ING INSURANCE BERHAD

(17007-P)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2012

17007-P

ING INSURANCE BERHAD
(Incorporated in Malaysia)

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ING INSURANCE BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT PURSUANT TO SECTION 87(1)(d) OF THE INSURANCE ACT 1996

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the underwriting of life, home service and group insurance, investment-linked business and all classes of general insurance business.

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

RESULTS

	RM'000
Net profit for the year	124,906

DIVIDENDS

Since the end of the previous financial year, no dividend has been paid or declared by the Company.

The Directors do not propose any final dividend for the financial year ended 31 December 2012.

RESERVES AND PROVISIONS

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

PROVISION FOR INSURANCE LIABILITIES

Before the statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ascertain that there was adequate provision for insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework for Insurers.

BAD AND DOUBTFUL DEBTS

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

BAD AND DOUBTFUL DEBTS (CONT'D)

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

CURRENT ASSETS

Before the statement of comprehensive income and statement of financial position of the Company were made out, the Directors took reasonable steps to ensure that any current assets which were unlikely to realise their value 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.

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

CONTINGENT AND OTHER LIABILITIES

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

(a) 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

(b) any contingent liability of the Company which has arisen since the end of the financial year.

In the opinion of the Directors, 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 substantially affect the ability of the Company to meet its obligations when they fall due.

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

CHANGE OF CIRCUMSTANCES

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.

ITEMS OF AN UNUSUAL NATURE

In the opinion of the Directors, 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.

SIGNIFICANT AND SUBSEQUENT EVENT

On 17th December 2012, ING Insurance Asia N.V., the holding company of ING Management Holdings (Malaysia) Sdn. Bhd., signed a Sales and Purchase Agreement with AIA Company Limited (formerly known as American International Assurance Company Limited) ("AIA") to dispose of its 100% equity interest in ING Management Holdings (Malaysia) Sdn. Bhd., the holding company of the Company, and its three subsidiaries namely, ING Employee Benefits Sdn. Bhd., the Company and ING PUBLIC Takaful Ehsan Berhad to AIA. The sale as far as ING Management Holdings (Malaysia) Sdn Bhd., ING Employee Benefits Sdn Bhd., the Company and ING PUBLIC Takaful Ehsan Berhad were concerned, was pursuant to Section 67 of the Insurance Act 1996 and Section 34 of the Takaful Act 1984.

The sale was completed on 18th December 2012. Consequently, ING Groep N.V. ceased to be the Company's ultimate holding company.

On 3rd January 2013, American International Assurance Bhd ('AIA Berhad"), a related company of the Company, has submitted an application for a scheme of transfer to Bank Negara Malaysia for approval to transfer the assets, liabilities and business of the Company as a going concern to AIA Berhad, subject to confirmation by the Court and any other regulatory approvals required for the Scheme of Transfer. The approval from Bank Negara Malaysia was received on 25th February 2013.

ULTIMATE HOLDING COMPANY

The Directors regard ING Groep N.V., a company incorporated in Netherlands, as the ultimate holding company of the Company until 17 December 2012.

The Company is a wholly-owned subsidiary of ING Management Holdings (Malaysia) Sdn. Bhd., which in turn from 18 December 2012, is wholly owned by AIA Company Limited (formerly known as American International Assurance Company Limited) ("AIA") whose ultimate holding company is AIA Group Limited ("AIAGL"), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

DIRECTORS

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

Dato' Thomas Mun Lung Lee	(appointed on 18 December 2012)
Dato Wee Hoe Soon @ Gooi Hoe Soon	(appointed on 18 December 2012)
Mohd Daruis Bin Zainuddin	(appointed on 18 December 2012)
Ng Keng Hooi	(appointed on 18 December 2012)
Foong Sai Cheong	(appointed on 18 December 2012)
William Lisle	(appointed on 15 March 2013)
YAM Tengku Abdullah Ibni Almarhum Sultan Abu Bakar	(resigned on 18 December 2012)
YM Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	(resigned on 05 December 2012)
Dato' Kamarudin bin Abu	(resigned on 18 December 2012)
Datuk Mohamed Nazim bin Abdul Razak	(resigned on 18 December 2012)
Dato' Dr. Nirmala Menon A/P Y.B. Menon	(resigned on 18 December 2012)
Willem Gustaaf Stephan Van Vliet	(resigned on 18 December 2012)
Seow Thiam Fatt	(resigned on 18 December 2012)
Bruce Murray Hodges	(appointed on 30 April 2012 and resigned on 18 December 2012)

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DIRECTORS' BENEFIT

Neither at the end of the financial year, nor at any time during the year, did there subsist any arrangement to which the Company is 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.

Since the end of the previous financial year, no Director has received or become entitled to receive any benefits (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as disclosed in Note 28 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS

According to the Register of Directors' shareholdings, the interests of the Directors in the office at the end of the financial year in shares and options over shares in the Company's ultimate holding company during the financial year were as follows:

	Number of ordinary shares of US$1.00 each			
	As at 1 January 2012/ date of appointment	**Bought**	**Sold**	**As at 31 December 2012**
AIA Group Limited				
Direct Interest				
Ng Keng Hooi	38,027	-	-	38,027
Foong Sai Cheong	27,504	-	-	27,504
Indirect Interest				
Ng Keng Hooi	61,200	-	-	61,200

	Number of matching restricted stock purchase unit over ordinary shares of US$1.00 each under Employee Share Purchase Plan			
	As at 1 January 2012/ date of appointment	**Bought**	**Sold**	**As at 31 December 2012**
AIA Group Limited				
Ng Keng Hooi	1,905	-	-	1,905
Foong Sai Cheong	2,733	-	-	2,733

DIRECTORS' INTERESTS (CONT'D.)

	Number of restricted share units over ordinary shares of US$1.00 each			
	As at 1 January 2012/ date of appointment	**Bought**	**Sold**	**As at 31 December 2012**
AIA Group Limited				
Ng Keng Hooi	2,693,531	-	-	2,693,531
Foong Sai Cheong	180,023	-	-	180,023

	Share Option over ordinary shares of US$1.00 each			
	As at 1 January 2012/ date of appointment	**Bought**	**Sold**	**As at 31 December 2012**
AIA Group Limited				
Ng Keng Hooi	2,534,908	-	-	2,534,908
Foong Sai Cheong	179,028	-	-	179,028

CORPORATE GOVERNANCE

The Directors confirm that the Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the corporate governance principles set out in BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers as follows:

(a) Board responsibilities

The Board of Directors ("the Board") is responsible for the overall governance of the Company and discharges this responsibility through compliance with the requirements of the Insurance Act, 1996 ("the Act"), Insurance Regulations, 1996 ("the Regulations") and BNM's Guideline on Minimum Standards for Prudential Management of Insurers ("BNM/RH/GL/003-1") and other directives, in addition to adopting best practices on corporate governance.

The responsibilities of the Board include setting the strategic direction of the Company, monitoring performance goals, formalising documentation on matters specifically reserved for its decision and ensuring that the Company's internal controls and reporting procedures are adequate, effective and ethical. The Board receives regular reports and updates on key aspects of the Company's operations including changes in the industry and changes in the economic and legislative environment that would affect the Company.

The Board comprises 5 Non-Executive Directors, ensuring issues are considered with independence and objectivity.

CORPORATE GOVERNANCE (CONT'D.)

(a) Board responsibilities (cont'd.)

The Board met ten (10) times during the year at the Board of Directors' Meeting ("BODM"). All Directors in office at the end of the financial year complied with the 75% minimum attendance requirement at such meetings.

Details of the attendance of members during the year were as follows:

Members of the Board:	Number of meetings attended
Dato' Thomas Mun Lung Lee (Chairman) (Independent Non-Executive Director)	0/0***
Dato' Wee Hoe Soon @ Gooi Hoe Soon (Independent Non-Executive Director)	0/0***
Mohd Daruis Bin Zainuddin (Independent Non-Executive Director)	0/0***
Ng Keng Hooi (Non-Independent Non-Executive Director)	0/0***
Foong Sai Cheong (Non-Independent Non-Executive Director)	0/0***
YAM Tengku Abdullah Ibni Almarhum Sultan Abu Bakar (Chairman)	10/10 *
YM Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	9/10 **
Dato' Kamarudin bin Abu	10/10 *
Datuk Mohamed Nazim bin Abdul Razak	9/10 *
Dato' Dr. Nirmala Menon A/P Y.B. Menon	10/10 *
Willem Gustaaf Stephan Van Vliet	8/10 *
Seow Thiam Fatt	7/8 *
Bruce Murray Hodges	5/5 *

* Resigned as Director on 18 December 2012
** Resigned as Director on 5 December 2012
*** Appointed as Director on 18 December 2012

The Board formed the Nominating, Remuneration and Risk Management Committees in accordance with the requirements of BNM/RH/GL/003-1. The Guideline also requires full compliance with the Terms of Reference of these Committees. The Board had adopted the Terms of Reference of these Committees.

