-	767,828	-	2,523,659
HFT financial assets						
Equity securities	-	-	-	611,658	-	611,658
Debt securities	59,792	4,671	-	-	-	64,463
HTM financial assets						
Debt securities	264,779	-	-	388,639	-	653,418
Loans and receivables						
Loans	-	-	-	534,180	-	534,180
Fixed and call deposits	104,000	-	-	-	-	104,000
Insurance receivables	-	-	-	25,491	5,610	31,101
Financial receivables	-	-	-	5,121	-	5,121
Other assets	-	-	-	4,298	-	4,298
Cash and cash equivalents	289,992	-	-	-	-	289,992
	2,474,394	4,671	-	3,290,627	118,725	5,888,417

33 FINANCIAL RISKS (CONTINUED)

Credit Risk (continued)

	Neither past due nor impaired				Past due and partial impaired	
31 December 2011	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	Total 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
Financial receivables	-	-	-	4,553	-	4,553
Other assets	-	-	-	5,902	-	5,902
Cash and cash equivalents	365,971	-	-	-	-	365,971
	2,249,340	4,749	-	2,850,405	105,181	5,209,675

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:

	Type of collaterals	Carrying value 31.12.2012 RM'000	Carrying value 31.12.2011 RM'000
Policy loans	Cash surrender value	532,116	527,188
Mortgage loans	Properties	1,318	1,645
Secured loans	Computers	746	367
		534,180	529,200

As at 31 December 2012, the impairment provision of impaired insurance receivables of RM3.3 million is RM0.6 million (2011: RM0.6 million) and impaired AFS financial assets of RM101.9 million is RM29.5 million (2011: RM30.1 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:

	Insurance receivables		AFS financial assets	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At 1 January	588	862	30,076	30,414
Decrease during the financial year	-	(274)	(620)	(338)
At 31 December	588	588	29,456	30,076

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 2012 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.

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 year RM'000	1 – 5 year RM'000	Over 5 year RM'000	No maturity date RM'000	Total RM'000
31 December 2012					
AFS financial assets	190,794	482,322	1,845,643	1,071,427	3,590,186
HFT financial assets	43,693	36,386	22,042	574,000	676,121
HTM financial assets	40,376	205,481	407,561	-	653,418
Loans and receivables	104,000	-	-	534,180	638,180
Insurance receivables	31,101	-	-	-	31,101
Financial receivables	5,121	-	-	-	5,121
Other assets	4,298	-	-	-	4,298
Cash and cash equivalents	289,992	-	-	-	289,992
Total financial assets	709,375	724,189	2,275,246	2,179,607	5,888,417
31 December 2011					
AFS financial assets	70,505	501,779	1,395,227	934,927	2,902,438
HFT financial assets	-	75,637	30,724	533,319	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
Financial receivables	4,553	-	-	-	4,553
Other assets	5,902	-	-	-	5,902
Cash and cash equivalents	365,971	-	-	-	365,971
Total financial assets	519,291	794,054	1,898,884	1,997,446	5,209,675

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 year RM'000	1 – 5 year RM'000	Over 5 year RM'000	Total RM'000
31 December 2012				
Insurance contract liabilities*:				
With DPF	149,496	215,475	3,999,836	4,364,807
Without DPF	156,175	46,835	323,026	526,036
Insurance payables	272,506	-	-	272,506
Other financial liabilities	4,312	-	-	4,312
Other payables	23,355	-	-	23,355
Total financial liabilities	605,844	262,310	4,322,862	5,191,016
31 December 2011				
Insurance contract liabilities*:				
With DPF	11,711	276,089	3,710,935	3,998,735
Without DPF	160,619	42,620	256,533	459,772
Insurance payables	195,233	-	-	195,233
Other financial liabilities	3,088	-	-	3,088
Other payables	16,795	-	-	16,795
Total financial liabilities	387,446	318,709	3,967,468	4,673,623

* 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.

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.

