

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

Directors' Report and Audited Financial Statements
30 June 2010

9557-T

**ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**

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ETIQA INSURANCE BERHAD
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DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

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

On 1 July 2009, pursuant to Vesting Orders obtained from the High Court of Malaya in Kuala Lumpur and High Court of Singapore, Mayban General Assurance Berhad ("MGAB") transferred its general insurance business and net assets as a going concern to the Company.

HOLDING AND ULTIMATE HOLDING COMPANIES

The holding and ultimate holding companies of the Company are Mayban Fortis Holdings Berhad ("MFHB") and Malayan Banking Berhad ("MBB") respectively, which are both incorporated in Malaysia.

RESULTS

	RM'000
Net profit for the financial year	<u>116,073</u>

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

In the opinion of the directors, the results of the operations of the Company during the financial year were not affected by item, transaction or event of a material and unusual nature, other than those arising from the adoption of the Risk-Based Capital ("RBC") Framework, as disclosed in Note 2.4 and the transfer of business from MGAB as disclosed in Note 25.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

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

ETIQA INSURANCE BERHAD
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DIRECTORS

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

Dato' Mohd Salleh Hj Harun (Chairman)	(appointed on 2 March 2010)
Dato' Johan bin Ariffin	(appointed on 2 March 2010)
Zainal Abidin bin Jamal	(appointed on 2 March 2010)
Dato' Aminuddin bin Md Desa	
Damis Jacobus Ziengs	
Hans J. J. De Cuyper	
Datuk Syed Tamim Ansari bin Syed Mohamed	(resigned on 2 March 2010)

CORPORATE GOVERNANCE

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

(a) Board responsibilities

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

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

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

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

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CORPORATE GOVERNANCE (CONT'D)

(a) Board responsibilities (cont'd)

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

	Number of Board meetings	
	Attended	%
Dato' Mohd Salleh Hj Harun (Chairman) (appointed on 2 March 2010)	3/3	100
Dato' Aminuddin bin Md Desa	6/6	100
Damis Jacobus Ziengs	6/6	100
Hans J. J. De Cuyper	6/6	100
Dato' Johan bin Ariffin (appointed on 2 March 2010)	3/3	100
Zainal Abidin bin Jamal (appointed on 2 March 2010)	3/3	100
Datuk Syed Tamim Ansari bin Syed Mohamed (resigned on 2 March 2010)	3/3	100

(b) Management accountability

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

(c) Corporate independence

All material related party transactions have been disclosed in Note 30 to the financial statements.

(d) Internal controls and audit

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

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

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CORPORATE GOVERNANCE (CONT'D)

(d) Internal controls and audit (cont'd)

The composition of the joint AC established at MFHB is as follows:

Sulaiman bin Salleh (Chairman)
Independent Non-Executive Director

Damis Jacobus Ziengs
Non-Independent Non-Executive Director

Datuk Dr Syed Othman bin Syed Hussin Alhabshi
Independent Non-Executive Director

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

The AC met 6 times during the year.

(e) Risk management

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

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

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

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

The composition of the joint RMC established at MFHB is as follows:

Dato' Johan bin Ariffin (Chairman) (appointed on 5 May 2010)

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CORPORATE GOVERNANCE (CONT'D)

(e) Risk management (cont'd)

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

Sulaiman bin Salleh (appointed on 5 May 2010)
Independent Non-Executive Director

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

Petrus Bernardus Gerardus van Harten (resigned on 18 July 2009)
Non-Independent Non-Executive Director

The RMC met 3 times during the year.

(f) Nomination and remuneration committee

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

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

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

The composition of the Nomination and remuneration committee is as follows:-

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

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

Dato' Dr Tan Tat Wai
Independent Non-Executive Director

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CORPORATE GOVERNANCE (CONT'D)

(f) Nomination and remuneration committee (cont'd)

Zainal Abidin bin Jamal
Non-Independent Non-Executive Director

Alister Maitland
Independent Non-Executive Director

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

The NRC met twice.

(g) Investment committee

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

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

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

The composition of the IC is as follows:

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

Sulaiman bin Salleh
Independent Non-Executive Director

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

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CORPORATE GOVERNANCE (CONT'D)

(g) Investment committee (cont'd)

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

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

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

Mohd Din bin Merican
Chief Executive Officer, Etiqa Insurance Berhad

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

The IC met 4 times during the year.

(h) Public accountability

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

(i) Financial reporting

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

DIRECTORS' BENEFITS

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

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CORPORATE GOVERNANCE (CONT'D)

DIRECTORS' BENEFITS (CONT'D)

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as disclosed in Note 22 to the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

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

	Number of Ordinary Shares of RM1 each			30 June 2010
	1 July 2009/ date of appointment	Bought	Sold	
Ultimate holding company :				
MBB				
Direct interest:				
Dato' Mohd Salleh Hj Harun	287,781	-	-	287,781
Dato' Johan bin Ariffin	-	70,000	-	70,000

OTHER STATUTORY INFORMATION

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

- (a) Before the balance sheets and income statements of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and;
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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OTHER STATUTORY INFORMATION (CONT'D)

- (b) At the date of this report, the directors are not aware of any circumstances which would:
- (i) require any amount to be written off as bad debts or render the amount of the provision for doubtful debts in the financial statements of the Company inadequate to any substantial extent; and
 - (ii) render the values attributed to the current assets in the financial statements of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

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

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OTHER STATUTORY INFORMATION (CONT'D)

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

SIGNIFICANT EVENT

The significant event during the financial year is disclosed in Note 33 to the financial statements.

SUBSEQUENT EVENT

Details of the subsequent event after the financial year end is disclosed in Note 34 to the financial statements.

AUDITORS

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

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

DATO' MOHD SALLEH HJ HARUN

HANS J. J. DE CUYPER

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

We, Dato' Mohd Salleh Hj Harun and Hans J.J. De Cuyper, being two of the directors of Etiqa Insurance Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 14 to 112 are drawn up in accordance with Financial Reporting Standards as modified by Bank Negara Malaysia ("BNM") and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as at 30 June 2010 and of the financial performance and the cash flows of the Company for the year then ended.

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

DATO' MOHD SALLEH HJ HARUN

HANS J. J. DE CUYPER

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

I, Mohd Din bin Merican, being the officer primarily responsible for the financial management of Etiqa Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 14 to 112 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Mohd Din bin Merican
at Kuala Lumpur in Wilayah
Persekutuan on 12 August 2010

MOHD DIN BIN MERICAN

Before me,

Commissioner for Oaths

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

Report on the financial statements

We have audited the financial statements of Etiqa Insurance Berhad, which comprise the balance sheet as at 30 June 2010, and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 112.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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**Independent auditors' report to the members of
Etiqa Insurance Berhad (cont'd)
(Incorporated in Malaysia)**

Opinion

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

Report on other legal and regulatory requirements

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

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Kuala Lumpur, Malaysia
12 August 2010

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

ETIQA INSURANCE BERHAD
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BALANCE SHEET AS AT 30 JUNE 2010

	Note	2010 RM'000	2009 RM'000
General insurance and shareholder's fund assets			
Property, plant and equipment	3	54,153	10,333
Investment properties	4	35,870	38,590
Prepaid land lease payments	5	8,658	803
Intangible assets	6	227	197
Investment in subsidiary	7	-	-
Investment in associate	8	152	-
Due from related companies	9	5,357	1,204
Investments	10	1,658,669	1,160,016
Loans	11	32,230	51,075
Deferred tax assets	12	-	7,538
Trade and other receivables	13	428,178	239,175
Tax recoverable		93,709	87,288
Cash and bank balances		84,202	50,136
Total general insurance and shareholder's funds assets		<u>2,401,405</u>	<u>1,646,355</u>
Total life insurance fund asset (page 20)		<u>4,700,543</u>	<u>4,471,492</u>
TOTAL ASSETS		<u>7,101,948</u>	<u>6,117,847</u>
EQUITY, INSURANCE FUNDS, AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	14	152,151	152,151
Reserves		1,063,818	929,369
Total equity		<u>1,215,969</u>	<u>1,081,520</u>
Insurance funds			
Premium liabilities	15	315,447	160,055
Life policyholders' funds	16	4,402,749	4,171,012
Total insurance funds		<u>4,718,196</u>	<u>4,331,067</u>

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

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

	Note	2010 RM'000	2009 RM'000
LIABILITIES			
Shareholder's fund and general fund liabilities			
Claim liabilities	17	437,365	223,404
Deferred tax liabilities	12	7,966	-
Due to related companies	9	3,968	1,426
Trade and other payables	18	415,109	179,950
Tax payable		5,581	-
		<hr/>	<hr/>
		869,989	404,780
Total life insurance fund liabilities (page 20)		<hr/>	<hr/>
		297,794	300,480
Total liabilities		<hr/>	<hr/>
		1,167,783	705,260
TOTAL EQUITY, INSURANCE FUNDS AND			
LIABILITIES		<hr/>	<hr/>
		7,101,948	6,117,847

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

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ETIQA INSURANCE BERHAD
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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Non-distributable				Distributable		Total Equity RM'000
		Share Capital RM'000	Share Premium RM'000	Available-for-Sale Reserve RM'000	Currency Translation Reserves RM'000	Asset Revaluation Reserves RM'000	Retained Profits RM'000	
At 1 July 2009 (As previously stated)		152,151	17,728	-	-	13,017	898,624	1,081,520
Effects due to adoption of RBC Framework:	2.4							
- change in valuation of insurance liabilities		-	-	-	-	-	(14,580)	(14,580)
- fair value changes on AFS investments		-	-	(18,616)	-	-	7,949	(10,667)
- deferred tax on change in insurance liabilities		-	-	-	-	-	3,645	3,645
- deferred tax on fair value changes		-	-	4,654	-	-	(1,987)	2,667
At 1 July 2009 (Restated)		152,151	17,728	(13,962)	-	13,017	893,651	1,062,585
Revaluation of investment properties		-	-	-	-	(200)	-	(200)
Net gains from changes in fair value		-	-	66,435	-	-	-	66,435
Deferred tax on fair value movements		-	-	(16,162)	-	65	-	(16,097)
Realised gain transferred to income statement/ revenue account		-	-	-	-	(996)	-	(996)
Unrealised gain from translation of foreign assets		-	-	-	(11,831)	-	-	(11,831)
Net profit for the financial year		-	-	-	-	-	116,073	116,073
		-	-	50,273	(11,831)	(1,131)	116,073	153,384
At 30 June 2010		152,151	17,728	36,311	(11,831)	11,886	1,009,724	1,215,969

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

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STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010 (CONT'D)

	Non-distributable				Distributable	Total Equity RM'000	
	Share Capital RM'000	Share Premium RM'000	Available- for-Sale Reserve RM'000	Currency Translation Reserves RM'000	Asset Revaluation Reserves RM'000		Retained Profits RM'000
At 1 July 2008	152,151	17,728	-	-	-	796,183	966,062
Revaluation of investment properties	-	-	-	-	13,017	-	13,017
Net profit for the financial year	-	-	-	-	-	102,441	102,441
	-	-	-	-	13,017	102,441	115,458
At 30 June 2009	152,151	17,728	-	-	13,017	898,624	1,081,520

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

ETIQA INSURANCE BERHAD
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INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	2010 RM'000	2009 RM'000
Operating revenue	19	1,737,507	1,276,817
Shareholder's fund:			
Investment income	20	21,183	16,483
Other operating income (net)	21	11,805	16,693
Management expenses	22	(1,080)	(1,292)
		31,908	31,884
Transfers from revenue accounts			
- General insurance funds (page 19)		106,028	8,728
- Life insurance funds (page 21)		20,000	92,000
Profit before taxation		157,936	132,612
Taxation	24	(41,863)	(30,171)
Net profit for the financial year		116,073	102,441
Earnings per share - Basic (sen)		76.29	67.33