The roles and members of the above Committees are as provided below.

CORPORATE GOVERNANCE (CONT'D.)

(a) Board responsibilities (cont'd.)

Nominating Committee

Role of Committee:

To ensure that the Company maintains its policy of effective appointment/removal of Board members, the Chief Executive Officer and key senior officers and to oversee senior management's activities in managing the said activities in ensuring the management nomination process is in place and functioning effectively.

Four (4) Nominating Committee Meetings ("NCM") were held during the financial year ended 31 December 2012. Details of the attendance of members during the year were as follows:

Members of committee:	Number of meetings attended
Dato' Thomas Mun Lung Lee (Chairman)	0/0 ****
Mohd Daruis Bin Zainuddin	0/0 *****
Ng Keng Hooi	0/0 *****
Dato' Wee Hoe Soon @ Gooi Hoe Soon	0/0 *****
Foong Sai Cheong	0/0 *****
Dato' Kamarudin bin Abu	4/4 *
YAM Tengku Abdullah Ibni Almarhum Sultan Abu Bakar	3/4 **
YM Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	4/4 ***
Dato' Dr. Nirmala Menon A/P Y.B. Menon	4/4 **
Willem Gustaaf Stephan Van Vliet	3/4 **
Seow Thiam Fatt	3/3 **
Bruce Murray Hodges	3/3 **

* Resigned as member and chairman on 18 December 2012
** Resigned as member on 18 December 2012
*** Resigned as member on 05 December 2012
**** Appointed as member and chairman on 18 December 2012
***** Appointed as member on 18 December 2012

The Nominating Committee comprises distinguished businessmen and experienced professionals with expertise in insurance, accounting, and risk management.

The Nominating Committee is responsible for:

(i) Establishing minimum requirements for the Board and the Chief Executive Officer to perform their responsibilities effectively. It is also responsible for overseeing the overall composition of the Board in terms of appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and the mix of skills and other core competencies required, through annual reviews.

CORPORATE GOVERNANCE (CONT'D.)

(a) Board responsibilities (cont'd.)

Nominating Committee (cont'd.)

(ii) Recommending and assessing the nominees for directorship, Directors to fill Board Committees, as well as nominees for the Chief Executive Officer position. This includes assessing Directors and the Chief Executive Officer proposed for reappointment, before an application for approval is submitted to Bank Negara Malaysia ("BNM");

(iii) Establishing a mechanism for formal assessment and assessing the effectiveness of the board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the Chief Executive Officer;

(iv) Recommending the removal of a Director/Chief Executive Officer if he/she is ineffective, errant or negligent in discharging his/her responsibilities, to the Board;

(v) Ensuring that all Directors undergo appropriate induction programmes and receive continuous training;

(vi) Overseeing appointment, management succession planning and performance evaluation of key senior officers, and recommending to the Board the removal of key senior officers if they are ineffective, errant and negligent in discharging their responsibilities;

(vii) Ensuring that processes are in place to facilitate and monitor the effective transfer of knowledge and expertise from expatriates employed in senior management and specialist positions to the staff of the institution as well as the industry generally; and

(viii) Ensuring that the board appointees receive continuous training to enable them to have a robust understanding of the nature of the insurer's business and keep abreast with new regulatory and business developments.

Remuneration Committee

Role of Committee:

To ensure that the Company maintains its effective remuneration policy and to recommend the remuneration package for the Board and senior management officers.

CORPORATE GOVERNANCE (CONT'D.)

(a) Board responsibilities (cont'd.)

Remuneration Committee (cont'd.)

Two (2) Remuneration Committee Meetings ("RCM") were held during the financial year ended 31 December 2012. Details of the attendance of members during the year were as follows:

Members of committee:	Number of meetings attended
Dato' Thomas Mun Lung Lee (Chairman)	0/0 ****
Mohd Daruis Bin Zainuddin	0/0 *****
Ng Keng Hooi	0/0 *****
Dato' Kamarudin bin Abu	2/2 *
YAM Tengku Abdullah Ibni Almarhum Sultan Abu Bakar	1/2 **
YM Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	2/2 ***
Willem Gustaaf Stephan Van Vliet	0/2 **
Seow Thiam Fatt	2/2 **

* Resigned as member and chairman on 18 December 2012
** Resigned as member on 18 December 2012
*** Resigned as member on 05 December 2012
**** Appointed as member and chairman on 18 December 2012
***** Appointed as member on 18 December 2012

The Remuneration Committee is responsible for:

(i) Recommending a framework of remuneration for Directors, Chief Executive Officer and key senior officers; and

(ii) Recommending specific remuneration packages for Directors, Chief Executive Officer and key senior officers.

Risk Management Committee

Role of Committee:

To ensure that the Company maintains its policy of effective and informed operational risk management and to oversee the senior management’s activities in managing key risk areas and ensuring that a risk management process is in place and functioning effectively.

CORPORATE GOVERNANCE (CONT'D.)

(a) Board responsibilities (cont'd.)

Risk Management Committee

Six (6) Risk Management Committee Meetings ("RMCM") were held during the financial year ended 31 December 2012. Details of the attendance of members during the year were as follows:

Members of committee:	Number of meetings attended
Dato' Thomas Mun Lung Lee	0/0 ***
Ng Keng Hooi	0/0 ***
Mohd Daruis Bin Zainuddin (Chairman)	0/0 ****
Dato' Kamarudin bin Abu	6/6 *
Datuk Mohamed Nazim bin Abdul Razak	5/6 **
Willem Gustaff Stephan Van Vliet	5/6 **

* Resigned as member and chairman on 18 December 2012
** Resigned as member on 18 December 2012
*** Appointed as member on 18 December 2012
**** Appointed as member and chairman on 18 December 2012

The Committee is charged with the following responsibilities:

(i) Reviewing and recommending risk management strategies, policies and risk tolerance levels for the Board's approval;

(ii) Reviewing and assessing the adequacy of risk management policies and the framework for identifying, measuring, monitoring and controlling risks as well as the extent to which these are operating effectively;

(iii) Ensuring that adequate infrastructure, resources and systems are in place for effective risk management;

(iv) Reviewing the management's periodic reports on risk exposure, risk portfolio composition and risk management activities;

(v) Establishing and maintaining an Operational Risk Management framework, to ensure that the Company exercises due diligence in operational risk management decision making and prioritising and addressing operational issues; and

(vi) Overseeing operational risk management on an ongoing basis by way of regular formal monitoring of reporting by management.

CORPORATE GOVERNANCE (CONT'D.)

(b) Management accountability

The Company has an organisational structure that clearly establishes the job descriptions, authority limits and other operating boundaries of each management and executive employee and a formal performance appraisal is done annually. Information is effectively communicated to the relevant employee within the Company. The Company has a formal and transparent procedure for developing the policy on executive remuneration. None of the Directors and senior management of the Company had, in any circumstances, a conflict of interest situation as referred in the Companies Act 1965 and in Sections 54 and 55 of the Act.

(c) Corporate independence

All material related party transactions and balances as specified under BNM/RH/GL/003-2: Prudential Framework of Corporate Governance for Insurers have been disclosed in the notes to the financial statements. The Directors also hereby confirm that the Company has complied with the requirements of BNM/RH/GL/003-3: Guidelines on Related Party Transactions in respect of all its related party undertakings.

(d) Risk management and internal controls

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which includes the setting of operational risk limits for all core activities. 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' interest. This is supported by the maintenance of a reliable information system that covers all significant activities. Continuous assessment of the effectiveness and adequacy of internal controls, which includes an independent examination of controls by the internal audit function, ensures corrective action where necessary, is taken in a timely manner.

(e) Internal audit

The internal audit function reports directly to the Audit Committee of the Board and its findings and recommendations are communicated to the Audit Committee of the Board. Internal audit reports are tabled before the Audit Committee on completion of the audit.

(f) Audit Committee

The Company's financial reporting and internal control system is overseen by the Audit Committee of the Board, which comprises of at least three (3) members, all of which must be non-executive directors.

The Audit Committee's role is to provide a direct link between the Board and the internal and external audit functions of the Company. The Audit Committee of the Board meets with the Company's auditors to review the scope and adequacy of the audit process. The business covered by the Audit Committee of the Board is governed by a charter approved by the Board, which includes the review of financial information provided to shareholders and BNM to ensure compliance with the requirements of the Act, Regulations, BNM Guidelines and the Companies Act 1965.

CORPORATE GOVERNANCE (CONT'D.)

(f) Audit Committee (cont'd.)

Seven (7) Audit Committee Meetings ("ACM") were held during the year and all audit reports and reviews were tabled to the Audit Committee of the Board as prescribed by BNM/RH/GL/003-2.