31 December 2012				'000
Financial assets	SGD	RM	Others	Total
AFS financial assets	8,336	3,581,850	-	3,590,186
HFT financial assets	-	490,230	185,891	676,121
HTM financial assets	-	653,418	-	653,418
Loans and receivables	-	638,180	-	638,180
Insurance receivables	-	31,101	-	31,101
Financial receivables	-	5,121	-	5,121
Other assets	-	4,298	-	4,298
Cash and cash equivalents	-	289,992	-	289,992
	8,336	5,694,190	185,891	5,888,417
Financial liabilities				
Insurance contract liabilities*	-	4,890,842	-	4,890,842
Insurance payables	-	272,506	-	272,506
Other financial liabilities	-	4,312	-	4,312
Other payables	-	22,975	-	22,975
	-	5,190,635	-	5,190,635

33 FINANCIAL RISKS (CONTINUED)

Market Risk

(i) Currency Risk (continued)

31 December 2011				‘000
Financial assets	SGD	RM	Others	Total
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
Financial receivables	-	4,553	-	4,553
Other assets	-	5,902	-	5,902
Cash and cash equivalents	-	365,971	-	365,971
	12,194	5,041,242	156,239	5,209,675
Financial liabilities				
Insurance contract liabilities*	-	4,458,509	-	4,458,509
Insurance payables	-	195,233	-	195,233
Other financial liabilities	-	3,088	-	3,088
Other payables	-	16,435	-	16,435
	-	4,673,265	-	4,673,265

***** Excluding AFS reserve and asset revaluation reserve

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

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 20 (2011: 40) 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 liabilities RM'000	Increase/ (decrease) in profit before tax RM'000	Increase/ (decrease) in equity RM'000
31 December 2012			
Change in variables			
+ 20 basis points	(1,158)	(4)	(203)
- 20 basis points	1,143	4	205
31 December 2011			
Change in variables			
+ 40 basis points	(2,903)	(10)	(881)
- 40 basis points	622	10	(260)

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.

Market indices		Increase/ (decrease) in insurance contract liabilities RM'000	Increase/ (decrease) in profit before tax RM'000	Increase/ (decrease) in equity RM'000
31 December 2012				
Bursa Malaysia	+10%	135,203	4,377	4,276
Bursa Malaysia	-10%	(135,203)	(4,377)	(4,276)
31 December 2011				
Bursa Malaysia	+10%	132,363	4,917	4,524
Bursa Malaysia	-10%	(132,363)	(4,917)	(4,524)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (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 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 2012

	Shareholders' Fund			Life Fund			Inter-fund Elimination			Total		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS												
Property, plant and equipment	-	-	-	57,777	48,749	49,271	-	-	-	57,777	48,749	49,271
Investment properties	-	-	-	211,757	191,863	190,113	-	-	-	211,757	191,863	190,113
Intangible assets	10,000	14,000	18,000	21,714	29,649	37,461	-	-	-	31,714	43,649	55,461
Financial investments												
AFS financial assets	167,331	148,936	123,470	3,422,855	2,753,502	2,280,575	-	-	-	3,590,186	2,902,438	2,404,045
HFT financial assets	3,566	2,088	-	672,555	637,592	691,760	-	-	-	676,121	639,680	691,760
HTM financial assets	2,021	7,060	22,682	651,397	716,833	760,736	-	-	-	653,418	723,893	783,418
Loans and receivables	2,000	2,000	2,005	636,180	547,200	580,934	-	-	-	638,180	549,200	582,939
Tax recoverable	-	1,485	-	3,258	444	-	-	-	-	3,258	1,929	-
Insurance receivables	-	-	-	31,101	18,038	18,157	-	-	-	31,101	18,038	18,157
Financial receivables	15,209	11,637	8,594	5,113	2,968	11,761	(15,201)	(10,052)	(9,508)	5,121	4,553	10,847
Other assets	-	-	-	4,298	5,902	4,097	-	-	-	4,298	5,902	4,097
Cash and bank balances	6,320	6,836	7,396	283,672	359,135	285,628	-	-	-	289,992	365,971	293,024
TOTAL ASSETS	206,447	194,042	182,147	6,001,677	5,311,875	4,910,493	(15,201)	(10,052)	(9,508)	6,192,923	5,495,865	5,083,132