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

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GENERAL INSURANCE REVENUE ACCOUNT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Fire		Motor		Marine, Aviation & Transit		Miscellaneous		Total	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Gross premium	19	180,526	73,812	251,875	143,019	419,270	362,973	240,805	90,012	1,092,476	669,816
Reinsurance		(72,369)	(45,866)	(11,028)	(6,930)	(402,877)	(348,514)	(55,912)	(42,658)	(542,186)	(443,968)
Net premium		108,157	27,946	240,847	136,089	16,393	14,459	184,893	47,354	550,290	225,848
Movement in premium liabilities	15	(457)	(1,969)	(18,891)	(3,938)	(2,194)	6,066	1,785	(3,905)	(19,757)	(3,746)
Earned premium		107,700	25,977	221,956	132,151	14,199	20,525	186,678	43,449	530,533	222,102
Net claims incurred	23	(10,584)	(11,168)	(193,726)	(99,484)	(3,688)	(3,710)	(91,917)	(39,798)	(299,915)	(154,160)
Net commission		(10,256)	(1,884)	(27,160)	(12,811)	8,470	6,125	(29,101)	(4,739)	(58,047)	(13,309)
Underwriting surplus/(deficit) before management expenses		86,860	12,925	1,070	19,856	18,981	22,940	65,660	(1,088)	172,571	54,633
Management expenses	22									(126,834)	(87,979)
Underwriting surplus										45,737	(33,346)
Investment income	20									46,850	30,336
Other operating income, net	21									13,441	11,738
Transfer to Income Statement (page 18)										106,028	8,728

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

LIFE INSURANCE FUND BALANCE SHEET
AS AT 30 JUNE 2010

	Note	2010 RM'000	2009 RM'000
ASSETS			
Property, plant and equipment	3	33,527	25,734
Investment properties	4	453,210	463,210
Prepaid land lease payments	5	1,239	1,274
Intangible assets	6	59	105
Due from related companies	9	161	-
Investments	10	3,890,438	3,560,503
Loans	11	204,391	297,295
Trade and other receivables	13	82,712	77,917
Tax recoverable		14,827	14,827
Cash and bank balances		19,979	30,627
		<hr/>	<hr/>
Total life insurance fund asset (page 14)		4,700,543	4,471,492
		<hr/>	<hr/>
LIABILITIES AND POLICYHOLDERS' FUNDS			
Deferred tax liabilities	12	30,589	14,275
Provision for outstanding claims	17	16,100	14,809
Due to related companies	9	1,490	1,576
Trade and other payables	18	218,884	219,043
Tax payable		30,731	50,777
		<hr/>	<hr/>
Total life insurance fund liabilities (page 15)		297,794	300,480
Life policyholders' fund	16	4,402,749	4,171,012
		<hr/>	<hr/>
Total life insurance fund liabilities and policyholders' fund		4,700,543	4,471,492
		<hr/>	<hr/>

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

LIFE INSURANCE FUND REVENUE ACCOUNT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	2010 RM'000	2009 RM'000
Gross premiums	19	335,969	345,787
Reinsurance		<u>(13,832)</u>	<u>(6,088)</u>
Net premiums		<u>322,137</u>	<u>339,699</u>
Benefits paid and payable:			
Death		(69,386)	(72,649)
Maturity		(164,976)	(186,574)
Surrender		(126,573)	(133,293)
Cash bonus		(38,815)	(37,293)
Annuities		-	(1,325)
Reinsurance recoveries		(8,967)	(11,067)
Others		<u>4,423</u>	<u>1,114</u>
		<u>(404,294)</u>	<u>(441,087)</u>
		(82,157)	(101,388)
Commissions and agency expenses		(42,743)	(44,717)
Management expenses	22	<u>(61,380)</u>	<u>(59,808)</u>
		(186,280)	(205,913)
Investment income	20	241,029	214,395
Other operating income, net	21	<u>23,184</u>	<u>30,782</u>
Surplus before taxation		77,933	39,264
Taxation	24	<u>(17,821)</u>	<u>(23,604)</u>
Surplus after taxation		60,112	15,660
Life policyholders' fund at beginning of financial year			
- As previously stated		4,171,012	4,247,352
- Effects due to adoption of RBC Framework:			
Reversal of provision for diminution		4,375	-
Deferred tax effects of reversal of provision for diminution		(350)	-
Fair value effects of AFS financial assets		14,683	-
Deferred tax effects of AFS financial assets		(1,175)	-
- As restated		4,188,545	4,247,352
Movements in fair value of AFS assets, net of deferred tax		174,092	-
Transfer to Income Statements		<u>(20,000)</u>	<u>(92,000)</u>
Life policyholders' funds at end of financial year	16	<u>4,402,749</u>	<u>4,171,012</u>

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	2010	2009
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	157,936	132,612
Adjustments for:		
Depreciation of property, plant and equipment	3,268	1,646
Amortisation of intangible assets	183	1,051
Gain from disposal of investment property	(1,397)	-
Fair value loss/(gain) on investment properties	9,862	(9,810)
Amortisation of prepaid land lease payments	164	328
Decrease/(increase) in asset revaluation reserve	-	(16,531)
Accretion of discounts, net of amortisation of premiums	(16,701)	(14,317)
Gain on disposal of property, plant and equipment	(114)	(200)
Increase in premium liabilities, net	19,757	3,745
Increase/(decrease) in life policyholder's fund	40,112	(76,337)
Realised loss on foreign exchange	432	-
Write back for bad and doubtful debts	(3,842)	(3,827)
Net gain on disposal of investments	(56,735)	(39,220)
Capital gain on capital reduction in subsidiary	-	(12,578)
Interest income	(226,206)	(205,142)
Write back of provision for diminution in value of investments, net	-	3,753
Write back of impairment of investment properties	-	(320)
Gross dividend income	(42,839)	-
Rental income	(24,315)	-
Loss from operations before changes in operating assets and liabilities	(140,435)	(235,147)
Changes in working capital:		
(Increase)/decrease in trade receivables	(178,466)	17,995
Decrease in other receivables	(8,952)	57,657
Decrease/(increase) in loan receivable	111,749	(2,158)
Decrease in amounts due to related parties	(1,858)	(36,585)
Increase/(decrease) in other payables	49,855	(16,052)
Increase in outstanding claims	215,252	3,440
Increase/(decrease) in trade payables	185,143	(13,370)
(Increase)/decrease in fixed deposits	(111,749)	95,165

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

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

	2010	2009
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)		
Proceeds from disposal of investments	1,464,641	970,193
Purchase of investments	(1,512,317)	(1,060,237)
Investment income received	286,981	212,295
Cash generated from operations	<u>359,844</u>	<u>(6,804)</u>
Tax paid	(76,834)	(41,168)
Net cash generated/(used in) from operating activities	<u>283,010</u>	<u>(47,972)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	115	1,879
Proceeds from sale of investment property	4,907	(11,655)
Purchase of property, plant and equipment	(16,449)	-
Purchase of MGAB net assets	(267,054)	-
Proceeds from capital reduction in a subsidiary	-	65,909
Purchase of Investment in associates	(152)	(179)
Purchase of intangible assets	(116)	-
Net cash generated from/(used in) investing activities	<u>(278,749)</u>	<u>55,954</u>
Net increase in cash and cash equivalents	4,261	7,982
Cash and cash equivalents at beginning of financial year (as previously stated)	<u>80,763</u>	<u>72,781</u>
Transfer from MGAB	19,157	-
As restated	<u>99,920</u>	<u>72,781</u>
Cash and cash equivalents at end of financial year	<u>104,181</u>	<u>80,763</u>
Cash and cash equivalents comprise:		
Cash and bank balances:		
General insurance and shareholder's funds	84,202	50,136
Life insurance fund	19,979	30,627
	<u>104,181</u>	<u>80,763</u>

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2010

1. CORPORATE INFORMATION

The Company is principally engaged in the underwriting of life insurance and all classes of general insurance business. There have been no significant changes in the nature of the activities of the Company during the financial year.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.1 Basis of Preparation (cont'd)**

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

2.2 Summary of Significant Accounting Policies**(a) General Insurance Underwriting Results**

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, premium liabilities, commissions and claims liabilities and any other additional reserves.

(i) Premium Income

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

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

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

(ii) Premium Liabilities

Premium liabilities is the higher of the aggregate of the Unearned Premium Reserves ("UPR") for all lines of business and the best estimate value of the Unexpired Risk Reserves ("URR") with a Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at 75% confidence level at the overall company level. The URR requirement was established pursuant to the Framework which became effective on 1 January 2009.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(a) General Insurance Underwriting Results (cont'd)

(ii) Premium Liabilities (cont'd)

Unearned Premium Reserves

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

- 25% method for marine cargo and aviation cargo, and transit business.
- 1/24th method for all other classes of Malaysian policies reduced by the corresponding percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM as follows:

Motor and bonds	10%
Fire, engineering, aviation and marine hull	15%
Medical and health	
- Stand-alone individuals	15%
- Group of 3 or more	10%
Workmen compensation and employers' liability	
- Foreign workers	10%
- Others	25%
Other classes	25%
- 1/8th method for all classes of overseas inward treaty business with a deduction of 20% for commission.
- Non-annual policies are time apportioned over the period of the risks.

The long term UPR represents the portion of the net premiums of long term fire insurance policies underwritten after deducting the commission, that relate to the unexpired periods of policies at the end of the financial period.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (cont'd)****(a) General Insurance Underwriting Results (cont'd)****(ii) Premium Liabilities (cont'd)*****Unexpired Risk Reserves***

The URR is the prospective estimate of the expected future payments arising from future events insured under policies in expected to be incurred during the unexpired period as at the valuation date. In estimating URR, the loss ratio adjusted by taking into account all potential future payments including but not limited to future claims payments, claims handling expenses and on-going policy administration cost arising from the unearned portion of premium collected. In order to arrive at the 75% confidence level for URR, the proportionate PRAD is added with adjustments depending on the tail of each line of business.

(iii) Claim Liabilities

Claim liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date by an independent actuarial firm using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that includes PRAD at 99.5% confidence level on overall company level. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

Claim liabilities are recognised in respect of both direct insurance and inward reinsurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligations at the balance sheet date.

Provision is also made for the cost of claims together with related expenses, Incurred But Not Reported ("IBNR") at the balance sheet date, based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on an actual claims development pattern.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (Cont'd)

(a) General Insurance Underwriting Results (cont'd)

(iv) Acquisition Costs

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

(b) Life Insurance Underwriting Results

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

(i) Premium Income

Premium income represents premium recognised in the life insurance funds.

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

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

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

(ii) Provision for Claims

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(b) Life Insurance Underwriting Results (cont'd)

(ii) Provision for Claims (cont'd)

Claims and provisions for claims arising on life insurance policies, including

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

(iii) Commission and Agency Expenses

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

(c) Other Revenue Recognition

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

(i) Interest Income

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (cont'd)****(c) Other Revenue Recognition (cont'd)****(ii) Dividend Income**

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

(iii) Rental Income

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

(d) Employee Benefits**(i) Short-term Benefits**

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

(ii) Defined Contribution Plans

Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into separate funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient funds to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the income statement/revenue account as incurred. As required by law, the Company makes such contributions to the Employees Provident Fund ("EPF") and a foreign branch of a subsidiary makes contributions to that country's statutory pension scheme, the Singapore Central Provident Fund ("CPF") and Brunei Tabung Amanah Pekerja ("TAP").

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(e) Property, Plant and Equipment and Depreciation

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

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

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

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

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

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

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (Cont'd)****(f) Investment Properties**

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

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

Where investment properties are transferred from self-occupied properties, any gains arising from the change in the fair value of those investment properties are credited directly to equity in revaluation surplus. Any losses arising from the change in fair value are recognised in the income statement, to the extent that the losses offset any earlier gains already recognised in the revaluation surplus.

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (cont'd)****(g) Leases****(i) Classification**

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

(ii) Finance Leases - The Company as Lessee

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

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

(iii) Operating Leases - The Company as Lessor

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(g) Leases (cont'd)

(iii) Operating Leases - The Company as Lessor (cont'd)

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

(h) Intangible Assets

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

Amortisation is charged to the income statement/revenue account. The policy for recognition and measurement of impairment losses is in accordance with Note 2.2 (k).

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level.

The useful life of an intangible asset with an indefinite life is also reviewed annually to determine whether the useful life assessment continues to be supportable.