Details of the attendance of members during the year were as follows:

Members of committee:	Number of meetings attended
Dato' Thomas Mun Lung Lee	0/0 *****
Dato' Wee Hoe Soon @ Gooi Hoe Soon	0/0 *****
Mohd Daruis Bin Zainuddin (Chairman)	0/0 ******
Dato' Kamarudin bin Abu	7/7 *
YM Tengku Dato' Ahmad Faisal bin Tengku Ibrahim	6/7 **
Seow Thiam Fatt	6/6 ***
Willem Gustaaf Stephan Van Vliet	3/3 ****.

* Resigned as member on 18 December 2012
** Resigned as member on 05 December 2012
*** Resigned as member and chairman on 18 December 2012
**** Resigned as member on 24 July 2012
***** Appointed as member on 18 December 2012
****** Appointed as member and chairman on 18 December 2012

(g) Public accountability

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

(h) Financial reporting

The Directors are responsible for ensuring that accounting records are properly kept and that the Company's financial statements are prepared in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act 1965 in Malaysia.

OTHER STATUTORY INFORMATION

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

AUDITORS

The auditors, Ernst & Young, retire and do not wish to seek re-appointment. A resolution to appoint PricewaterhouseCoopers will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 23 April 2013.

William Lisle Dato' Thomas Mun Lung Lee

Kuala Lumpur, Malaysia

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

We, William Lisle and Dato' Thomas Mun Lung Lee, being two of the Directors of ING Insurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 17 to 149 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Company as at 31 December 2012 and of the financial performance and 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 23 April 2013.

William Lisle

Dato' Thomas Mun Lung Lee

Kuala Lumpur, Malaysia

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

I, Arun Sivaramakrishnan, being the Officer primarily responsible for the financial management of ING Insurance Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 17 to 149 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 Arun Sivaramakrishnan
at Kuala Lumpur in Wilayah Persekutuan
on 23 April 2013

Arun Sivaramakrishnan

Before me,

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

Report on the financial statements

We have audited the financial statements of ING Insurance Berhad, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 17 to 149.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Independent auditors' report to the member of
ING Insurance Berhad (Cont'd.)
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Opinion

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

Report on other legal and regulatory requirements

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

Other matters

This report is made solely to the member of the Company, as a body, in accordance with 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

Brandon Bruce Sta Maria
No. 2937/09/13(J)
Chartered Accountant

Kuala Lumpur, Malaysia
23 April 2013

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Assets				
Intangible assets	3	8,383	4,085	3,667
Property and equipment	4	114,219	116,831	118,135
Investment properties	5	350,400	349,370	346,500
Investments:	6	16,743,298	14,783,619	13,493,791
Malaysian government securities		6,115,010	5,784,848	4,392,404
Equity securities		2,165,192	1,526,297	1,607,551
Debt securities		5,328,741	4,501,699	4,203,328
Unit and real estate investment trusts		77,530	61,687	58,835
Loans		2,196,905	2,102,899	2,004,899
Deposits with financial institutions		306,316	280,917	351,280
Offshore private equities		148,016	108,173	98,643
Offshore mutual funds		30,192	23,616	22,043
Other investments		375,396	393,483	754,808
Reinsurance assets	8	104,749	76,479	79,431
Insurance receivables	9	352,634	296,422	255,366
Other receivables	10	204,795	171,419	129,609
Tax recoverable		23,229	-	-
Asset held for sale	11	-	600	560
Cash and bank balances		111,218	125,934	176,666
Total assets		18,012,925	15,924,759	14,603,725
Equity and liabilities				
Share capital	17	140,000	140,000	140,000
Retained earnings		1,636,877	1,507,629	1,426,234
Other reserves		98,199	89,335	69,897
Total equity		1,875,076	1,736,964	1,636,131

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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 (CONT'D.)

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Equity and liabilities (cont'd.)				
Insurance contract liabilities	12	14,553,365	12,784,573	11,816,305
Insurance payables	13	1,139,661	958,865	763,022
Other payables	14	116,640	123,735	95,059
Provision for agents' retirement benefits	15	87,684	76,909	65,229
Tax payable		-	40,587	23,441
Deferred tax liabilities	7	240,499	203,126	204,538
Total liabilities		16,137,849	14,187,795	12,967,594
Total equity and liabilities		18,012,925	15,924,759	14,603,725

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

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ING INSURANCE BERHAD
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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Operating revenue	18	4,384,682	4,025,437
Gross earned premiums	19	3,692,617	3,408,654
Premiums ceded to reinsurers		(343,394)	(288,123)
Net earned premiums		3,349,223	3,120,531
Investment income	20	692,065	616,783
Realised gains and losses	21	130,583	179,229
Fair value gains and losses	22	187,772	20,921
Fee and commission income	23	37,860	30,220
Other operating expenses	24	(52,857)	(5,001)
Other revenue		995,423	842,152
Gross benefits and claims paid	25	(1,766,672)	(1,954,382)
Claims ceded to reinsurers	25	210,148	146,681
Gross changes in contract liabilities	26	(1,765,584)	(966,664)
Changes in contract liabilities ceded to reinsurers	26	26,030	(4,623)
Net benefits and claims		(3,296,078)	(2,778,988)
Commission and agency expenses	27	(492,681)	(518,436)
Management expenses	28	(336,650)	(314,768)
Other expenses		(829,331)	(833,204)
Surplus for the year		219,237	350,491
Taxation of life insurance fund	29	(71,690)	(61,607)
Profit before taxation		147,547	288,884
Taxation	29	(22,641)	(67,839)
Net profit for the year		124,906	221,045
Earnings per share (sen)	30	89.2	157.9

ING INSURANCE BERHAD
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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012 (CONT'D.)

	Note	2012 RM'000	2011 RM'000
Net profit for the year		124,906	221,045
Other comprehensive income:			
Available-for-sale fair value reserves			
Net gain arising during the year		46,047	45,093
Net realised gains	21	(29,456)	(22,162)
		16,591	22,931
Tax effects thereon	7	(3,571)	(5,052)
		13,020	17,879
Asset revaluation reserve			
Net gain arising during the year		237	252
		237	252
Tax effects thereon	7	(51)	(54)
		186	198
Total comprehensive income for the year		138,112	239,122

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

ING INSURANCE BERHAD
(Incorporated in Malaysia)

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

	---Non-distributable---					Retained Earnings			
	Share capital RM'000	Capital redemption reserve RM'000	Asset revaluation reserve RM'000	Share-based reserve RM'000	Available for Sale reserve RM'000	*Non-distributable Retained Earnings RM'000	Distributable Retained Earnings RM'000	Sub-total Retained Earnings RM'000	Total RM'000
At 1 January 2011	140,000	15,000	720	2,981	51,196	568,542	857,692	1,426,234	1,636,131
Share options granted under employee share options scheme	-	-	-	1,361	-	-	-	-	1,361
Total comprehensive income for the year	-	-	198	-	17,879	152,980	68,065	221,045	239,122
Transfer from non-Par surplus	-	-	-	-	-	(200,299)	200,299	-	-
Dividend paid during the year	-	-	-	-	-	-	(139,650)	(139,650)	(139,650)
At 31 December 2011	140,000	15,000	918	4,342	69,075	521,223	986,406	1,507,629	1,736,964
At 1 January 2012	140,000	15,000	918	4,342	69,075	521,223	986,406	1,507,629	1,736,964
Share options granted under employee share options scheme	-	-	-	1,107	-	(1,063)	(44)	(1,107)	-
Reversal of share options scheme	-	-	-	(5,449)	-	5,135	314	5,449	-
Total comprehensive income for the year	-	-	186	-	13,020	62,860	62,046	124,906	138,112
At 31 December 2012	140,000	15,000	1,104	-	82,095	588,155	1,048,722	1,636,877	1,875,076

* Non-distributable retained earnings comprise surplus from the Life Non-Participating Fund (net of deferred tax). This amount is only distributable to the shareholder upon the actual transfer of surplus from the Life Non-Participating Fund to the shareholder's Fund as approved by the Appointed Actuary of the Company under the Insurance Act, 1996.