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012 (CONTINUED)

34 INSURANCE FUNDS (CONTINUED)

Statement of Financial Position by Funds as at 31 December 2012 (continued)

	Shareholders' Fund			Life Fund			Inter-fund Elimination			Total		
	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011	31.12.2012	31.12.2011	1.1.2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES												
Share capital	100,000	100,000	100,000	-	-	-	-	-	-	100,000	100,000	100,000
Retained earnings	101,792	85,053	74,249	115,454	78,530	69,411	-	-	-	217,246	163,583	143,660
Available-for-sale reserve	3,252	5,390	4,697	11,178	6,768	3,141	-	-	-	14,430	12,158	7,838
Asset revaluation reserve	-	-	-	1,827	1,287	1,287	-	-	-	1,827	1,287	4,697
TOTAL EQUITY	205,044	190,443	178,946	128,459	86,585	73,839	-	-	-	333,503	277,028	252,785
Insurance contract liabilities	-	-	-	5,443,631	4,908,770	4,547,488	-	-	-	5,443,631	4,908,770	4,547,488
Insurance payables	-	-	-	272,506	195,233	164,764	-	-	-	272,506	195,233	164,764
Other financial liabilities	-	1,561	-	19,513	11,579	12,182	(15,201)	(10,052)	(9,508)	4,312	3,088	2,674
Other payables		-	-	23,355	16,795	19,466	-	-	-	23,355	16,795	19,466
Agency long association benefit	-	-	-	24,004	23,571	22,053	-	-	-	24,004	23,571	22,053
Current tax liabilities	387	-	1,761	-	-	1,991	-	-	-	387	-	3,752
Deferred tax liabilities	1,016	2,038	1,440	90,209	69,342	68,710	-	-	-	91,225	71,380	70,150
TOTAL POLICYHOLDERS' FUNDS AND LIABILITIES	1,403	3,599	3,201	5,873,218	5,225,290	4,836,654	(15,201)	(10,052)	(9,508)	5,859,420	5,218,837	4,830,347
TOTAL EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES	206,447	194,042	182,147	6,001,677	5,311,875	4,910,493	(15,201)	(10,052)	(9,508)	6,192,923	5,495,865	5,083,132

34 INSURANCE FUNDS (CONTINUED)

Statement of Income by Funds for the Financial Year Ended 31 December 2012

	Shareholders' Fund		Life Fund		Inter-fund Elimination		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Gross earned premiums	-	-	772,959	789,185	-	-	772,959	789,185
Premiums ceded to reinsurers	-	-	(44,511)	(37,404)	-	-	(44,511)	(37,404)
Net earned premiums	-	-	728,448	751,781	-	-	728,448	751,781
Investment income	6,867	6,695	239,575	214,327	-	-	246,442	221,022
Realised gains and losses	4,463	151	12,243	12,194	-	-	16,706	12,345
Fair value gains and losses	20	(4)	94,272	(27,741)	-	-	94,292	(27,745)
Fee and commission income	-	-	1,256	932	-	-	1,256	932
Other revenue	11,350	6,842	347,346	199,712	-	-	358,696	206,554
Gross benefits and claims paid	-	-	(412,422)	(423,976)	-	-	(412,422)	(423,976)
Claims ceded to reinsurers	-	-	25,587	22,295	-	-	25,587	22,295
Gross/net change to insurance contract liabilities -	-	-	(428,261)	(346,699)	-	-	(428,261)	(346,699)
Net claims	-	-	(815,096)	(748,380)	-	-	(815,096)	(748,380)