Computer Software are amortised over their finite useful lives of 2 - 5 years.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(i) Investments and Financial Assets

Prior to 1 July 2009

(i) Malaysian Government Securities and Other Approved Investments

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

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

(ii) Government Guaranteed Bonds and Unquoted Corporate Bonds

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

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

(iii) Quoted Investments

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(i) Investments and Financial Assets (cont'd)

(iv) Unquoted Investments

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

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

(v) Derivative Instruments

Derivative financial instruments are not recognised in the financial statements.

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

Subsequent to 30 June 2009

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

(vi) AFS financial assets

AFS financial assets are non-derivative financial assets not classified in any other categories.

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(i) Investments and Financial Assets (cont'd)

(vi) AFS financial assets (cont'd)

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

(j) Fair value of Investment

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

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

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

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (cont'd)****(k) Impairment****(i) Financial Assets**

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset is impaired includes observable data about loss events like significant financial difficulty of the insurer or obligor; significant adverse changes in the business environment in which the issuer or obligor operates and the disappearance of an active market for that financial asset because of financial difficulties which indicate that there is measurable decrease in the estimated future cash flows.

However, it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events is considered in determining whether an asset is impaired.

AFS financial assets

If an Available-for-Sale 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 Revenue Account/ Income Statement, is transferred from equity to Revenue Accounts/ Income Statement. Reversals in respect of equity instruments are not recognised in profit or loss. Reversals of impairment losses on debt instruments classified as Available-for-Sale are reversed through profit or loss 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 Revenue Accounts/ Income Statement.

When assessing the impairment of an equity instrument, the Company considers, in addition to observable data about loss events, whether there is significant or prolonged decline in the fair value of the equity instrument, and whether the cost of the investment in the equity instrument may be recovered. Where there is evidence that the cost of the investment in the equity instrument may not be recovered, impairment loss is provided.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(k) Impairment (Cont'd)

(ii) Non-Financial Assets

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

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

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated to reduce the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(l) Loans and receivables

Loans and receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for doubtful debts based on a review of all outstanding balances as at the balance sheet date. Specific provisions are made for any premiums including agents, brokers and reinsurers' balances which remain outstanding for more than six months (except for motor premium balances which remain outstanding for more than 30 days) from the date on which they become receivable.

(m) Payables

Payables are stated at the fair value of the consideration to be paid in the future for goods and services received.

(n) Foreign Currencies

(i) Functional and Presentation Currency

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

(ii) Foreign Currency Transactions

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in income statement/revenue account for the period.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(n) Foreign Currencies (cont'd)

(ii) Foreign Currency Transactions (cont'd)

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

(iii) Foreign Operations

Exchange differences arising from such non-monetary items are also recognised directly in equity.

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

- assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date.
- income and expenses for each income statement/revenue are translated at average exchange rates for the financial year, which approximate the exchange rates at the dates of the transactions.
- all resulting exchange differences are taken to the foreign currency translation reserve within equity.

The principal exchange rate for every unit of foreign exchange currency ruling at balance sheet date used for translation of foreign operation is as follows:

	2010	2009
Singapore Dollar	2.31	2.43
Brunei Dollar	2.32	2.40

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Summary of Significant Accounting Policies (cont'd)

(o) Subsidiaries and basis of non-consolidation

Investments in the wholly-owned subsidiaries of the Shareholder's Fund are stated at cost less provision for any impairment losses.

Subsidiaries are companies in which the Company has a long term equity interest and where it has the power to exercise control over the financial and operating policies so as to obtain benefits therefrom.

As permitted under sub-paragraph 5(4)(a) of the Ninth Schedule of the Companies Act, 1965, no consolidated financial statements are prepared as the Company itself is a wholly-owned subsidiary of Mayban Fortis Holdings Berhad ("MFHB"), a company incorporated in Malaysia. The registered office of MFHB is located at Level 19, Tower C, Dataran Maybank, No. 1, Jalan Maarof, 59000 Kuala Lumpur. The audited financial statements of the subsidiary company are annexed herewith in accordance with the said Act.

On disposal of investments in subsidiaries, the difference between net disposal proceeds and their carrying amount is recognised in the income statement.

(p) Associates and basis of non-consolidation

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

In the Company's financial statements, the investment in associate is stated at cost less impairment losses.

As permitted under FRS 128: Investments in Associate, the investment in associate has not been accounted for under the equity method because the ultimate holding company, Malayan Banking Berhad ("MBB"), produces financial statements that comply with approved FRS in Malaysia that are available for public use.

On disposal of investment in associate, the difference between the net disposal proceeds and its carrying amount is included in income statement.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.2 Summary of Significant Accounting Policies (cont'd)****(q) Income Tax**

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

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

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

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

(r) Cash and Cash Equivalents

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

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

(s) Equity Instruments

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

The changes in accounting policies are disclosed in Note 2.4.

Standards and interpretations issued but not yet effective

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

Effective for financial periods beginning on or after 1 January 2010

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

Effective for financial periods beginning on or after 1 July 2010

- (i) FRS 1 : First-time Adoption of Financial Reporting Standards
- (ii) FRS 3 : Business Combinations (revised)
- (iii) FRS 12: Consolidated and Separate Financial Statements (amended)

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

- (iv) Amendments to FRS 2 Share-based Payment
- (v) Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- (vi) Amendments to FRS 138 Intangible Assets
- (v) Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives
- (vii) IC Interpretation 12 Service Concession Arrangements
- (viii) IC Interpretation 15 Agreements for the Construction of Real Estate
- (ix) IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- (x) IC Interpretation 17 Distributions of Non-cash assets to Owners

Effective for financial periods beginning on or after 1 January 2011

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

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

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

(i) FRS 139 Financial Instruments: Recognition and Measurement

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(ii) FRS 4 Insurance Contracts

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

(iii) FRS 7 Financial Instruments: Disclosures

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

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

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

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Risk-Based Capital Framework for Insurers

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

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

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

Changes in Accounting Treatment

(a) Investments

i) Investment measured at AFS

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

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

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****2.4 Risk-Based Capital Framework for Insurers (cont'd)****Changes in Accounting Treatment (cont'd)****(b) Life insurance contract liabilities valued at Gross Premium valuation method**

With effect from 1 January 2009, liabilities of insurance business are determined in accordance with BNM's Risk-Based Capital Framework for insurers. All life insurance liabilities have been valued using a prospective actuarial valuation based on the sum of the present value of future benefits and expenses less future gross considerations arising from the policies discounted at the appropriate risk discounted rate. This method is known as the Gross Premium Valuation method.

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

(c) General insurance contract liabilities

The RBC framework introduced new features in the estimation of general insurance liabilities comprising of both premium liabilities and claim liabilities.

Prior to 1 April 2009, claim liabilities of the insurance subsidiary, EIB, were valued at best estimate which includes provision for claims reported and claims incurred but not reported ("IBNR"). Premium liabilities comprised of unearned premium reserves computed for all lines of business.

Under the RBC framework, claim liabilities are valued at best estimate with and additional Provision of Risk Margin for Adverse Deviation ("PRAD") at a 99.5% confidence level calculated at the overall Company level, allowing discounting, diversification and allowing the actuary to include inflation in the estimation.

Under the RBC framework, premium liabilities are reported at the higher of the aggregate of the unearned premium reserve ("UPR") for all lines of business and the best estimate value of the insurer's unexpired risk reserves ("URR") at the end of the financial year and the provision of risk margin for adverse deviation ("PRAD") calculated at 75% confidence level at the overall Company level.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Risk-Based Capital Framework for Insurers (cont'd)

Changes in Accounting Treatment (cont'd)

(c) General insurance contract liabilities (cont'd)

The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force at the end of the financial year including allowance for insurer's expenses.

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

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

	As at 1 July 2009 RM'000	Effects of RBC Framework Increase/ (Decrease) RM'000	Restated as at 1 July 2009 RM'000
General and Shareholders' fund			
Retained Earnings	898,624	(4,973)	893,651
- Change in valuation of claim liabilities		-	
- Change in valuation of premium liabilities		(14,580)	
- Deferred tax on change in valuation of premium and claim liabilities		3,645	
- Reversal of provision for diminution		7,949	
- Deferred tax on reversal of provision for diminution		(1,987)	
AFS Reserves	-	(13,962)	(13,962)
- Effect of fair value adjustments		(18,616)	
- Deferred tax effects		4,654	

ETIQA INSURANCE BERHAD
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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Risk-Based Capital Framework for Insurers (cont'd)

Changes in Accounting Treatment (cont'd)

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

Life funds	As at 1 July 2009 RM'000	Effects of RBC Framework Increase/ (Decrease) RM'000	Restated as at 1 July 2009 RM'000
Policyholders' Fund	4,171,012	4,025	4,175,037
- Actuarial liabilities	3,415,389	137,862	3,553,251
Change in valuation of actuarial liabilities		137,862	
- Unallocated surplus	755,623	(133,837)	621,786
Change in valuation of actuarial liabilities		(137,862)	
Reversal of provision for diminution		4,375	
Deferred tax effects on reversal of provision for diminution		(350)	
- AFS reserve	-	13,508	13,508
Fair value effects of AFS investments		14,683	
Deferred tax effects on fair value changes		(1,175)	

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Risk-Based Capital Framework for Insurers (cont'd)

Changes in Accounting Treatment (cont'd)

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

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

i) Effects on Balance Sheet as at 30 June 2010

	Increase/ (decrease) RM'000
General and Shareholders' fund	
Fair value of Investments	47,819
AFS reserves	36,311
Deferred tax liabilities	6,871
Life funds	
Fair value of Investments	203,914
AFS reserves	187,600
Deferred tax liabilities	16,313
Life policyholders' fund	5,482

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

	Increase/ (decrease) RM'000
General and Shareholders' fund	
Other operating income / (expenditure), net	(1,393)
Deferred taxation	348
Surplus before taxation	(1,393)
Surplus after taxation	(1,045)
Life funds	
Other operating income / (expenditure), net	(1,584)
Deferred taxation	127
Surplus before taxation	(1,584)
Surplus after taxation	(1,457)

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3 Significant Accounting Estimates and Judgments

(a) Critical judgements made in applying accounting policies

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

(i) Classification between investment properties and property, plant and equipment

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

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

(ii) Impairment of Available-for-Sale Assets

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3 Significant Accounting Estimates and Judgments (cont'd)

(b) Key Sources of Estimation Uncertainty

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

(i) Depreciation of Property, Plant and Equipment

The cost of a building's plant and equipment for example, elevators, lifts and others and the self-occupied properties are depreciated on a straight line basis over the estimated remaining useful lives. The Company estimates the useful lives of these plant and equipment to be within 5 to 10 years.

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

(ii) Valuation of Investment Properties

The measurement of the fair value for investment properties is arrived at by reference to market evidence of transaction prices for similar properties. Full valuations on investment properties are performed by firms of professional independent valuers at regular intervals, of not less than every 3 years. In intervening years, desktop valuations using comparable methods and investment methods are performed by internal qualified professionals to update the valuations.

(iii) Amortisation and Impairment of Other Intangible Assets

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

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3 Significant Accounting Estimates and Judgments (cont'd)****(b) Key Sources of Estimation Uncertainty (cont'd)****(iv) Uncertainty in accounting estimates for General Insurance**

The principal uncertainty in the general business arises from the technical provisions which include the provisions of premium and claims liabilities. The premium liabilities comprise unearned premium reserves while claim liabilities comprise provision for outstanding claims. The estimation bases for unearned premium reserves is explained in the related accounting policy statement.

Generally, claims liabilities are determined based upon previous claims experience, existing knowledge of events, the terms and conditions of the relevant policies and interpretation of circumstances. Particularly relevant is past experience with similar cases, historical claims development trends, legislative changes, judicial decisions and economic conditions. It is certain that actual future contribution and claims liabilities will not exactly develop as projected and may vary from the projections.

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

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations, legislative changes and claims handling procedures.

(v) Liabilities of life insurance business

With effect from 1 January 2009, liabilities of insurance business are determined in accordance with BNM's Risk-Based Capital Framework for insurers. All life insurance liabilities have been valued using a prospective actuarial valuation based on the sum of the present value of future benefits and expenses less future gross considerations arising from the policies discounted at the appropriate risk discounted rate. This method is known as the Gross Premium Valuation method.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

3 Significant Accounting Estimates and Judgments (cont'd)

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

(v) Liabilities of life insurance business (cont'd)

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

(vii) Deferred taxation

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

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

The total carrying value of recognised provisions for diminution in value of investments, provision for doubtful debts, net amortisation/accretion of premiums/discounts in investments, investment properties fair value adjustments and other temporary differences of the General Insurance and Shareholder's Funds is RM24,900,000 (2009: RM30,152,000) and the Life Insurance Fund is RM382,363,000 (2009: RM178,438,000).