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

ING INSURANCE BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RM'000	2011 RM'000
Operating activities			
Cash generated from operating activities	35	1,067,199	678,089
Dividend/distribution income received		78,394	60,385
Interest/profit income received		470,390	517,829
Rental income received		18,934	9,213
Retirement gratuity paid		(5,422)	(4,880)
Income tax paid		(124,473)	(118,901)
Net cash flows from operating activities		1,505,022	1,141,735
Investing activities			
Proceeds from disposal of property and equipment		708	901
Purchases of FVTPL financial investments		(2,967,641)	(2,537,715)
Proceeds from sale of FVTPL financial investments		1,729,175	1,338,756
Maturity of FVTPL investments		195,359	583,275
Purchases of AFS investments		(1,777,728)	(1,625,605)
Proceeds from sale of AFS investments		1,101,212	997,411
Maturity of AFS investments		212,161	200,270
Purchase of property and equipment	4	(6,266)	(7,901)
Purchase of intangible assets	3	(6,718)	(2,209)
Net cash flows used in investing activities		(1,519,738)	(1,052,817)
Financing activity			
Dividend paid		-	(139,650)
Net cash flows used in financing activity		-	(139,650)
Net change in cash and cash equivalents		(14,716)	(50,732)
Cash and cash equivalents at beginning of year		125,934	176,666
Cash and cash equivalents at end of year		111,218	125,934
Cash and cash equivalents comprise:			
Cash on hand		68	95
Cash at banks		111,150	125,839
		111,218	125,934

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2012

1. CORPORATE INFORMATION

The Company is principally engaged in the underwriting of life, home service and group insurance, investment-linked business and all classes of general insurance business.

There were no significant changes in the principal activities of the Company during the financial year.

The Company is a public limited company, incorporated and domiciled in Malaysia. The principal place of business of the Company is located at 18th Floor, Menara ING, 84, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia.

The Directors regard ING Groep N.V., a company incorporated in the Netherlands, as the ultimate holding company of the Company until 17 December 2012. The Company is a wholly-owned subsidiary of ING Management Holdings (Malaysia) Sdn. Bhd., which in turn, from 18 December 2012, is wholly owned by AIA Company Limited (formerly known as American International Assurance Company Limited) (“AIA”) whose ultimate holding company is AIA Group Limited ("AIAGL"), a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 23 April 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards as issued by the International Accounting Standards Board, and the Companies Act 1965 in Malaysia. These are the Company's first annual financial statements prepared in accordance with MFRS and MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards ("MFRS 1") has been applied.

In previous financial years, the financial statements of the Company were prepared in accordance with Financial Reporting Standards ("FRS") in Malaysia as modified by Bank Negara Malaysia ("BNM") Guidelines. The financial impact arising from transition to MFRS is disclosed in Note 2.3.

The financial statements of the Company are prepared under the historical cost basis, except as disclosed in the accounting policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.1 Basis of preparation (cont'd.)

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

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital ("RBC") Framework for Insurers as at the reporting date.

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

General business assets and liabilities relate to both the general insurance fund and shareholder's fund.

2.2 Summary of significant accounting policies

(a) Property, equipment and depreciation

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

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

Freehold land and buildings held for own use is classifed as self-occupied properties and are stated at revalued amounts, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence obtained by appraisals undertaken by professionally qualified valuers. Revaluations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the reporting date. Any revaluation surplus is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised.

Leasehold land and buildings held for own use are classified as self-occupied properties and are stated at their revalued amount, being the fair value at the date of revaluation, less any accumulated depreciation. Fair value is determined on the same basis as freehold and land and buildings.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(a) Property, equipment and depreciation (cont'd.)

A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve. Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation of other property and equipment is provided for on a straight-line basis, calculated to write off the cost of each asset over its estimated useful life at the following annual rates:

Self occupied properties	2%
Furniture, fixtures and fittings	20%
Computer installations	25%-50%
Office equipment	20%-33.33%
Motor vehicles	25%

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

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

(b) Financial assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Financial assets (cont'd.)

(i) Financial assets at FVTPL

Assets stated at FVTPL include financial assets designated at fair value through profit and loss at initial recognition and derivatives. For investments designated as FVTPL, the following criteria must be met:

(i) the designation eliminates or significantly reduces the inconsistent treatment such as asset liability mismatch, that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

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

Subsequent to initial recognition, financial assets at FVTPL are remeasured at fair value. Fair value changes and realised gains and losses are recognised in profit or loss.

The Company designates financial assets at FVTPL if this eliminates a measurement inconsistency or if the related assets and liabilities are actively managed on a fair value basis, including:

- financial assets held to back investment-linked contracts and participating funds; and

- other financial assets managed on a fair value basis; consisting of investments held by the Company fully consolidated investment-linked fund and offshore private equities.

(ii) Available-for-sale ("AFS") financial assets

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

After initial recognition, AFS financial assets are measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses on monetary assets and interest calculated using the effective interest method which are recognised in profit or loss accordingly. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(b) Financial assets (cont'd.)

(ii) Available-for-sale ("AFS") financial assets (cont'd.)

Financial assets classified as AFS include Malaysian government securities ("MGS"), corporate debt securities, real estate investment trusts ("REITs"), and equity securities (other than those backing participating funds and investment linked funds).

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

(iii) Loans and receivables ("LAR")

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

Loans include policy loans, mortgage loans, premium loans, Malaysian government loans, unsecured loans and deposits with financial institutions. Policy loans and premium loans are extended by the Company to its policyholders under policy conditions, and these loans are secured on the cash surrender values of the respective policies.

Other receivables are categorised and measured as loans and receivables.

(c) Fair value of financial assets at FVTPL and AFS

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

For investments in investment-linked units, fair value is determined by reference to published prices.

For financial instruments such as unquoted fixed income securities i.e unquoted bonds, loan stocks and MGS, the indicative fair values are determined by reference to the prices provided in secondary markets through an approved bond pricing agency in Malaysia.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(c) Fair value of financial assets at FVTPL and AFS (cont'd.)

Investments in offshore private equity that do not have quoted market prices in an active market and whose fair value cannot be reliably measured will be determined by reference to the net asset value of the respective funds at the reporting date.

If the fair value cannot be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the instruments 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.

(d) Impairment of financial assets

The Company assesses at each reporting 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 such as significant financial difficulty of the issuer 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 a 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.

(i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Impairment for financial assets (cont'd.)

(i) Assets carried at amortised cost (cont'd.)

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

(ii) Available-for-sale financial assets

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 recognised.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income to profit or loss. Impairment losses on AFS equity instruments are not reversed in profit or loss in subsequent periods. Increases in their fair value, if any, subsequent to impairment are recognised in other comprehensive income/insurance contract liabilities. Reversals of impairment losses on AFS debt instruments are reversed in profit or loss if the increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of impairment losses in profit or loss.

(iii) Loans and receivables

The Company first assesses whether there is objective evidence that an impairment loss on loans and receivables has been incurred. The Company considers factors such as the probability of insolvency or significant financial difficulties of the borrower and default or significant delay in principal or interest payments. Loans and receivables are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. The amount of impairment loss is measured as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the loan's original effective interest rate. The impairment loss is recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(d) Impairment for financial assets (cont'd.)

(iii) Loans and receivables (cont'd)

The carrying amount of the LAR is reduced through the use of an allowance account.

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

(e) Financial instruments: Derecognition of financial assets

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

(f) Financial Liabilities and Other Payables

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

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

(g) Product classification

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

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

An insurance contract is a contract under which an entity has accepted significant insurance risk from another party ("the policyholders") by agreeing to compensate the policyholders if a specified uncertain future event ("the insured event") adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event does not occur.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(g) Product classification (cont'd.)

Investment contracts are those contracts that do not transfer significant insurance risk. Based on this definition, all policies issued by the Company are considered insurance contracts as at reporting date.

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

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

a) likely to be a significant portion of the total contractual benefits; and
b) whose amount or timing is contractually at the discretion of the issuer; and
c) that are contractually based on the:

    (i) performance of a specified pool of contracts or a specified type of contracts; or
    (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
    (iii) the profit or loss of the Company, fund or other entity that issues the contracts.

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

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

When insurance contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the statement of financial position similar to investment contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(g) Product classification (cont'd.)

Based on the Company's product classification review performed upon adoption of MFRS 4 *Insurance Contracts* and upon issuance of new products during the year, all products fall under the classification of insurance contract.

(h) Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent amounts recoverable from reinsurers for insurance contract liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contracts.

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

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

The Company also assumes reinsurance risk in the normal course of business for life insurance and general (non-life) insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(i) Provisions

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

(j) Investment properties

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

Gains or losses arising from changes in the fair values of the investment properties are recognised in profit or loss in the period in which they arise.

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

(k) Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary.

Upon classification as held for sale, non-current assets or disposal groups (other than investment properties, deferred tax assets, employee benefits assets, financial assets and inventories) are measured in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* at the lower of the carrying amount or fair value less costs to sell. Any differences are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangibles are assessed to be either finite or indefinite.

The amortisation period and the amortisation method are reviewed at each reporting date. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

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

The cost of significant development of knowledge-based software and computer applications to meet the unique requirements of the insurance business is capitalised and recognised as an intangible asset in accordance with MFRS138 *Intangible Assets* .