34 INSURANCE FUNDS (CONTINUED)

Statement of Income by Funds for the Financial Year Ended 31 December 2012

	Shareholders' Fund		Life Fund		Inter-fund Elimination		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Commission and agency expenses	-	-	(88,512)	(89,127)	-	-	(88,512)	(89,127)
Management expenses	(4,000)	(4,015)	(88,365)	(77,808)	-	-	(92,365)	(81,823)
Other operating expenses - net	-	-	(79)	(316)	-	-	(79)	(316)
Other expenses	(4,000)	(4,015)	(176,956)	(167,251)	-	-	(180,956)	(171,266)
Inter-fund transfer:								
From Life Fund to SHF	14,020	11,614	(14,020)	(11,614)	-	-	-	-
Profit before taxation	21,370	14,441	69,722	24,248	-	-	91,092	38,689
Taxation	(4,631)	(3,637)	(32,798)	(15,129)	-	-	(37,429)	(18,766)
Net profit for the financial year	16,739	10,804	36,924	9,350	-	-	53,663	19,923

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"), AsiaPartner Bond Fund ("APBF") and Dana Ikhtiar ("DI"). The statement of financial position of the investment-linked fund is represented by:

	2012 RM'000	2011 RM'000	2010 RM'000
UNITHOLDERS' LIABILITIES			
At the beginning of the financial year	114,079	152,795	152,839
Creation of units	25,677	24,387	24,370
Cancellation of units	(30,061)	(21,787)	(38,213)
Maturity of Asia Trimax Fund	-	(41,547)	-
Net surplus for the financial year after taxation	9,164	231	13,799
At the end of the financial year (Note 12)	118,859	114,079	152,795

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:

	2012 RM'000	2011 RM'000	2010 RM'000
ASSETS			
Investments in other linked funds of insurer	13,727	13,002	12,976
Cash and cash equivalents	1	1	1
	13,728	13,003	12,977
LIABILITIES			
Other payables	-	-	-
NET ASSET VALUE OF APMF	13,728	13,003	12,977

35 INVESTMENT-LINKED FUND (CONTINUED)

The statement of income of Life 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 in APEF and APBF during the financial year:

	2012 RM'000	2011 RM'000	2010 RM'000
Net asset value of APMF at the beginning of the financial year	13,003	12,977	14,625
Creation of units – included in gross earned premiums	3,085	2,491	2,011
Cancellation of units – included in gross benefits paid	(3,669)	(2,757)	(5,891)
	12,419	12,711	10,745
Realised gains on investments	558	399	1,219
Fair value gain/(loss) on investments	754	(104)	1,016
Management expenses:			
Auditors' remuneration	(3)	(3)	(3)
Net profit for the financial year	1,309	292	2,232
Net asset value of APMF at the end of the financial year	13,728	13,003	12,977

36 TRANSITION FROM FRS TO MFRS

The effect of the Company's transition to MFRSs, described in Note 2, is summarised in this note as follows:

A. MFRS1 mandatory exception

MFRS estimates

MFRS estimates as at transition date are consistent with the estimates as at the same date made in conformity with FRS.

B. Explanation of transition from FRS to MFRS

The transition from FRS to MFRS has had no effect on the reconciliation of equity and reconciliation of total comprehensive income of the Company and on the reported cash flows generated by the Company except for the followings:-

Unallocated surplus, available-for-sale reserve and asset revaluation reserve of non DPF

Under the previous financial reporting framework, FRS, the Company recognized unallocated surplus, available-for-sale reserve and asset revaluation reserve of non DPF as part of insurance contract liabilities as required under the Guidelines on Financial Reporting for Insurers (BNM/RH/GL 003-28) issued by Bank Negara Malaysia on 22 July 2010.

On adoption of MFRS, in accordance to MFRS 4 "Insurance Contracts" and the Framework for Preparation of Financial Statements, the unallocated surplus, available-for-sale reserve and asset revaluation reserve of non DPF as been recognized as equity of the Company.

MFRS 1 "First-time Adoption of MFRS" requires an entity to reconcile equity, total comprehensive income and cash flows for prior periods. The following tables represent the reconciliations from FRS to MFRS for the respective periods noted for equity and total comprehensive income.