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ETIQA INSURANCE BERHAD
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3. PROPERTY, PLANT AND EQUIPMENT

(a) General insurance and shareholder's funds

2010	Properties # RM'000	Furniture fittings, and equipment RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Renovation & building- in-progress RM'000	Total RM'000
Cost						
At 1 July 2009	13,215	29,994	63,207	204	-	106,620
Transfer from MGAB (Note 25)	50,477	30,421	11,724	285	62	92,969
Additions	-	3,073	69	342	-	3,484
Disposals	-	(1,148)	-	(164)	-	(1,312)
Transfer (to)/from:						
- Others	-	217	-	-	(62)	155
Translation differences	(143)	(138)	(31)	(16)	-	(328)
At 30 June 2010	<u>63,549</u>	<u>62,419</u>	<u>74,969</u>	<u>651</u>	<u>-</u>	<u>201,588</u>

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ETIQA INSURANCE BERHAD
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3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) General insurance and shareholder's funds

2010	Properties # RM'000	Furniture fittings, and equipment RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Renovation & building- in-progress RM'000	Total RM'000
Accumulated Depreciation and Impairment Losses						
At 1 July 2009 (as previously stated)	5,864	27,275	62,944	204	-	96,287
Transfer from MGAB (Note 25)	10,232	27,429	11,597	285	-	49,543
Depreciation charge for the year	1,082	1,720	171	15	-	2,988
Disposals	-	(1,147)	-	(164)	-	(1,311)
Transfer (to)/from:						
- Others	-	155	-	-	-	155
Translation differences	(95)	(92)	(25)	(15)	-	(227)
At 30 June 2010	<u>17,083</u>	<u>55,340</u>	<u>74,687</u>	<u>325</u>	<u>-</u>	<u>147,435</u>
Net Book Value	<u>46,466</u>	<u>7,079</u>	<u>282</u>	<u>326</u>	<u>-</u>	<u>54,153</u>

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3. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) General insurance and shareholder's funds (cont'd)

	Properties # RM'000	Furniture fittings and equipment RM'000	Computers and peripherals RM'000	Motor vehicles RM'000	Renovation & building- in-progress RM'000	Total RM'000
2009						
Cost						
At 1 July 2008	18,513	27,436	62,865	204	1,046	110,064
Additions	-	2,712	318	-	-	3,030
Disposals	(1,107)	-	-	-	-	(1,107)
Transfer (to)/from:						
- Investment properties	(5,518)	-	-	-	-	(5,518)
- Prepaid land lease payments	1,327	-	-	-	-	1,327
- Others	-	(154)	24	-	(1,046)	(1,176)
At 30 June 2009	13,215	29,994	63,207	204	-	106,620
Accumulated Depreciation and Impairment Losses						
At 1 July 2008	8,807	27,120	62,590	204	-	98,721
Charge for the year	139	309	330	-	-	778
Disposals	(417)	-	-	-	-	(417)
Transfer (to)/from:						
- Investment properties	(3,052)	-	-	-	-	(3,052)
- Prepaid land lease payments	523	-	-	-	-	523
- Others	-	(154)	24	-	-	(130)
Provision for impairment	(136)	-	-	-	-	(136)
At 30 June 2009	5,864	27,275	62,944	204	-	96,287
Net Book Value	7,351	2,719	263	-	-	10,333

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

(a) General insurance and shareholder's funds (cont'd)

Properties consist of:

	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
2010				
Cost				
At 1 July 2009	2,820	6,705	3,690	13,215
Transfer from MGAB (Note 25)	-	-	50,477	50,477
Addition	-	-	-	-
Disposal	-	-	-	-
Translation differences	-	-	(144)	(144)
At 30 June 2010	<u>2,820</u>	<u>6,705</u>	<u>54,023</u>	<u>63,548</u>
Accumulated Depreciation and Impairment Losses				
At 1 July 2009	-	4,682	1,182	5,864
Transfer from MGAB (Note 25)	-	-	10,232	10,232
Charge for the year	-	-	1,082	1,082
Disposal	-	-	-	-
Translation differences	-	-	(96)	(96)
At 30 June 2010	<u>-</u>	<u>4,682</u>	<u>12,400</u>	<u>17,082</u>
Net Book Value	<u>2,820</u>	<u>2,023</u>	<u>41,623</u>	<u>46,466</u>

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

(a) General insurance and shareholder's funds (cont'd)

2009	Freehold land RM'000	Buildings on freehold land RM'000	Buildings on leasehold land RM'000	Total RM'000
Cost				
At 1 July 2008	3,697	8,932	5,884	18,513
Disposal	(384)	(723)	-	(1,107)
Transfer (to)/from:				
- Investment properties	(493)	(1,504)	(3,521)	(5,518)
- Prepaid land lease payment	-	-	1,327	1,327
At 30 June 2009	<u>2,820</u>	<u>6,705</u>	<u>3,690</u>	<u>13,215</u>
Accumulated Depreciation and Impairment Losses				
At 1 July 2008	-	5,777	3,030	8,807
Charge for the year	-	32	107	139
Disposal	-	(417)	-	(417)
Transfer (to)/from:				
- Investment properties	-	(574)	(2,478)	(3,052)
- Prepaid land lease payment	-	-	523	523
Impairment losses	-	(136)	-	(136)
At 30 June 2009	<u>-</u>	<u>4,682</u>	<u>1,182</u>	<u>5,864</u>
Net Book Value	<u>2,820</u>	<u>2,023</u>	<u>2,508</u>	<u>7,351</u>

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

(b) Life insurance fund

	Freehold land RM '000	Buildings on freehold land RM '000	Furniture fittings, and equipment RM '000	Motor vehicles RM'000	Computers and peripherals RM '000	Renovation & building- in-progress RM '000	Total RM'000
2010							
Cost							
At 1 July 2009	800	1,305	8,196	-	19,211	18,558	48,070
Additions	-	-	948	97	7	11,913	12,965
Disposals	-	-	(418)	-	-	-	(418)
Reclassification	-	-	-	-	(4,536)	4,536	-
Adjustments	-	-	(262)	-	190	(4,830)	(4,902)
At 30 June 2010	800	1,305	8,464	97	14,872	30,177	55,715
Accumulated Depreciation and Impairment Losses							
At 1 July 2009	-	475	7,136	-	14,725	-	22,336
Charge for the year	-	18	154	9	89	-	270
Disposals	-	-	(418)	-	-	-	(418)
At 30 June 2010	-	493	6,872	9	14,814	-	22,188
Net Book Value	800	812	1,592	88	58	30,177	33,527

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

(b) Life insurance fund (cont'd)

	Freehold land RM '000	Buildings on freehold land RM '000	Furniture fittings, and equipment RM '000	Motor vehicles RM '000	Computers and peripherals RM '000	Renovation & building- in-progress RM '000	Total RM'000
2009							
Cost							
At 1 July 2008	1,200	905	7,468	-	19,387	10,866	39,826
Additions	-	-	728	-	107	7,692	8,527
Reclassification	(400)	400	-	-	-	-	-
Adjustments	-	-	-	-	(283)	-	(283)
At 30 June 2009	800	1,305	8,196	-	19,211	18,558	48,070
Accumulated Depreciation and Impairment Losses							
At 1 July 2008	-	455	6,974	-	14,039	-	21,468
Charge for the year	-	20	162	-	686	-	868
Reclassification	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-
At 30 June 2009	-	475	7,136	-	14,725	-	22,336
Net Book Value	800	830	1,060	-	4,486	18,558	25,734

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4. INVESTMENT PROPERTIES

(a) General insurance and shareholder's funds

	Leasehold buildings	
	2010	2009
	RM'000	RM'000
At 1 July	38,590	1,700
Transfer from MGAB (Note 25)	990	
Disposal	(3,510)	-
Fair value adjustment	(200)	16,532
Transfer from:		
- Property, plant and equipment	-	2,466
- Prepaid land lease payments	-	17,892
At 30 June	35,870	38,590

(b) Life insurance fund

	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Total RM'000
2010			
At 1 July 2009	381,310	81,900	463,210
Fair value adjustment	(10,000)	-	(10,000)
At 30 June 2010	371,310	81,900	453,210
2009			
At 1 July 2008	370,012	83,388	453,400
Fair value adjustment	9,910	(100)	9,810
Reclassification	1,388	(1,388)	-
At 30 June 2009	381,310	81,900	463,210

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5. PREPAID LAND LEASE PAYMENTS

	General insurance and shareholder's funds		Life insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Long term leasehold land:				
Cost				
At 1 July	1,212	24,978	1,300	1,300
Transfer from MGAB (Note 25)	8,894	-	-	-
Reclassification to plant and equipment	-	(1,327)	-	-
Transfers to investment properties	-	(22,439)	-	-
At 30 June	<u>10,106</u>	<u>1,212</u>	<u>1,300</u>	<u>1,300</u>
Accumulated amortisation				
At 1 July	409	5,177	26	-
Transfer from MGAB (Note 25)	910	-	-	-
Charge for the financial year	129	302	35	26
Reclassification (to)/from plant and equipment	-	(523)	-	-
Transfers to investment properties	-	(4,547)	-	-
At 30 June	<u>1,448</u>	<u>409</u>	<u>61</u>	<u>26</u>
Accumulated impairment loss				
At 1 July	-	184	-	-
Reversal for the financial year	-	(184)	-	-
At 30 June	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 30 June	<u>8,658</u>	<u>803</u>	<u>1,239</u>	<u>1,274</u>

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6. INTANGIBLE ASSETS

	General insurance and shareholder's funds		Life insurance fund	
	2010	2009	2010	2009
Cost	RM'000	RM'000	RM'000	RM'000
At 1 July	14,173	14,017	13,735	13,555
Transfer from MGAB (Note 25)	6,725	-	-	-
Additions	116	156	-	179
Reclassification	-	-	-	1
Translation difference	(35)	-	-	-
At 30 June	<u>20,979</u>	<u>14,173</u>	<u>13,735</u>	<u>13,735</u>
Accumulated amortisation				
At 1 July	13,976	13,844	13,630	12,711
Transfer from MGAB (Note 25)	6,669	-	-	-
Amortisation for the year	138	132	46	919
Translation difference	(31)	-	-	-
At 30 June	<u>20,752</u>	<u>13,976</u>	<u>13,676</u>	<u>13,630</u>
Net book value at 30 June	<u>227</u>	<u>197</u>	<u>59</u>	<u>105</u>

7. INVESTMENT IN SUBSIDIARY

General insurance and shareholder's funds	2010	2009
Unquoted shares, at cost	RM1	RM1
No. of shares	1	1

Name of company	Effective interest (%)		Principal activity
	2010	2009	
Double Care Sdn Bhd ("DCSB") (incorporated in Malaysia)	100.00	100.00	Dormant

On 26 October 2009, the company has passed a Special Resolution to commence winding up. The company will be dissolved upon completion of all significant procedures relating to the winding up of the Company.

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8. INVESTMENT IN ASSOCIATE

General insurance and shareholder's funds

	2010 RM'000	2009 RM'000
Unquoted shares, at cost	152	-

The associate company is as follows : -

Name of company	Effective interest		Principal activity
	2010	2009	
Asian Forum Inc. (incorporated in Federal Territory of Labuan, Malaysia)	33.33	-	Offshore captive insurance

The summarised financial information of the associate is as follows:

	2010 RM'000
Assets and liabilities	
Current assets	18,658
Non-current assets	-
Total assets	<u>18,658</u>
Current liabilities	12,177
Non-current liabilities	906
Total liabilities	<u>13,083</u>
Share of net assets @ 33.33%	<u>1,858</u>
Results	
Revenue	322
Share of profits @ 33.33%	<u>107</u>

The financial year end of the associate is 31 December. For the purpose of the disclosures above, the audited financial statement of the associate and its management financial statement for the 3-months period ended 31 March 2010 was used.