The Company established that these development costs will generate economic benefits beyond one year and are associated with identifiable software applications controlled by the Company. Software development costs are amortised from the date of system commissioning, on a straight line basis over its useful economic life of four (4) years. The carrying amount is assessed for impairment on an annual basis.

(m) Impairment of non-financial assets

The Company assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an impairment assessment for an asset is required, 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 asset belongs.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell or 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(m) Impairment of non-financial assets (cont'd.)

An impairment loss is recognised in profit or loss 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 previously. A reversal of impairment loss for an asset is recognised in profit or loss.

(n) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Company all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.

All leases that do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases with the following exceptions:

(a) 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.

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

(ii) Operating leases - the company as lessee

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(n) Leases (cont'd.)

(ii) Operating leases - the company as lessee (cont'd.)

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease.

The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

(iii) Operating leases - the company as lessor

Assets leased out under operating leases are represented on the statement of financial position according to the nature of the assets. Rental income from operating leases 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 asset and recognised on a straight-line basis over the lease term.

(o) Insurance receivables

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

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in profit or loss. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. These processes are described in Note 2.2(d).

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

(p) Insurance payables

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(q) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions ("SOCSO") are recognised as expenses in the year in which the associated services are rendered by employees of the Company.

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 plan

Defined contribution plan are post-employment benefit plans under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the entity does not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding years.

The Company makes statutory and voluntary contributions to the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Defined benefit plan

In addition to the contributions made to the statutory EPF, the Company contributes to a funded scheme for eligible employees based on a defined benefit plan. This fund is known as the ING Management Holdings (Malaysia) Sdn. Bhd. Staff Gratuity Scheme ("the Scheme") and was established pursuant to a trust deed in April 2004.

The Company's obligations under the Scheme are calculated using the Projected Unit Credit Method, and is determined based on actuarial computations by independent actuaries, through which the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is discounted in order to determine its present value. Actuarial gains or losses are recognised as income or expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the Scheme exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets. Past service costs are recognised immediately to the extent that the benefits are already vested, and otherwise are amortised on a straight-line basis over the average period until the amended benefits become vested.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(q) Employee benefits (cont'd.)

(iii) Defined benefit plan (cont'd.)

The amount recognised in the statement of financial position represents the present value of the defined benefit obligations adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any asset resulting from this calculation is limited to the net total of any unrecognised actuarial losses and past service costs, and the present value of any economic benefits in the form of refunds or reductions in future contributions to the plan.

(iv) Stock options and share plans

Prior to 2011, ING Group granted share options and performance shares to the Company's employees under the Group Share Option Plan ("GSOP") and Long Term Equity Ownership ("LEO"). Effective 2011, ING Group granted share awards under the Long Term Sustainable Performance Plan ("LSPP"), a share based compensation plan to the Company's senior executives and staffs. The new scheme was designed in order to meet new internal and external needs and requirements that govern remuneration policies.

The measurement of options granted was determined by ING Group Market Risk Management based on the fair value using an option-pricing model. The fair value of share options was measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions were included in assumptions about the number of options that were expected to become exercisable on vesting date.

The fair value of share awards granted was recorded as an expense under staff expenses and is allocated over the vesting period. The fair value of share awards contained a market based performance condition using a Monte Carlo Simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current dividend yields to determine ING's Total Shareholder Return (TSR) ranking.

Upon sale of ING Management Holdings (Malaysia) Sdn. Bhd.,the holding company of the Company to AIA Company Limited (formerly known as American International Assurance Company Limited) on 18 December 2012, the options granted under the GSOP remain exercisable for 3 months from 18 December 2012 or until the original expiration date of the share option (whichever is the earlier) whereas the options granted under LEO remain exercisable for 12 months from 18 December 2012. Any options not exercised during the period will lapse.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(q) Employee benefits (cont'd.)

(iv) Stock options and share plans (cont'd.)

The performance shares under LEO and LSPP immediately vested on 18 December 2012, based on vesting guidelines agreed as part of the business divestiture process, and pro-rated cash payout was made to the affected staff directly by ING Group and did not have any impact on the financial position or results of the Company.

Correspondingly, the remaining balance in the share based reserve at 18 December 2012 was transferred to retained profits of the Company.

(r) Provision for agents' retirement benefits

Provision for agents' retirement benefits is calculated in accordance with the terms and conditions in the respective agents' agreements. The scheme is not separately funded. The Company pays fixed contributions into the Agency Provident Fund.

Provision for agents' retirement benefits is charged to profit or loss in the period in which it relates.

(s) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand and at banks. Short term fixed and call deposits are not part of cash and cash equivalents as these are held for investment purposes.

The statement of cash flow is prepared using the indirect method.

(t) Life insurance underwriting results

The surplus transferable from the life insurance fund to the profit or loss is based on the surplus determined by an actuarial valuation of the long term liabilities to policyholders at reporting date. The surplus is calculated in accordance with the provisions of the Insurance Act, 1996 and the RBC Framework.

(i) Premium income

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Life insurance underwriting results (cont'd.)

(i) Premium income (cont'd.)

At the end of the reporting period, all due premiums are accounted for to the extent that they can be reliably measured. Premium not received on due dates are recognised as revenue in profit or loss and will be reported as outstanding premiums in the statement of financial position. The commission expense arising is correspondingly accounted for as an expense in profit or loss.

(ii) Creation of units

Net creation of units which represents premium paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract are reflected in profit or loss. Net creation of units is recognised on a receipt basis.

(iii) Commission and agency expenses

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

(iv) Benefits and claims expenses

Benefits and claims expenses incurred during the reporting period are recognised when a claimable event occurs and/or the insurer is notified. Recoveries on reinsurance claims are accounted for in the same reporting period the original claims are recognised.

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

(a) maturity or other policy benefits payments due on specified dates are treated as claims payable on the due dates; and

(b) death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

(v) Cancellation of units

Net cancellation of units represents cancellation of units arising from surrenders and withdrawals. Cancellation is recognised upon notification by the policyholders.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Life insurance underwriting results (cont'd.)

(vi) Insurance contract liabilities

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

These liabilities are measured by using a prospective actuarial valuation method in line with the RBC Framework. The liability is determined as the sum of the present value of future guaranteed and, in the case of a participating life policy, an appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liability is based on best estimate assumptions and with due regard to the most recent experience study. An appropriate provision of risk margin for adverse deviations ("PRAD") from expected experience is made in the valuation of the liabilities in relation to guaranteed benefits of the non-participating and participating life policies, and non-unit liabilities of investment-linked policies.

The liability in respect of participating policies is taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities at fund level derived as stated above.

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

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

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

Adjustments to the liabilities at each reporting date are recorded in profit or loss. Profits originated from margins of adverse deviations on run-off contracts, are recognised in profit or loss over the life of the contract, whereas losses are fully recognised in profit or loss during the first year of run-off. The liability is derecognised when the contract expires, or is discharged or cancelled.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(t) Life insurance underwriting results (cont'd.)

(vi) Insurance contract liabilities

Currently the liabilities measured under the RBC Framework considers all relevant contractual cashflows from insurance contracts and also includes a PRAD. As such, the Company meets the minimum Liability Adequacy Test ("LAT") requirements which requires the consideration of the current best estimates of all contractual cashflows.

(u) General insurance underwriting results

The general insurance underwriting results, other than those arising from inward treaty business, are determined for each class of business after taking into account reinsurances, premium liabilities, net commissions and net claim liabilities incurred.

(i) Premium income

Premium income is recognised in the reporting period in respect of risks assumed during that particular reporting period. Inward treaty reinsurance premium is recognised on the basis of periodic advices received from ceding insurers.

(ii) Premium liabilities

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 Company’s unexpired risk reserves (“URR”) and a PRAD calculated at 75% confidence level at the overall Company level.

(a) Unexpired risk reserves

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(u) General insurance underwriting results (cont'd.)

(ii) Premium liabilities (cont'd.)

(b) 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 the policies at the end of the reporting period.

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

- 25% method for marine, 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 and agency-related expenses not exceeding the limits specified by BNM as follows:

Motor	10%
Fire, engineering, aviation and marine hull	15%
Medical and health	
- Standalone individuals	15%
- Group of 3 or more	10%
Workmen's compensation and employers' liability	
- Foreign workers	10%
- Other workers	25%
- Employers' Liability	25%
Other classes	25%

- 1/8th method for all other classes of overseas inward treaty business with a deduction of 20% for commission; and

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

The long-term UPR represent the portion of the net premiums of long-term insurance policies written, that relate to the unexpired periods of the policies at the end of the reporting period. The premium income is recognised on a time apportionment basis over the duration of the policies.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(u) General insurance underwriting results (cont'd.)