Reconciliation of total equity

	1 January 2011 (the transition date) RM'000	31 Dec 2011 RM'000
Total equity as reported under FRS	178,946	190,443
Transition adjustments on:		
Unallocated surplusof non DPF	83,626	94,613
Revaluation reserve of non DPF	1,400	1,400
AFS reserve of non DPF	3,414	7,357
Deferred tax arising from the transitional adjustments	(14,601)	(16,785)
Total equity on transition to MFRS	252,785	277,028

36 TRANSITION FROM FRS TO MFRS (CONTINUED)

Reconciliation of total comprehensive income

	2011 RM'000
Total comprehensive income as reported under FRS	11,497
Transition adjustments on:	
Unallocated surplus of non DPF	10,987
AFS reserve of non DPF	3,944
Deferred tax arising from the transitional adjustments	(2,185)
	12,746
Total comprehensive income on transition to MFRS	24,243

37 COMPARATIVE INFORMATION

The reconciliation of audited financial statements for the financial year ended 31 December 2011 prepared in FRS to the MFRS is shown as follows:

Statement of Financial Position as at 31 December 2011

	Audited under FRS Framework RM'000	MFRS transition adjustments RM'000	Unaudited MFRS restated comparatives RM'000
ASSETS			
Property, plant and equipment	48,749	-	48,749
Investment properties	191,863	-	191,863
Intangible assets	43,649	-	43,649
Financial investments			
Available-for-sale financial assets	2,902,438	-	2,902,438
Fair value through profit or loss financial assets	639,680	-	639,680
Held-to-maturity financial assets	723,893	-	723,893
Loans and receivables	549,200	-	549,200
Tax recoverable	1,929	-	1,929
Insurance receivables	18,038	-	18,038
Financial receivables	4,553	-	4,553
Other assets	5,902	-	5,902
Cash and cash equivalents	365,971	-	365,971
TOTAL ASSETS	5,495,865		5,495,865
EQUITY, POLICYHOLDERS' FUNDS AND LIABILITIES			
Share capital	100,000	-	100,000
Retained earnings	85,053	78,530	163,583
Available-for-sale reserve	5,390	6,768	12,158
Asset revaluation reserve	-	1,287	1,287
TOTAL EQUITY	190,443		277,028
Insurance contract liabilities	5,011,439	(102,669)	4,908,770
Insurance payables	195,233	-	195,233
Other financial liabilities	3,088	-	3,088
Other payables	16,795	-	16,795
Provision for agency long association benefits	23,571	-	23,571
Deferred tax liabilities	55,296	16,084	71,380
TOTAL LIABILITIES	5,305,422		5,218,837
TOTAL EQUITY AND LIABILITIES	5,495,865		5,495,865

37 COMPARATIVE INFORMATION (CONTINUED)

Statement of Income for the year ended 31 December 2011

	Audited under FRS Framework RM'000	MFRS transition adjustments RM'000	Unaudited MFRS restated comparatives RM'000
Gross earned premium revenue	789,185	-	789,185
Premiums ceded to reinsurers	(37,404)	-	(37,404)
Net earned revenue	751,781		751,781
Investment income	221,022	-	221,022
Net realised gains	12,345	-	12,345
Net fair value losses	(27,745)	-	(27,745)
Fee and commission income	932	-	932
Other income	206,554		206,554
Gross benefits and claims paid	(423,976)	-	(423,976)
Claims ceded to reinsurers	22,295	-	22,295
Gross/net change to insurance contract liabilities	(357,686)	10,987	(346,699)
Net insurance benefit and claims	(759,367)		(748,380)
Commission and agency expenses	(89,127)	-	(89,127)
Management expenses	(81,823)	-	(81,823)
Other operating expenses – net	(316)	-	(316)
Other expenses	(171,266)		(171,266)
Profit before taxation	27,702		38,689
Taxation	(16,898)	(1,868)	(18,766)
Net profit for the financial year	10,804		19,923