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9. DUE FROM / TO RELATED COMPANIES

(a) General insurance and shareholder's funds

	2010	2009
	RM'000	RM'000
Due from holding company	1,878	-
Due from related companies	3,479	1,204
	<u>5,357</u>	<u>1,204</u>
Due to holding company	1,876	1,121
Due to related companies	2,092	305
	<u>3,968</u>	<u>1,426</u>

(b) Life insurance fund

Due from related companies	<u>161</u>	<u>-</u>
Due to related companies	<u>1,490</u>	<u>1,576</u>

The amounts due from/to holding company, subsidiaries and related companies are unsecured, non-trade in nature, interest-free and have no fixed terms of repayment.

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10. INVESTMENTS

(a) General insurance and shareholder's funds

	2010		2009	
	Cost RM'000	Fair value RM'000	Cost RM'000	Market value RM'000
Malaysian Government Securities ("MGS")	68,407		78,857	
Net amortisation of premiums	(664)		(272)	
	<u>67,743</u>	<u>68,023</u>	<u>78,585</u>	<u>78,163</u>
Government Investment Issues ("GII")	33,173		25,090	
Net accretion of discounts	3,790		2,912	
	<u>36,963</u>	<u>37,396</u>	<u>28,002</u>	<u>28,528</u>
Singapore Government Securities ("SGS")	49,155		-	
Net amortisation of premiums	(246)		-	
	<u>48,909</u>	<u>50,067</u>	<u>-</u>	<u>-</u>
Malaysian Government guaranteed bonds ("MGGB")	106,127		72,291	
Net amortisation of premiums	(1,017)		(1,854)	
	<u>105,110</u>	<u>107,620</u>	<u>70,437</u>	<u>69,134</u>
Negotiable Certificates of Deposit ("NCD")	41,102		20,956	
Net amortisation of premiums	(885)		(615)	
	<u>40,217</u>	<u>40,000</u>	<u>20,341</u>	<u>20,924</u>
Structured deposits Local	60,000	53,492	70,000	-
Quoted in Malaysia: Shares and warrants of corporations	126,204		96,362	
Provision for diminution in value	-		(2,070)	
	<u>126,204</u>	<u>174,104</u>	<u>94,292</u>	<u>97,609</u>

ETIQA INSURANCE BERHAD
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10. INVESTMENTS (CONT'D)

(a) General insurance and shareholder's funds (cont'd)

	2010		2009	
	Cost RM'000	Fair value RM'000	Cost RM'000	Market value RM'000
Unit and property trusts	8,323		10,708	
Provision for diminution in value	-		(958)	
	<u>8,323</u>	<u>9,608</u>	<u>9,750</u>	<u>9,750</u>
Quoted outside Malaysia:				
Bonds/loan stocks	40,932		-	
Net amortisation of premiums	(531)		-	
	<u>40,401</u>	<u>42,407</u>	<u>-</u>	<u>-</u>
Shares and warrants of corporations	<u>770</u>	<u>1,362</u>	<u>-</u>	<u>-</u>
Unit and property trusts	3,821		-	
Provision for diminution in value	(1,393)		-	
	<u>2,428</u>	<u>2,383</u>	<u>-</u>	<u>-</u>
Unquoted in Malaysia:				
Bonds/loan stocks	628,032		461,171	
Net accretion of discounts	6,113		981	
	<u>634,145</u>	<u>633,923</u>	<u>462,152</u>	<u>453,148</u>
Shares and warrants of corporations	48,018		47,500	
Provision for diminution in value	-		(2,696)	
	<u>48,018</u>	<u>45,502</u>	<u>44,804</u>	<u>44,804</u>
Unit and property trusts	<u>1,161</u>	<u>620</u>	<u>-</u>	<u>-</u>

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10. INVESTMENTS (CONT'D)

(a) General insurance and shareholder's funds (cont'd)

	2010		2009	
	Cost RM'000	Fair value RM'000	Cost RM'000	Market value RM'000
Unquoted outside Malaysia:				
Bonds/loan stocks	15,628		-	
Net accretion of discounts	65		-	
	<u>15,693</u>	<u>16,614</u>	<u>-</u>	<u>-</u>
Shares and warrants of corporations	<u>3,445</u>	<u>4,228</u>	<u>-</u>	<u>-</u>
Fixed and call deposits with:				
Licensed commercial banks	<u>371,320</u>		<u>281,653</u>	
	<u>371,320</u>	<u>371,320</u>	<u>281,653</u>	<u>-</u>
TOTAL INVESTMENTS	<u>1,610,850</u>	<u>1,658,669</u>	<u>1,160,016</u>	<u>802,060</u>

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10. INVESTMENTS (CONT'D)

(a) General insurance and shareholder's funds (cont'd)

(i) Maturity structure of investments, at balance sheet date

2010	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
MGS	-	-	53,729	14,294	68,023
GII	-	22,209	-	15,187	37,396
SGS	-	-	6,411	43,656	50,067
MGGB	-	-	-	107,620	107,620
NCD	40,000	-	-	-	40,000
Structured deposits:					
- Local	-	18,794	34,698	-	53,492
Quoted bonds/loan stocks of corporations:					
- Outside Malaysia	-	14,388	4,780	23,239	42,407
Unquoted bonds/ loan stocks of corporations:					
- In Malaysia	44,456	203,771	102,093	283,603	633,923
- Outside Malaysia	-	7,036	7,144	2,434	16,614
Fixed and call deposits	328,320	43,000	-	-	371,320

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10. INVESTMENTS (CONT'D)

(a) General insurance and shareholder's funds (cont'd)

(i) Maturity structure of investments, at balance sheet date (cont'd)

2009	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
MGS	3,082	-	64,549	11,226	78,857
GII	-	15,330	-	9,760	25,090
MGGB	-	-	10,000	62,291	72,291
NCD	5,036	15,920	-	-	20,956
Structured deposits:					
- Local	20,000	10,000	40,000	-	70,000
Unquoted bonds/loan stocks of corporations:					
- In Malaysia	15,492	98,685	101,237	245,757	461,171
Fixed and call deposits	238,653	43,000	-	-	281,653

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

	2010 % p.a	2009 % p.a
MGS	3.52	3.89
GII	3.21	4.17
SGS	3.38	-
MGGB	4.27	4.41
NCD	2.62	4.71
Structured deposits:		
- Local	0.5	1.57
Quoted bonds/loan stocks of corporations:		
- Outside Malaysia	4.22	-
Unquoted bonds/loan stocks of corporations:		
- In Malaysia	5.23	5.52
- Outside Malaysia	2.97	-
Fixed and call deposits with:		
- Licensed commercial banks	2.07	1.23

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10. INVESTMENTS (CONT'D)
(b) Life insurance fund

	2010		2009	
	Cost RM'000	Fair value RM'000	Cost RM'000	Market value RM'000
MGS	217,102		237,403	
Net amortisation of premiums	(532)		(268)	
	<u>216,570</u>	<u>232,703</u>	<u>237,135</u>	<u>249,370</u>
GII	61,073		65,931	
Net accretion of discounts	63		221	
	<u>61,136</u>	<u>61,184</u>	<u>66,152</u>	<u>65,179</u>
Cagamas bonds	4,674		4,674	
Net accretion of discounts	255		208	
	<u>4,929</u>	<u>5,068</u>	<u>4,882</u>	<u>5,069</u>
Quoted in Malaysia:				
Shares and warrants of corporations	<u>285,442</u>	<u>420,451</u>	<u>217,558</u>	<u>239,522</u>
Unit and property trusts:				
Quoted in Malaysia	12,089		32,601	
Provision for diminution in value	-		(4,179)	
	<u>12,089</u>	<u>13,980</u>	<u>28,422</u>	<u>28,754</u>
Unquoted in Malaysia:				
Shares of corporations	58,455		58,455	
Provision for diminution in value	-		(196)	
	<u>58,455</u>	<u>58,259</u>	<u>58,259</u>	<u>58,259</u>
Unit and property trusts:				
Unquoted in Malaysia	<u>19,030</u>	<u>15,753</u>	-	-

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10. INVESTMENTS (CONT'D)

(b) Life insurance fund (cont'd)

	2010		2009	
	Cost RM'000	Fair value RM'000	Cost RM'000	Market value RM'000
Bonds/loan stocks	1,988,516		1,925,742	
Net accretion of discounts	33,397		27,730	
Provision for impairment	(1,584)		(1,723)	
	<u>2,020,329</u>	<u>2,086,124</u>	<u>1,951,749</u>	<u>1,962,763</u>
Government guaranteed bonds	270,652		234,996	
Net amortisation of premiums	(2,035)		(2,765)	
	<u>268,617</u>	<u>272,688</u>	<u>232,231</u>	<u>224,566</u>
NCD	183,916		234,063	
Net accretion of discounts	16,991		12,114	
	<u>200,907</u>	<u>205,972</u>	<u>246,177</u>	<u>254,922</u>
Structured deposits - local	<u>195,000</u>	<u>174,236</u>	<u>196,000</u>	<u>-</u>
Fixed and call deposits with:				
Licensed commercial banks	279,769		258,890	
Other financial institutions ¹	64,251		63,048	
	<u>344,020</u>	<u>344,020</u>	<u>321,938</u>	<u>-</u>
TOTAL INVESTMENTS	<u>3,686,524</u>	<u>3,890,438</u>	<u>3,560,503</u>	<u>3,088,404</u>

¹ Other financial institutions comprise of investment banks.

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(i) Maturity structure of investments, at balance sheet date

2010	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
MGS	-	20,310	21,264	191,129	232,703
GII	-	-	25,913	35,271	61,184
Cagamas bonds	-	5,068	-	-	5,068
Unquoted bonds					
loan stocks of					
corporations	110,793	307,902	352,677	1,314,752	2,086,124
Government					
guaranteed bonds	-	20,512	-	252,176	272,688
NCD	106,313	88,823	-	10,836	205,972
Structured deposits					
- Local	-	56,385	117,851	-	174,236
Fixed and call					
deposits	187,020	157,000	-	-	344,020

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10. INVESTMENTS (CONTD.)

Life Insurance fund (cont'd)

(i) Maturity structure of investments, at balance sheet date (cont'd)

2009	< 1 year RM'000	1 to < 3 years RM'000	3 to 5 years RM'000	> 5 years RM'000	Total RM'000
MGS	4,028	-	62,580	170,795	237,403
GII	-	-	-	65,931	65,931
Cagamas bonds	-	4,674	-	-	4,674
Unquoted bonds loan stocks of corporations	75,812	265,497	302,027	1,282,406	1,925,742
Government guaranteed bonds	35,000	-	20,000	179,996	234,996
NCD	50,146	156,995	17,596	9,326	234,063
Structured deposits					
- Local	-	60,000	60,000	76,000	196,000
Fixed and call deposits	164,938	157,000	-	-	321,938

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

	2010 % p.a.	2009 % p.a.
MGS	4.82	4.77
GII	3.94	4.00
Cagamas bonds	4.95	4.95
Unquoted bonds/loans stocks of corporations	5.97	6.02
Government guaranteed bonds	4.85	4.53
NCD	5.05	4.89
Structured deposits	0.89	2.40
Fixed and call deposits with:		
- Licensed commercial banks	2.30	2.67
- Other financial institutions	0.49	-

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11. LOANS

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Policy/automatic premium loans	-	-	162,096	158,248
Corporate loans	21,033	48,064	17,716	11,924
Secured loans				
Staff	11,196	3,010	9,176	16,038
Others	512	373	21,071	117,068
Unsecured loans	53	53	-	-
	<u>32,794</u>	<u>51,500</u>	<u>210,059</u>	<u>303,278</u>
Interest in suspense	-	-	-	(5,886)
Provision for doubtful debts	(564)	(425)	(5,668)	(97)
	<u>32,230</u>	<u>51,075</u>	<u>204,391</u>	<u>297,295</u>
Receivable within 12 months	37	50	132,891	953
Receivable after 12 months	32,193	51,025	71,500	296,342
	<u>32,230</u>	<u>51,075</u>	<u>204,391</u>	<u>297,295</u>

The weighted average rates of return of loans at the balance sheet date were as follows:

	General insurance and shareholder's funds		Life Insurance fund	
	2010	2009	2010	2009
Policy/automatic premium loans	n/a	n/a	8.00%	8.00%
Corporate loans	5.54%	5.16%	5.00%	9.50%
Secured loans				
Staff	3.55%	3.00%	3.52%	3.25%
Others	0.00%	0.00%	4.93%	5.21%
Unsecured loans	4.00%	4.00%	n/a	n/a

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12. DEFERRED TAXATION

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At beginning of financial year (as previously stated)	7,538	14,699	(14,275)	(13,939)
Effect of adopting RBC Framework				
- Changes to insurance liabilities	3,645	-	-	-
- Changes to measurement of investments	2,667	-	(1,525)	-
At beginning of financial year (as restated)	13,850	14,699	(15,800)	(13,939)
Transfer from MGAB	(1,631)	-	-	-
Exchange differences	-	-	-	-
Recognised in the income statement (Note 24)	(4,087)	(3,646)	349	(336)
Recognised in AFS reserve	(16,162)	-	(15,138)	-
Reversal of fair value adjustments	-	-	-	-
Recognised in Revaluation Reserve	64	(3,515)	-	-
At end of financial year	(7,966)	7,538	(30,589)	(14,275)

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

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Presented after appropriate offsetting as follows:				
Deferred tax assets	9,359	10,109	224	550
Deferred tax liabilities	(17,325)	(2,571)	(30,813)	(14,825)
	(7,966)	7,538	(30,589)	(14,275)

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

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12. DEFERRED TAXATION (CONT'D)

Deferred Tax Liabilities

2010

(a) General insurance and shareholder's funds

	Accelerated capital allowances RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	AFS Reserve RM'000	General insurance liabilities RM'000	Others RM'000	Total RM'000
At 1 July 2009 (as previously stated)	(624)	(48)	(1,785)	-	-	(114)	(2,571)
Effects of adoption of RBC Framework							
- Effect due to change in valuation of insurance liabilities	-	-	-	-	3,645	-	3,645
- Effect due to fair value movement of investment assets	-	-	-	4,654	-	-	4,654
At 1 July 2009 (as restated)	(624)	(48)	(1,785)	4,654	3,645	(114)	5,728
Transfer from MGAB	(3,983)	-	-	-	-	-	(3,983)
Recognised in AFS reserve	-	-	-	(16,162)	-	-	(16,162)
Recognised in income statement	2,816	(2,444)	(803)	-	(2,591)	114	(2,908)
At 30 June 2010	(1,791)	(2,492)	(2,588)	(11,508)	1,054	-	(17,325)

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12. DEFERRED TAXATION (CONT'D)

Deferred Tax Liabilities (cont'd)

(b) Life insurance fund

	Accelerated capital allowance on property and equipment RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	AFS Reserve RM'000	Others RM'000	Total RM'000
At 1 July 2009 (as previously stated)	(325)	(2,014)	(11,517)	-	(969)	(14,825)
Effects of adoption of RBC Framework						
- Effect due to fair value movement of investment assets	-	-	-	(1,175)	-	(1,175)
At 1 July 2009 (as restated)	(325)	(2,014)	(11,517)	(1,175)	(969)	(16,000)
Recognised in AFS reserve	-	-	-	(15,138)	-	(15,138)
Recognised in the income statement	231	(441)	800	-	(265)	325
At 30 June 2010	(94)	(2,455)	(10,717)	(16,313)	(1,234)	(30,813)

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12. DEFERRED TAXATION (CONT'D)

Deferred Tax Liabilities (cont'd)

2009

(a) General insurance and shareholder's funds

	Accelerated capital allowances RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	Others RM'000	Total RM'000
At 1 July 2008	(31)	(192)	-	-	(223)
Recognised in the income statement	(593)	144	1,730	(114)	1,167
asset revaluation reserve	-	-	(3,515)	-	(3,515)
At 30 June 2009	(624)	(48)	(1,785)	(114)	(2,571)

(b) Life insurance fund

	Accelerated capital allowance on property and equipment RM'000	Net accretion of discounts on investments RM'000	Fair value adjustment RM'000	Others RM'000	Total RM'000
At 1 July 2008	(462)	(1,398)	(11,746)	(908)	(14,514)
Recognised in the income statement	137	(616)	229	(61)	(311)
At 30 June 2009	(325)	(2,014)	(11,517)	(969)	(14,825)

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12. DEFERRED TAXATION (CONT'D)

Deferred Tax Assets

2010

(a) General insurance and shareholder's funds

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Net amortisation of premiums RM'000	Others RM'000	Total RM'000
At 1 July 2009 (as previously stated)	1,494	8,182	433	-	10,109
Effects of adoption of RBC Framework					
- Effect due to fair value movement of investment assets	(1,987)	-	-	-	(1,987)
At 1 July 2009 (as restated)	(493)	8,182	433	-	8,122
Transfer from MGAB	536	339	-	1,477	2,352
Recognised in the income statement	(43)	(370)	410	(1,176)	(1,179)
Recognised in revaluation reserve	-	-	-	64	64
At 30 June 2010	-	8,151	843	365	9,359

(b) Life insurance fund

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Net amortisation of premium RM'000	Total RM'000
At 1 July 2009 (as previously stated)		350	200	550
Effects of adoption of RBC Framework				
- Effect due to fair value movement of investment assets	(350)	-	-	(350)
At 1 July 2009 (as restated)	-	200	-	200
Recognised in the income statement	-	24	-	24
At 30 June 2010	-	224	-	224

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12. DEFERRED TAXATION (CONT'D)

Deferred Tax Assets (cont'd)

2009

(a) General insurance and shareholder's funds

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Net amortisation of premiums RM'000	Others RM'000	Total RM'000
At 1 July 2008	938	9,548	131	4,305	14,922
Recognised in the income statement	556	(1,366)	302	(4,305)	(4,813)
At 30 June 2009	1,494	8,182	433	-	10,109

(b) Life insurance fund

	Provision for diminution in value of investments RM'000	Provision for doubtful debts RM'000	Net amortisation of premium RM'000	Total RM'000
At 1 July 2008		352	223	575
Recognised in the income statement		(2)	(23)	(25)
At 30 June 2009		350	200	550

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13. TRADE AND OTHER RECEIVABLES

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade receivables:				
Outstanding premiums including agents, brokers and co-insurers balances	287,565	119,421	23,248	17,791
Provision for doubtful debts	(15,473)	(17,219)	(2,798)	(2,212)
	<u>272,092</u>	<u>102,202</u>	<u>20,450</u>	<u>15,579</u>
Amount due from reinsurers and ceding companies	36,100	22,293	6,077	11,901
Provision for doubtful debts	(14,934)	(10,883)	(4,067)	(3,840)
	<u>21,166</u>	<u>11,410</u>	<u>2,010</u>	<u>8,061</u>
Other receivables:				
Sundry receivables, deposits and prepayments	26,979	19,581	7,633	2,679
Provision for doubtful debts	(178)	-	(669)	-
	<u>26,801</u>	<u>19,581</u>	<u>6,964</u>	<u>2,679</u>
Income due and accrued	15,791	10,767	53,288	51,933
Provision for doubtful debts	(105)	(2,475)	-	(334)
Amount due from:				
- Life fund*	92,433	97,690	-	-
	<u>134,920</u>	<u>125,563</u>	<u>60,252</u>	<u>54,278</u>
TOTAL RECEIVABLES	<u>428,178</u>	<u>239,175</u>	<u>82,712</u>	<u>77,918</u>

* The amount due from life fund is unsecured, not subject to any interest/profit elements and have no fixed terms of repayment.

14. SHARE CAPITAL

	Number of shares		Amount	
	2010 '000	2009 '000	2010 RM'000	2009 RM'000
Authorised				
Ordinary shares of RM1.00 each				
At beginning/end of year	500,000	500,000	500,000	500,000

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14. SHARE CAPITAL (CONT'D)

	Number of shares		Amount	
	2010 '000	2009 '000	2010 RM'000	2009 RM'000
Issued and fully paid				
Ordinary shares of RM1.00 each				
At beginning/end of year	152,151	152,151	152,151	152,151

15. PREMIUM LIABILITIES
General insurance fund

2010	Fire RM'000	Motor RM'000	Marine, Aviation and	Miscell- anous RM'000	Total RM'000
			Transit RM'000		
Short term :					
At 1 July 2009	17,909	62,722	7,977	23,142	111,750
Effects of adoption of RBC Framework	(16,612)	35,567	(3,182)	17,497	33,270
At 1 July 2009 (as restated)	1,297	98,289	4,795	40,639	145,020
Transfer from MGAB	34,055	39,708	1,587	45,705	121,055
Increase/(decrease) in premium liabilities	3,050	17,916	1,088	(3,288)	18,766
At 30 June 2010	38,402	155,913	7,470	83,056	284,841
Long term :					
At 1 July 2009	46,265	5	955	1,080	48,305
Effects of adoption of RBC Framework	(18,797)	319	(448)	236	(18,690)
At 1 July 2009 (as restated)	27,468	324	507	1,316	29,615
Increase/(decrease) in premium liabilities	(2,593)	975	1,106	1,503	991
At 30 June 2010	24,875	1,299	1,613	2,819	30,606
TOTAL	63,277	157,212	9,083	85,875	315,447
Total increase/ (decrease) for the year	457	18,891	2,194	(1,785)	19,757

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15. PREMIUM LIABILITIES (CONT'D)

General insurance fund

2009	Fire RM'000	Motor RM'000	Marine, Aviation and Transit RM'000	Miscell- anous RM'000	Total RM'000
Short term :					
At 1 July 2008	18,402	58,753	14,956	20,086	112,197
(Decrease)/increase in premium liabilities	(493)	3,969	(6,979)	3,056	(447)
Translation differences	-	-	-	-	-
At 30 June 2009	<u>17,909</u>	<u>62,722</u>	<u>7,977</u>	<u>23,142</u>	<u>111,750</u>
Long term :					
At 1 July 2008	43,803	36	42	231	44,112
Increase/(decrease) in premium liabilities	2,462	(31)	913	849	4,193
At 30 June 2009	<u>46,265</u>	<u>5</u>	<u>955</u>	<u>1,080</u>	<u>48,305</u>
TOTAL	<u>64,174</u>	<u>62,727</u>	<u>8,932</u>	<u>24,222</u>	<u>160,055</u>
Total increase/ (decrease) for the year	<u>1,969</u>	<u>3,938</u>	<u>(6,066)</u>	<u>3,905</u>	<u>3,746</u>

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16. LIFE POLICYHOLDERS' FUNDS

Life insurance fund	Note	2010 RM'000	2009 RM'000
Actuarial liabilities			
At beginning of financial year (as previously stated)		3,415,389	3,462,671
Effects due to adoption of RBC framework:			
- Change in valuation of actuarial liabilities	2.4	137,862	-
At beginning of financial year (as restated)		3,553,251	3,462,671
Add: Increase/(decrease) in policy reserves		24,270	(139,711)
Bonus allocated to participating policyholders, including interim bonus from normal surplus		-	100,622
Less: Interim bonus paid		-	(8,193)
At end of financial year		<u>3,577,521</u>	<u>3,415,389</u>
Unallocated surplus			
At beginning of financial year (as previously stated)		755,623	784,681
Effects due to adoption of RBC framework:			
- Change in actuarial liabilities		(137,862)	-
- Reversal of provision for diminution		4,375	-
- Deferred tax effects		(350)	-
At beginning of financial year (as restated)		<u>621,786</u>	<u>784,681</u>
Add : Surplus arising during the financial year		35,842	163,564
Less : Bonus allocated to participating policyholders		-	(100,622)
- From normal surplus		-	(92,000)
- Transfer to consolidated income statements		(20,000)	(92,000)
		15,842	(29,058)
At end of financial year		<u>637,628</u>	<u>755,623</u>

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16. LIFE POLICYHOLDERS' FUNDS (CONT'D)

	2010 RM'000	2009 RM'000
Available-for-Sale reserves		
At beginning of financial year (as previously stated)	-	-
Effects due to adoption of RBC Framework:		
- Fair value changes on AFS investments	14,683	
- Deferred tax on fair value changes	(1,175)	-
At beginning of financial year (as restated)	13,508	-
Movement in fair value of AFS investments	189,230	-
Deferred tax effects on fair value changes	(15,138)	-
At end of financial year	<u>187,600</u>	<u>-</u>
Life insurance fund		
Life policyholders' fund as at end of financial year:		
Actuarial liabilities	3,577,521	3,415,389
Unallocated surplus	637,628	755,623
AFS reserve	187,600	-
	<u>4,402,749</u>	<u>4,171,012</u>

17. CLAIMS LIABILITIES / PROVISION FOR OUTSTANDING CLAIMS

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Claims liabilities/Provision for outstanding claims	1,039,438	669,648	16,100	14,809
Recoverable from reinsurers	(602,073)	(446,244)	-	-
Net claims liabilities/outstanding claims	<u>437,365</u>	<u>223,404</u>	<u>16,100</u>	<u>14,809</u>

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18. TRADE AND OTHER PAYABLES

	General insurance and shareholder's funds		Life Insurance fund	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade payables:				
Amount due to reinsurers and ceding companies	340,832	128,525	7,986	11,805
Amount due to agents, brokers, co-insurers and insureds	2,577	19,277	4,472	3,768
	<u>343,409</u>	<u>147,802</u>	<u>12,458</u>	<u>15,573</u>
Other payables:				
Premium deposits	-	-	25,879	23,213
Dividend payables to policyholders	-	-	57,048	54,319
Amount due to shareholders' funds*	-	-	92,433	97,690
Sundry payables and accrued liabilities	71,700	32,148	31,066	28,248
	<u>71,700</u>	<u>32,148</u>	<u>206,426</u>	<u>203,470</u>
	<u>415,109</u>	<u>179,950</u>	<u>218,884</u>	<u>219,043</u>

* The amounts due to general insurance and shareholder's funds are unsecured, not subject to any profit elements and have no fixed terms of repayment.