(iii) Claim liabilities

Claim liabilities represent the Company's obligation to make future payments in relation to all claims that have been incurred as at the end of the reporting period. It is recognised in respect of both direct insurance and inward reinsurance. In accordance with the RBC framework, the value is the best estimate value of claim liabilities which includes provision for claims reported, claims incurred but not enough reserved ("IBNER"), claims incurred but not yet reported (“IBNYR”) and direct and indirect claim-related expenses as well as a provision of risk margin for adverse deviation ("PRAD") at a 75% confidence level calculated at the overall Company level. The IBNR, which comprises the IBNER and the IBNYR, as well as related expenses are based on an actuarial valuation by a qualified actuary, using a mathematical method of estimation based on actual claims development pattern.

(v) Foreign currencies

In preparing the financial statements, transactions in currencies other than the Company’s functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting 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 profit or loss for the period except for exchange differences arising on monetary items that form part of net investment in foreign operations.

These are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of net investment in foreign operations are recognised in profit or loss in the financial statements or the individual financial statements of the foreign operations, as appropriate.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(w) Taxation

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

Deferred tax is provided for, using the liability method, on temporary differences at the reporting 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 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 reporting date. Deferred tax is recognised as income or an expense and included in profit or loss, except when it arises from a transaction which is recognised directly in equity/policyholders' fund, in which case the deferred tax is also recognised directly in equity/policyholders' fund.

(x) 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 and profit income

Interest/profit income is recognised on an accrual basis using the effective yield of the asset.

Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective yield of the instrument.

(ii) Rental income

Rental income receivable under tenancy agreements is recognised on a straight-line basis over the term of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.2 Summary of significant accounting policies (cont'd.)

(x) Other revenue recognition (cont'd.)

(iii) Gross dividend/distribution income from unit and real estate investment trust funds

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

(iv) Fees and commission income

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

(y) Equity instruments

Ordinary Share Capital

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

Dividends on Ordinary Share Capital

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1

These are the Company's first annual financial statements prepared in accordance with MFRS. In previous financial years, the financial statements of the Company were prepared in accordance with FRS in Malaysia as modified by Bank Negara Malaysia Guidelines.

The accounting policies set out in Note 2.2 have been applied in preparing the financial statements of the Company for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening statement of financial position at 1 January 2011 (which is also the Company's date of transition to MFRS).

In preparing its opening statement of financial position as at 1 January 2011, the Company has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes:

(a) Unallocated surplus, Available-for-sale ("AFS") reserves and Asset revaluation reserves ("ARR") of the non-participating funds

At the last reporting date, the life insurance contract liabilities of the Company comprised of the unallocated surpluses and estimated actuarial liabilities, Available-for-sale ("AFS") reserves, Asset revaluation reserves, Net Asset values attributable to unitholders and provision for outstanding claims of all life insurance contracts including those with discretionary participating features (referred to as "Participating" or "PAR") and those without (referred to as "non Participating" or "Non Par"). In accordance with the requirements of MFRS, the Non Par unallocated surplus does not meet the definition of a liability, that is, a present obligation of the Company arising from past events, the settlement of which is expected to result in an outflow of economic benefits as the Non Par unallocated surplus represents the residual assets of the Non Par insurance contracts.

In addition, in accordance with MFRS 139 Financial Instruments: Recognition and Measurement, the Non Par AFS reserves should be accounted for as equity of the Company. The same also applies to asset revaluation reserve, under MFRS 116 Property, Plant and Equipment, where this reserve should be accounted for as equity of the Company. The classification of the Non Par unallocated surplus, AFS reserves and asset revaluation reserve of the Company as a liability was made in accordance with the Guidelines issued by Bank Negara Malaysia ("BNM") and was a modification to FRSs which had been approved by BNM under Section 90 of the Insurance Act 1996.

Effective on 1 January 2012, in accordance with revised Guidelines issued by BNM and the adoption of MFRS by the Company, the Non Par unallocated surplus, AFS reserves and asset revaluation reserve are now reclassified from liabilties to equity. This is a change in accounting policy and hence been adjusted retrospectively against prior year retained earnings, AFS reserves and asset revaluation reserve.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(b) Available-for-sale ("AFS") reserves and other reserves on participating funds to FVTPL

The Company applied the MFRS Framework for the financial year beginning 1 January 2012, with a transition date of 1 January 2011. In accordance with the optional exemptions under MFRS 1, the Company has proposed to adopt a different accounting policy for classification of certain financial investments of the Participating Fund, made in equity and debt securities from Available for Sale (AFS) category to Fair Value Through Profit or Loss (FVTPL) category. This is to align its MFRS accounting policy more closely with AIA Group Limited and AIA Bhd. AIA Bhd. is a related company and it is the intention that the business operations of ING Insurance Berhad are transferred to AIA Bhd. by end June 2013.

The rationale for designating certain financial investments of the Par Fund made in equity and debt securities as at FVTPL is that the investments are held to back the Par Funds and that this classification reduces a measurement inconsistency (accounting mismatch) as the corresponding movements in insurance and investment contract liabilities are recorded profit or loss for the year.

(c) Reclassification of offshore private equities from AFS to FVTPL

The Company via the life insurance fund had invested in offshore private equities for trading and investment purposes. A wholly-owned offshore private equity fund was accounted for as a subsidiary and consolidated in the Company’s financial statements and investment in associates for offshore private equity was accounted for using the equity method prior to 2012.

Following the disposal of ING Management Holdings (Malaysia) Sdn. Bhd., the holding company of the Company to American International Assurance Company Limited on 18th December 2012, the significant influence over the offshore private equities effectively ceased. The Company consequently derecognised the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. On investment in associates, the Company derecognised its share of the profits or losses recognized in the financial statements prior to loss of significant influence. These investments are redesignated at fair value through profit and loss upon loss of significant influence.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

In preparing its opening statement of financial position as at 1 January 2011, the Company has adjusted the amounts previously reported in financial statements prepared in accordance with FRS in Malaysia as modified by BNM Guidelines. An explanation of how the transition from FRS in Malaysia as modified by BNM Guidelines to MFRS has affected the Company's financial position and financial performance are set out below:

Reconciliation of statement of financial position for the comparative period at 31 December 2011 and previously reported balances at 1 January 2011 are as follows:

(a) Reconciliation of Statement of financial position

As at 1 January 2011	FRS in Malaysia as modified by BNM Guidelines RM'000	<------- Effects of transition to MFRS -------> Note 2.3 (a) RM'000	Note 2.3 (b) RM'000	Note 2.3 (c) RM'000	MFRS RM'000
Assets					
Intangible assets	3,667	-	-	-	3,667
Property and equipment	118,135	-	-	-	118,135
Investment properties	346,500	-	-	-	346,500
Investments	13,494,192	-	-	(401)	13,493,791
Reinsurance assets	69,153	10,278	-	-	79,431
Insurance receivables	255,366	-	-	-	255,366
Other receivables	129,609	-	-	-	129,609
Asset held for sale	560	-	-	-	560
Cash and bank balances	176,760	-	-	(94)	176,666
Total assets	14,593,942	10,278	-	(495)	14,603,725

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(a) Reconciliation of Statement of financial position (cont'd.)

	FRS in Malaysia as modified by BNM Guidelines	<------- Effects of transition to MFRS ------->			
As at 1 January 2011 (cont'd.)	**RM'000**	**Note 2.3 (a) RM'000**	**Note 2.3 (b) RM'000**	**Note 2.3 (c) RM'000**	**MFRS RM'000**
Equity and liabilities					
Share capital	140,000	-	-	-	140,000
Retained earnings	857,692	568,388	-	154	1,426,234
Other reserves	24,134	45,763	-	-	69,897
Total equity	1,021,826	614,151	-	154	1,636,131
Liabilities					
Insurance contract liabilities	12,482,842	(665,974)	-	(563)	11,816,305
Other claims liabilities	96,063	(96,063)	-	-	-
Insurance payables	763,022	-	-	-	763,022
Other payables	95,154	-	-	(95)	95,059
Provision for agents' retirement benefits	65,229	-	-	-	65,229
Tax payable	23,441	-	-	-	23,441
Deferred tax liabilities	46,365	158,164	-	9	204,538
Total liabilities	13,572,116	(603,873)	-	(649)	12,967,594
Total equity and liabilities	14,593,942	10,278	-	(495)	14,603,725

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(b) Reconciliation of Statement of financial position

As at 31 December 2011	FRS in Malaysia as modified by BNM Guidelines RM'000	<------- Effects of transition to MFRS -------> Note 2.3 (a) RM'000	Note 2.3 (b) RM'000	Note 2.3 (c) RM'000	MFRS RM'000
Assets					
Intangible assets	4,085	-	-	-	4,085
Property and equipment	116,831	-	-	-	116,831
Investment properties	349,370	-	-	-	349,370
Investments	14,783,800	-	-	(181)	14,783,619
Reinsurance assets	64,037	12,442	-	-	76,479
Insurance receivables	296,422	-	-	-	296,422
Other receivables	171,419	-	-	-	171,419
Asset held for sale	600	-	-	-	600
Cash and bank balances	126,063	-	-	(129)	125,934
Total assets	15,912,627	12,442	-	(310)	15,924,759
Equity and liabilities					
Share capital	140,000	-	-	-	140,000
Retained earnings	986,406	520,258	-	965	1,507,629
Other reserves	28,655	60,680	-	-	89,335
Total equity	1,155,061	580,938	-	965	1,736,964

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(b) Reconciliation of Statement of financial position (cont'd.)

As at 31 December 2011 (cont'd.)	FRS in Malaysia as modified by BNM Guidelines RM'000	<------- Effects of transition to MFRS -------> Note 2.3 (a) RM'000	Note 2.3 (b) RM'000	Note 2.3 (c) RM'000	MFRS RM'000
Liabilities					
Insurance contract liabilities	13,370,284	(584,415)	-	(1,296)	12,784,573
Other claims liabilities	131,693	(131,693)	-	-	-
Insurance payables	958,865	-	-	-	958,865
Other payables	123,928	-	-	(193)	123,735
Provision for agents' retirement benefits	76,909	-	-	-	76,909
Tax payable	40,587	-	-	-	40,587
Deferred tax liabilities	55,300	147,612	-	214	203,126
Total liabilities	14,757,566	(568,496)	-	(1,275)	14,187,795
Total equity and liabilities	15,912,627	12,442	-	(310)	15,924,759

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

Reconciliation of statement of comprehensive income for the comparative year ended 31 December 2011 are as follows:

(c) Reconciliation of Statement of comprehensive income

	FRS in Malaysia as modified by BNM Guidelines	<------- Effects of transition to MFRS ------->			
For financial year ended 31 December 2011	RM'000	Note 2.3 (a) RM'000	Note 2.3 (b) RM'000	Note 2.3 (c) RM'000	MFRS RM'000
Gross earned premiums	3,408,654	-	-	-	3,408,654
Premiums ceded to reinsurers	(288,123)	-	-	-	(288,123)
Net earned premiums	3,120,531	-	-	-	3,120,531
Investment income	616,783	-	-	-	616,783
Realised gains and losses	178,816	-	-	413	179,229
Fair value gains and losses	(31,329)	-	43,521	8,729	20,921
Fee and commission income	30,220	-	-	-	30,220
Other operating expenses	(5,795)	-	-	794	(5,001)
Other revenue	788,695	-	43,521	9,936	842,152
Gross benefits and claims paid	(1,992,175)	37,793	-	-	(1,954,382)
Claims ceded to reinsurers	148,845	(2,164)	-	-	146,681
Gross changes in contract liabilities	(819,761)	(99,637)	(40,039)	(7,227)	(966,664)
Changes in contract liabilities ceded to reinsurers	(6,787)	2,164	-	-	(4,623)
Net benefits and claims	(2,669,878)	(61,844)	(40,039)	(7,227)	(2,778,988)

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(c) Reconciliation of Statement of comprehensive income (cont'd.)

	FRS in Malaysia as modified by BNM Guidelines	<------- Effects of transition to MFRS ------->			
		Note 2.3 (a)	Note 2.3 (b)	Note 2.3 (c)	MFRS
	RM'000	RM'000	RM'000	RM'000	RM'000
For financial year ended 31 December 2011 (cont'd.)					
Commission and agency expenses	(518,436)	-	-	-	(518,436)
Management expenses	(314,768)	-	-	-	(314,768)
Other expenses	(833,204)	-	-	-	(833,204)
Surplus for the year	406,144	(61,844)	3,482	2,709	350,491
Taxation of life insurance fund	(57,362)	-	(3,482)	(763)	(61,607)
Profit before taxation	348,782	(61,844)	-	1,946	288,884
Taxation	(80,418)	12,987	-	(408)	(67,839)
Net profit for the year	268,364	(48,857)	-	1,538	221,045

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2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(c) Reconciliation of Statement of comprehensive income (cont'd.)

	FRS in Malaysia as modified by BNM Guidelines	<------- Effects of transition to MFRS ------->			
		Note 2.3 (a)	Note 2.3 (b)	Note 2.3 (c)	MFRS
	RM'000	RM'000	RM'000	RM'000	RM'000
For financial year ended 31 December 2011 (cont'd.)					
Net profit for the year	268,364	(48,857)	-	1,538	221,045
Other comprehensive income:					
Available-for-sale fair value reserves					
Net gain arising during the year	8,836	36,257	-	-	45,093
Net realised gains	(2,915)	(19,247)	-	-	(22,162)
	5,921	17,010	-	-	22,931
Tax effects thereon	(1,480)	(3,572)	-	-	(5,052)
	4,441	13,438	-	-	17,879
Asset revaluation reserve					
Net gain arising during the year	25	227	-	-	252
	25	227	-	-	252
Tax effects thereon	(6)	(48)	-	-	(54)
	19	179	-	-	198
Total comprehensive income for the year	272,824	(35,240)	-	1,538	239,122

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.3 Transition to MFRS and application of MFRS 1 (cont'd.)

(d) The following tables provides estimates of the extent to which each of the line items in the statement of financial position and statement of comprehensive income for the financial year ended 31 December 2012 are higher or lower than it would have been had the previous policies been applied in the current financial year.

Effects on Statement of financial position as at 31 December 2012

	Higher/(lower) RM'000
Investments	2,106
Reinsurance assets	21,219
Cash and bank balances	(920)
Retained earnings	588,155
Other reserves	68,161
Insurance contract liabilities	(633,796)
Other claims liabilities	(166,214)
Other payables	(63)
Deferred tax liabilities	166,162

Effects on Statement of Comprehensive Income for the financial year ended 31 December 2012

	Higher/(lower) RM'000
Investment income	2,645
Realised gains and losses	184
Fair value gains and losses	189,938
Other operating expenses	(1,279)
Gross benefits and claims paid	(43,298)
Claims ceded to reinsurers	(8,777)
Gross changes in contract liabilities	140,076
Changes in contract liabilities ceded to reinsurers	8,777
Taxation of life insurance fund	15,140
Taxation	16,710
Available-for-sale fair value reserves	
Net gain arising during the year	38,776
Net realised gain transferred to statement of comprehensive income	24,366
Tax effects thereon	3,026
Asset revaluation reserve	
Net gain arising during the year	216
Tax effects thereon	46

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following revised standards, amendments and interpretations have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Company:

MFRSs / Amendments to MFRSs / Interpretations	Effective Dates
MFRS 101: Presentation of Items of Other Comprehensive Income (Amendments to MFRS101)	1 July 2012
MFRS 3 Business Combinations (IFRS 3 Business Combination issued by IASB in March 2004)	1 January 2013
MFRS 9: Financial instruments	1 January 2015
MFRS 10: Consolidated Financial Statements	1 January 2013
MFRS 11: Joint Arrangement	1 January 2013
MFRS 12: Disclosure of Interests in Other Entities	1 January 2013
MFRS 13: Fair value measurement	1 January 2013
MFRS 119: Employee Benefits	1 January 2013
MFRS 127: Separate Financial Statements	1 January 2013
MFRS 128: Investments in Associates and Joint Ventures	1 January 2013
Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards - Government Loans*	1 January 2013
Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 7: Disclosure - Offsetting financial assets and financial liabilities	1 January 2013
Amendments to MFRS 10: Consolidated Financial Statements: Transition Guidance	1 January 2013
Amendments to MFRS 11: Joint Arrangements: Transition Guidance	1 January 2013
Amendments to MFRS 12: Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 116 *Property, Plant and Equipment (Annual Improvements 2009-2011 Cycle)*	1 January 2013
Amendments to MFRS 132: Financial Instruments Presentation - Offsetting financial assets and financial liabilities	1 January 2014
Amendments to MFRS134: Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendment to IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments (Annual Improvements 2009-2011 Cycle)	1 January 2013

The Company expects that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

(a) MFRS 9 *Financial Instruments: Classification and Measurement*

MFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of MFRS 139 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial liabilities and financial liabilities as defined in MFRS 139 *Financial Instruments: Recognition and Measurement* ("MFRS 139") and replaces the guidance in MFRS 139.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Company's financial assets but will not have an impact on the classification and measurement of financial liabilities. The Company will quantify the effect in conjunction with the other phases when the final standard including all phases is issued.

(b) MFRS 10 *Consolidated Financial Statements*

MFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by MFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in MFRS 127 *Consolidated and Separate Financial Statements* and IC Interpretation 112 *Special Purpose Entities.* Based on the preliminary analyses performed, MFRS 10 is not expected to have any impact on the currently held investments of the Company.