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19. OPERATING REVENUE

	2010	2009
	RM'000	RM'000
Gross premiums:		
General insurance fund	1,092,476	669,816
Life insurance fund	335,969	345,787
	<u>1,428,445</u>	<u>1,015,603</u>
Investment income (Note 20):		
Shareholder's fund	21,183	16,483
General insurance fund	46,850	30,336
Life insurance fund	241,029	214,395
	<u>309,062</u>	<u>261,214</u>
	<u>1,737,507</u>	<u>1,276,817</u>

20. INVESTMENT INCOME

	Shareholder's fund		General insurance fund	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Interest income	14,906	12,187	40,816	27,396
Gross dividends from shares:				
Quoted in Malaysia	1,965	1,719	2,218	2,273
Quoted outside Malaysia	-	-	29	-
Unquoted in Malaysia	-	-	58	-
Gross dividends from unit and property trusts				
Quoted in Malaysia	620	389	812	147
Unquoted in Malaysia	-	-	451	-
Rental income from investment properties	639	834	2,108	46
Accretion of discounts net of amortisation of premiums	3,053	1,354	358	474
	<u>21,183</u>	<u>16,483</u>	<u>46,850</u>	<u>30,336</u>

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20. INVESTMENT INCOME (CONT'D)

	Life insurance fund	
	2010	2009
	RM'000	RM'000
Interest income	170,484	165,559
Gross dividends from shares:		
Quoted in Malaysia	28,148	13,306
Unquoted in Malaysia	2,657	185
Gross dividends from unit and property trusts		
Quoted in Malaysia	2,751	1,822
Unquoted in Malaysia	3,130	-
Rental income	21,568	21,766
Accretion of discounts net of amortisation of premium	13,290	12,489
Others	(999)	(732)
	<u>241,029</u>	<u>214,395</u>

21. OTHER OPERATING INCOME / (EXPENDITURE), NET

(a) Shareholder's fund

	2010	2009
	RM'000	RM'000
Other income:		
Gain on disposal of AFS investments	10,387	-
Gain on disposal of property, plant and equipment	21	200
Gain on disposal of investments	-	5,599
Gain on disposal of investment properties	1,397	-
Write-back of impairment of investment properties	-	320
Gain from capital reduction in a subsidiary	-	12,578
Sundry income	152	-
	<u>11,957</u>	<u>18,697</u>

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21. OTHER OPERATING INCOME / (EXPENDITURE), NET (CONT'D)

(a) Shareholder's fund (cont'd)

	2010	2009
	RM'000	RM'000
Other expenditure:		
Provision for diminution in value of investments	-	(2,001)
Sundry expenditure	(152)	(3)
	<u>(152)</u>	<u>(2,004)</u>
Other operating income, net	<u>11,805</u>	<u>16,693</u>

(b) General insurance fund

	2010	2009
	RM'000	RM'000
Other income:		
Gain on disposal of AFS investments	13,634	-
Gain on disposal of property, plant and equipment	90	-
Gain on disposal of investments	-	12,181
Sundry income	634	-
	<u>14,358</u>	<u>12,181</u>
Other expenditure:		
Provision for diminution in value of investments	-	(52)
Provision for impairment on investment properties	-	-
Realised loss on foreign exchange	(432)	-
Sundry expenditure	(485)	(391)
	<u>(917)</u>	<u>(443)</u>
Other operating income, net	<u>13,441</u>	<u>11,738</u>

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21. OTHER OPERATING INCOME / (EXPENDITURE), NET (CONT'D)

(c) Life insurance fund

	2010	2009
	RM'000	RM'000
Other income:		
Gain on disposal of property, plant and equipment	3	-
Gain on disposal of investments	32,956	21,635
Fair value on investment properties	(9,862)	9,810
Sundry income	1,368	1,037
	<u>24,465</u>	<u>32,482</u>
Other expenditure:		
Loss on disposal of investments	(242)	-
Provision for diminution in value of investments	-	(1,700)
Sundry expenditure	(1,039)	-
	<u>(1,281)</u>	<u>(1,700)</u>
Other operating income, net	<u>23,184</u>	<u>30,782</u>

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22. MANAGEMENT EXPENSES

(a) Shareholder's fund

	2010	2009
	RM'000	RM'000
Non-executive directors' remuneration:		
Fees:		
Payable to MBB	47	10
Payable to MFHB	50	50
Payable to a corporate shareholder Fortis Insurance Int. N.V	25	25
Payable to other directors	-	6
Other emoluments:		
Payable to MBB	9	6
Payable to MFHB	9	10
Payable to a corporate shareholder Fortis Insurance Int. NV	4	28
Payable to other directors		1
Auditors' remuneration :		
- current financial year	20	18
- under provision in prior year	2	2
Amortisation of prepaid land lease payments	24	302
Provision for doubtful debts	2	-
Depreciation of property, plant and equipment	84	138
Rental of offices	14	94
Outsourcing services		69
Other expenses	790	533
	<u>1,080</u>	<u>1,292</u>

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22. MANAGEMENT EXPENSES (CONT'D)

(b) General insurance fund

	2010	2009
	RM'000	RM'000
Staff costs:		
Basic salary	29,234	23,651
EPF and CPF	3,766	4,459
SOCSSO	219	301
Other staff related costs	5,809	11,710
	<u>39,028</u>	<u>40,121</u>
Auditors' remuneration:		
- current financial year	563	227
- others	26	27
Amortisation of prepaid land lease payments	105	-
Amortisation of intangible assets	138	132
Rental of offices	4,185	4,794
Depreciation of property, plant and equipment	2,914	640
Write-back of provision for doubtful debts	(4,772)	(6,027)
Promotional and marketing cost	14,976	4,911
Utilities, assessment and maintenance	4,555	2,442
Printing and stationery	2,505	1,371
Postage and stamp duties	2,441	1,699
Insurance Guarantee Scheme Fund Levy	1,544	644
Electronic data processing expenses	13,892	12,073
Training	3,297	1,683
Professional fees	24,295	13,501
Travelling expenses	2,602	2,144
Bank charges	2,918	1,082
Other expenses	11,622	6,515
	<u>126,834</u>	<u>87,979</u>

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22. MANAGEMENT EXPENSES (CONT'D)

(c) Life insurance fund

	2010	2009
	RM'000	RM'000
Staff costs:		
Basic salary	4,764	14,932
EPF and CPF	996	2,661
SOCSSO	61	165
Short-term accumulating compensated absences	118	56
Bonus, allowances and other staff related costs	2,616	6,478
	<u>8,555</u>	<u>24,292</u>
Auditors' remuneration:		
- current financial year	128	115
- others	11	94
Amortisation of intangible assets	45	919
Rental of offices	899	1,761
Amortisation of prepaid land lease payments	35	26
Depreciation of property, plant and equipment	270	868
Computer upgrade and maintenance	3,804	8,244
Printing and stationery	1,665	1,560
Provision for doubtful debts	928	2,200
Promotional and marketing cost	3,192	1,355
Utilities, assessment and maintenance	2,017	750
Training expenses	2,157	1,093
Electronic data processing expenses	10,574	1,020
Professional fees	22,418	11,294
Bank charges	1,559	1,516
Other expenses	3,123	2,701
	<u>61,380</u>	<u>59,808</u>

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23. NET CLAIMS INCURRED

General insurance fund

2010	Fire RM'000	Motor RM'000	Marine, Aviation and Transit RM'000	Miscell- anous RM'000	Total RM'000
Gross claims paid less salvage	36,146	182,923	101,787	119,823	440,679
Reinsurance recoveries	(16,311)	(6,540)	(94,533)	(21,995)	(139,379)
Net claims paid	<u>19,835</u>	<u>176,383</u>	<u>7,254</u>	<u>97,828</u>	<u>301,300</u>
Net claims liabilities :					
At end of financial year	32,480	233,782	28,289	142,814	437,365
At beginning of financial year (as previously stated)	(20,887)	(112,018)	(25,512)	(64,987)	(223,404)
Transfer from MGAB	(20,844)	(104,421)	(6,343)	(83,738)	(215,346)
As restated	<u>(41,731)</u>	<u>(216,439)</u>	<u>(31,855)</u>	<u>(148,725)</u>	<u>(438,750)</u>
Net claims incurred	<u>10,584</u>	<u>193,726</u>	<u>3,688</u>	<u>91,917</u>	<u>299,915</u>
2009					
Gross claims paid less salvage	20,417	105,592	61,776	48,676	236,461
Reinsurance recoveries	(10,107)	(4,214)	(53,373)	(12,519)	(80,213)
Net claims paid	<u>10,310</u>	<u>101,378</u>	<u>8,403</u>	<u>36,157</u>	<u>156,248</u>
Net outstanding claims:					
At end of financial year	20,887	112,018	25,512	64,987	223,404
At beginning of financial year	(20,029)	(113,912)	(30,205)	(61,346)	(225,492)
Net claims incurred	<u>11,168</u>	<u>99,484</u>	<u>3,710</u>	<u>39,798</u>	<u>154,160</u>

24. TAXATION

The domestic income tax for shareholder's fund and general insurance fund are generally calculated based on the corporate tax rate of 25% (2009: 25%) of the estimated assessable profit for the financial year.

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

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24. TAXATION (CONT'D)

(a) General insurance and shareholder's funds

	2010	2009
	RM'000	RM'000
Income tax:		
Malaysian income tax	44,198	24,741
Deferred tax: (Note 11)		
Relating to origination and reversal of temporary differences	4,087	3,646
	<u>48,285</u>	<u>28,387</u>
(Over)/under provision of income tax in prior financial years	(6,422)	1,784
	<u>41,863</u>	<u>30,171</u>

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

	2010	2009
	RM'000	RM'000
Profit before tax	<u>157,936</u>	<u>132,612</u>
Taxation at Malaysian statutory tax rate of 25%	39,484	33,153
Business outside Malaysia taxed at 5%	8,988	(467)
Income not subject to tax	(5,844)	(6,493)
Expenses not deductible for tax purposes	5,657	2,194
Over/(under) provision of income tax in prior financial years	(6,422)	1,784
Tax expense for the financial year	<u>41,863</u>	<u>30,171</u>

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24. TAXATION (CONT'D)

(b) Life insurance fund

	2010	2009
	RM'000	RM'000
Income tax:		
Malaysian income tax	18,170	19,309
Deferred tax: (Note 11)		
Relating to origination and reversal of temporary differences	(349)	336
	<u>17,821</u>	<u>19,645</u>
Under provision of income tax in prior financial years	-	3,959
	<u>17,821</u>	<u>23,604</u>
Life insurance surplus before tax	<u>77,933</u>	<u>39,264</u>
Taxation at Malaysian tax rate of 8%	6,235	3,141
Income not subject to tax	(30,707)	(27,989)
Expenses not deductible for tax purposes	42,293	44,493
Under provision of income tax in prior financial years	-	3,959
Tax expense for the financial year	<u>17,821</u>	<u>23,604</u>

As at 30 June 2010, the Company has tax exempt profits available for distribution of approximately RM32,019,000 (2009: RM49,879,000).

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

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

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24. TAXATION (CONT'D)

(b) Life insurance fund (cont'd)

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 30 June 2010 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007.

The Company has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and exempt income to frank the payment of dividends out of its entire retained earnings as at 30 June 2010.

25. NET ASSETS TRANSFERRED FROM MAYBAN GENERAL ASSURANCE BERHAD ("MGAB")

On 1 July 2009, pursuant to Vesting Orders obtained from the High Court of Malaya in Kuala Lumpur and High Court of Singapore, MGAB transferred its general insurance business and net assets as a going concern to the Company. Details of the net assets transferred on 1 July 2009 are as follows:

	Note	RM'000
Prepaid Lease land	5	7,984
Intangible assets	6	56
Property, plant and equipment	3	43,426
Investment Property	4	990
Investments:		
- Deposits and placements with financial institutions		178,697
- Other investments		337,894
Loans receivable		15,066
Receivables		46,439
Cash and bank balances		19,157
		<u>649,709</u>
Provision for outstanding claims	23	215,346
Payables		46,254
		<u>261,600</u>
Unearned premium reserves	15	121,055
Total net assets transferred		<u>267,054</u>

The net assets transferred from MGAB were satisfied by RM267,054,000 cash.

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26. EARNINGS PER SHARE

The basic earnings per share is calculated as follows :

Net profit for the year		Number of shares		Earnings per share	
2010	2009	2010	2009	2010	2009
RM'000	RM'000	'000	'000	sen	sen
116,073	102,441	152,151	152,151	76.3	67.3

27. SEGMENT INFORMATION ON CASH FLOWS

	Shareholder's Fund RM'000	General Insurance Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2010				
Cash flows from:				
Operating activities	(5,796)	291,394	(2,588)	283,010
Investing activities	3,800	(274,489)	(8,060)	(278,749)
Financing activities	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	(1,996)	16,905	(10,648)	4,261
Cash and cash equivalents:				
At beginning of financial year as previously reported	2,229	47,907	30,627	80,763
Transfer from MGAB	-	-	-	-
As restated	-	19,157	-	19,157
At end of financial year	2,229	67,064	30,627	99,920
	233	83,969	19,979	104,181

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27. SEGMENT INFORMATION ON CASH FLOWS (CONT'D)

	Shareholder's Fund RM'000	General Insurance Fund RM'000	Life Insurance Fund RM'000	Total RM'000
2009				
Cash flows from:				
Operating activities	(66,812)	19,526	(686)	(47,972)
Investing activities	67,788	(3,128)	(8,706)	55,954
Financing activities	-	-	-	-
Net increase/(decrease) in cash and cash equivalents	976	16,398	(9,392)	7,982
Cash and cash equivalents:				
At beginning of financial year	1,253	31,509	40,019	72,781
At end of financial year	2,229	47,907	30,627	80,763

28. OPERATING LEASE COMMITMENTS

(a) The Company as Lessee

As at the balance sheet date, the branches of the subsidiaries leases its office premises and equipment under lease agreements that are not cancelable within a year. The leases contain renewable options. Lease terms do not contain restrictions on the branch's activities concerning additional debts or further leasing.

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

	2010 RM'000	2009 RM'000
Within 1 year	1,366	27
After 1 year but not more than 5 years	575	2,121
	<u>1,941</u>	<u>2,148</u>

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28. OPERATING LEASE COMMITMENTS (CONT'D)

(b) The Company as Lessor

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

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

	2010	2009
	RM'000	RM'000
Not later than 1 year	29,415	5,363
Later than 1 year but not later than 5 years	1,859	34,085
	<u>31,274</u>	<u>39,448</u>

Rental income on investment properties recognised in income statement/revenue accounts during the financial year is disclosed in Note 20.

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29. OTHER COMMITMENTS AND CONTINGENCIES

	General insurance and shareholder's funds		Life insurance fund	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Approved and contracted for :				
Property, plant and equipment	3,318	2,778	20	951
Life Core system	-	-	53,960	16,527
	<u>3,318</u>	<u>2,778</u>	<u>53,980</u>	<u>17,478</u>
Approved and not contracted for :				
Property, plant and equipment	490	2,432	-	-
Life Core system	-	-	-	8167
	<u>490</u>	<u>2,432</u>	<u>-</u>	<u>8,167</u>

30. SIGNIFICANT RELATED PARTY DISCLOSURES

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

	2010	2009
	RM'000	RM'000
(a) General insurance and shareholder's funds		
Transactions with the ultimate holding company:		
Gross insurance premium income	3,815	-
Commissions and fees expenses	(31,369)	-
Interest income	5,985	3,072
Rental income	378	-
Other expenses	(380)	(183)
Transactions within subsidiaries:		
Other management fees	(2,398)	(3,531)
Shared service cost chargeback	439	17
Transactions with other related companies within the MBB group:		
Gross insurance premium income	1,467	390
Commissions and fee expenses	(226)	(98)
Interest income	-	1,693
Rental income	2,253	-
Rental expenses	(1,770)	(2,469)
Investment management fees	(2,104)	(1,775)
Other management fees	(10,631)	(4,095)
Shared service cost chargeback	32,141	8,116
Other expenses	(209)	(102)

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30. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

(b) Life insurance fund

	2010	2009
	RM'000	RM'000
Transactions with the ultimate holding company:		
Interest income	7,835	3,942
Other expenses	(1,025)	(666)
Transactions with the holding company		
Other management fees	(2,130)	(1,513)
Shared service cost chargeback	156	13
Transactions with other related companies within the MBB group:		
Interest income	-	1,234
Rental income	1,086	1,093
Investment management fee	(5,947)	(5,919)
Management fee	(12,705)	(2,349)
Other management fee	(33)	(2,200)
Rental expense	(555)	(1,214)
Commissions and fees		
Shared service cost chargeback	18,997	3,216
Other expenses	-	(144)

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

	2010	2009
	RM'000	RM'000
(a) General insurance and shareholder's funds		
Ultimate holding company:		
Fixed deposits	212,259	130,374
Structured deposits	8,892	10,000
Income due and accrued	2,384	2,535
Outstanding premiums	8,884	52
Other receivables	1,878	-
Other related companies within the MBB Group:		
Fixed deposits and call deposits	-	145,847
Outstanding premiums	133	349
Other receivables	3,479	1,204
Other payables	(2,092)	(305)

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30. SIGNIFICANT RELATED PARTY DISCLOSURES (CONT'D)

	2010	2009
	RM'000	RM'000
(a) General insurance and shareholder's funds (cont'd)		
Subsidiary:		
Other payables	(1,631)	-
(b) Life insurance fund		
Ultimate holding company:		
Fixed and call deposits	202,299	157,288
Structured deposits	10,000	10,000
Income due and accrued	2,557	4,694
Other related companies within the MBB Group:		
Fixed and call deposits	-	87,158
Other receivables	161	-
Other payables	(1,490)	(1,576)

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

	2010	2009
	RM'000	RM'000
(a) Key management personnel compensation		
Short-term employee benefits		
Fees	-	120
Salaries, allowances and bonuses	477	370
Contribution to Employees Provident Fund (EPF)	76	56
Other staff benefits	29	19
	<u>582</u>	<u>565</u>

The movement in share options of key management personnel is as follows:

	2010	2009
	RM'000	RM'000
At 1 July	-	25
Resigned during the financial year	-	(25)
At 30 June	<u>-</u>	<u>-</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The key management personnel of the Company are the directors and Chief Executive Officers.

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**31. RISK MANAGEMENT POLICIES**

The Company's risk management policies seek to ensure that adequate financial resources are available for the development of the Company's businesses taking into account its various risks. The overall objective is to safeguard the interests of all its stakeholders. Risk management at MFHB is therefore organised both centrally and on a business/functional unit basis. Since risk are present at the various risk-taking business units, namely EIB, ETB, MGAB, MLA, MIM, EOIL and ELIL, the business/functional units are responsible for the day-to-day management of risks inherent in their business activities as the first line of defence. The Central Risk Management Division ("CRM") of MFHB acts as a risk control and coordinating unit whose responsibility includes the establishment of a risk management framework, the formulation and implementation of risk and capital management guidelines and the development of tools and methodologies for risk identification, measurement, monitoring, control and pricing.

As such, CRM becomes the second line of defence, and assumes the role of an oversight function. It provides risk management guidance, support and advice across the Group. The internal auditors of Maybank Group, acting as the third line of defence, provide independent assurance on the effectiveness of the risk management framework and practices. These three-level approach is consistent with that of Maybank Group's approach.

A. Types of Risk

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

(i) Insurance risk

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**31. RISK MANAGEMENT POLICIES (CONT'D)****A. Types of Risk (Cont'd)****(i) Insurance risk (cont'd)**

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

(ii) Financial risk

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

(iii) Operational risk

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

ETIQA INSURANCE BERHAD
(Incorporated in Malaysia)**31. RISK MANAGEMENT POLICIES (CONT'D)****B. Monitoring and Controlling Risks**

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

(i) Insurance risk

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

The non-life business uses reinsurance as a form of risk transfer. The risks of defaults by reinsurers are reduced by selecting only reinsurers with reputable securities or those that have been awarded with at least an "A" rating by internationally recognised rating agencies and those that are approved by the Shariah Committee. Additionally, provisions for known and unknown liabilities arising from the insurance and takaful contracts are computed for life and non-life businesses using prudent and generally accepted actuarial principles and methods.

(ii) Financial Risk

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

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(Incorporated in Malaysia)**31. RISK MANAGEMENT POLICIES (CONT'D)****B. Monitoring and Controlling Risks (cont'd)****(iii) Operational Risk**

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

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

32. FAIR VALUES OF FINANCIAL INSTRUMENTS**(i) Cash and Cash Equivalents and Other Receivables/Payables**

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

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

(ii) Investments

Investments as at 30 June 2010 have been accounted for in accordance with the accounting policies as disclosed in Note 2.2. The comparison between the carrying amounts and market values of investments as at 30 June 2010 are as disclosed in Note 10 to the financial statements.

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

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32. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONT'D)

(ii) Investments (cont'd)

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

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

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

33. SIGNIFICANT EVENT

Transfer of Insurance business from MGAB to EIB

On 1 July 2010, MGAB transferred both its Malaysia and Singapore insurance businesses to EIB under a scheme of transfer of Insurance business under Part XI, of the Insurance Act 1996 at a purchase consideration equivalent to the net book value of the insurance businesses.

Bank Negara Malaysia ("BNM") approved the scheme of transfer on 30 January 2009, while the High Court of Malaya approved the scheme on 28 May 2009.

The Accounting & Corporate Regulatory in Singapore approved the establishment of EIB Singapore branch on 15 May 2009 while the Monetary Authority of Singapore issued a licence to EIB on 8 June 2009 to transact general insurance business in Singapore. The High Court of Singapore approved the transfer of MGAB existing business in Singapore branch to EIB Singapore branch on 10 June 2009.

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34. SUBSEQUENT EVENT

Transfer of Insurance Business from MLAB to EIB

During the financial year, MLAB had informed BNM on the proposed transfer of its Business to EIB under a scheme made pursuant to Part XI of the Insurance Act, 1996 at a purchase consideration equivalent to the net book value of the business of MLA as at the transfer date. Upon obtaining approval from BNM, MLAB will make an application to the High Court of Malaya for the Proposal.

After the completion of the proposed transfer of Business from MLA to EIB, MLA will surrender its life insurance licence to BNM.

35. COMPARATIVES

The comparative general insurance revenue account and its related notes are not comparable to previous year as a result of the transfer of the general insurance business from MGAB as a going concern on 1 July 2009.