(c) MFRS 12 *Disclosure of Interests in Other Entities*

MFRS 12 includes all disclosures that were previously in MFRS 127 related to consolidated financial statements as well as all of the disclosures that were previously included in MFRS 11 *Joint Arrangements* and MFRS 128 *Investments in Associates.* These disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new dislcosures are also required but have no impact on the Company's financial position or performance.

(d) MFRS 13 *Fair Value Measurement*

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted. The Company is currently assessing the impact that this Standard will have on the financial position and performance of the Company but based on preliminary analyses, no material impact is expected.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.4 Standards issued but not yet effective (cont'd.)

(e) Amendments to MFRS 101 *Presentation of Financial Statements*

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Company’s financial position and performance.

2.5 Significant accounting estimates and judgements

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

(a) Critical judgements made in applying accounting policies

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

(i) Classification between investment properties and property and equipment

The Company has developed certain criteria based on FRS 140 *Investment Property* in making 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 goods 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 portions 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

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

(ii) Impairment of AFS financial 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 its cost and takes into consideration 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 flows.

(iii) Impairment of insurance and reinsurance receivables

At each reporting date, the Company performs individual assessment for insurance and reinsurance receivables that are individually significant, or collectively for financial assets that are not individually significant or which have not been individually impaired by calculating the present value of future cash flows against the carrying amount of receivables. The future cash flows are determined based on credit assessment on each impaired receivable.

Collective assessment is performed by grouping receivables with similar credit risk characteristics and the future cash flows are estimated based on historical loss experience for receivables with similar credit risk characteristics.

(iv) Impairment of mortgage loans

At each reporting date, the Company determines the allowance of impairment of mortgage loans by calculating the present value of future recoverable cash flows and the fair value of underlying collaterals for impaired loans against the carrying value of the loans. The future recoverable cash flows are determined based on credit assessment on a loan-by-loan basis for impaired loans.

(v) 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 reporting date.

While management's estimates on the realisation and settlement of temporary differences are based on the available information at the reporting 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 profit or loss in the period in which actual realisation and settlement occurs.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

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

(v) Deferred taxation (cont'd.)

Deferred tax assets are recognised for all accumulated impairment losses on investments, unearned premium reserves, allowance of impairment losses on receivables, net amortisation of premium on 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. Management judgement 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.

(b) Key sources of estimation uncertainty

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

(i) Valuation of life insurance contract liabilities

The estimation of the ultimate liability arising from claims/policy benefits made under life insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimation of the liabilities that the Company will ultimately be required to pay as claims/policy benefits.

For life insurance contracts, estimates are made for future deaths, disabilities, maturities, risk discount rates, investment returns, voluntary terminations and expenses. The Company relies on standard industry data and reinsurance tables which represent historical experience, and makes appropriate adjustments to reflect the Company's unique risk exposures in deriving the mortality, disability and morbidity estimates in accordance with regulatory requirements. The estimated number of decrements determines the value of possible future benefits to be paid out, which will be factored into ensuring sufficient cover by reserves which, in turn, is monitored against current and future premiums.

For those contracts that insure risk of disability, estimates are made based on recent past experience and emerging trends, but epidemics, as well as wide ranging changes to lifestyles, could result in significant changes to the expected future exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(i) Valuation of life insurance contract liabilities (cont'd.)

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

The discount rate for non-participating policies, guaranteed benefits of participating policies and the non-unit liability of investment-linked policies accord a level of guarantee which is no less certain than that accorded by a Malaysian Government Security ("MGS"). In the case of the total benefits liabilities of participating policies, the discount rate is based on the historical yield and future investment outlook of the participating fund, net of tax on investment income of the life fund.

(ii) Liabilities of general insurance business

The principal uncertainty in the Company's general insurance business arises from the technical provisions which include premium liabilities and claim liabilities as described in Note 2.2(u) (ii) and (iii). The premium liabilities comprise unearned premium reserves or unexpired risk reserves and a provision for risk margin for adverse deviation. The claims liabilities comprise provision for outstanding claims, provision for incurred but not reported claims and also a provision for risk margin for adverse deviation.

Generally, premium and claim liabilities are determined based upon previous claims and related expense 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 and related expense development trends, legislative changes, judicial decisions and economic conditions. The estimates of premium and claim liabilities are therefore sensitive to various factors and uncertainties. Actual future premium and claim liabilities may not exactly develop as projected and may vary from the Company's projections.

There may be significant reporting lags between the occurrence of an insured event and the time it is actually reported to the Company. 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.

At each reporting date, these estimates are reassessed for adequacy and changes will be reflected as adjustments to the liability.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

2.5 Significant accounting estimates and judgements (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(iii) Depreciation of property and equipment

The costs of the building's equipment e.g. elevators, lifts etc. are depreciated on a straight line basis over the asset's estimated useful lives. The Company estimates the useful lives of these equipment to be 5 years. These are common life expectancies for the building's equipment.

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

(iv) Amortisation of intangible assets

The Company recognises the costs of significant development of knowledge-based software and computer applications as intangible assets with finite useful lives. Such software and applications are unique to the requirements of the insurance business and the Company establishes that these development costs will generate economic benefits beyond one year.

The Company estimates the useful lives of these software costs to be 4 years, as described in Note 2.2(l).

The Company expects that amortisation on software under development will only commence after the software and computer applications are available to be used and generate future economic benefits.

(v) Impairment of unquoted investments

Impairment of unquoted investments is made after considering several factors, including business viability of the investee, potential recovery of capital invested and present values of any future dividends or income streams thereon. The present values of future income streams are measured by applying an expected rate of return that reflects the risk profile of the investment.

These are compared against the carrying cost of investments and appropriate judgement and consideration is made by management to ascertain if the current carrying costs should be impaired.

This assessment is performed at each reporting date and is critically reviewed by management, taking into consideration specific industry and economic factors relevant to the investments concerned.

(vi) Fair value of financial assets determined using valuation techniques

Fair value, in the absence of an active market or available data from pricing agency, is estimated by reference to net asset value of the respective investments at the reporting date.

3. INTANGIBLE ASSETS

	2012 RM'000	2011 RM'000	2010 RM'000
Software development costs			
Cost			
At 1 January	78,422	77,096	75,002
Additions	6,718	2,209	2,093
Adjustments	-	-	1
Write offs	-	(883)	-
At 31 December	85,140	78,422	77,096
Accumulated amortisation			
At 1 January	74,337	73,429	70,732
Amortisation for the year	2,420	1,791	2,696
Adjustments	-	-	1
Write offs	-	(883)	-
At 31 December	76,757	74,337	73,429
Net book value	8,383	4,085	3,667

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4. PROPERTY AND EQUIPMENT

31.12.2012	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<--------- At valuation------>		<------------------------------- At cost -------------------------->				
Valuation/cost							
At 1 January 2012	96,850	500	58,709	34,863	10,725	5,027	206,674
Additions	-	-	2,410	2,900	519	437	6,266
Reclassification from asset held for sale (Note 11)	-	600	-	-	-	-	600
Revaluation surplus for the year recognised in:							
Insurance contract liabilities (Note 12(a))	982	-	-	-	-	-	982
Statement of comprehensive income (Note 22)	1,895	-	-	-	-	-	1,895
Other comprehensive income	216	21	-	-	-	-	237
Elimination of accumulated depreciation on revaluation	(2,743)	(31)	-	-	-	-	(2,774)
Write off	-	-	(571)	(50)	(69)	-	(690)
Disposal	-	-	-	(3)	-	(1,104)	(1,107)
At 31 December 2012	97,200	1,090	60,548	37,710	11,175	4,360	212,083

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4. PROPERTY AND EQUIPMENT (CONT'D.)

31.12.2012 (cont'd.)	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<-------- At valuation--------->		<------------------------------- At cost --------------------------->				
Accumulated depreciation							
At 1 January 2012	-	-	51,967	26,244	9,222	2,410	89,843
Charge for the year	2,743	31	3,462	4,347	678	1,025	12,286
Elimination of accumulated depreciation on revaluation	(2,743)	(31)	-	-	-	-	(2,774)
Write off	-	-	(570)	(47)	(66)	-	(683)
Disposal	-	-	-	(2)	-	(806)	(808)
At 31 December 2012	-	-	54,859	30,542	9,834	2,629	97,864
Net carrying amount	97,200	1,090	5,689	7,168	1,341	1,731	114,219

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4. PROPERTY AND EQUIPMENT (CONT'D.)

31.12.2011	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<--------- At valuation-------->		<------------------------------- At cost ----------------------->				
Valuation/cost							
At 1 January 2011	95,500	500	58,046	43,479	10,469	4,266	212,260
Additions	-	-	2,165	2,664	600	2,472	7,901
Revaluation surplus for the year recognised in:							
Insurance contract liabilities (Note 12(a))	1,033	-	-	-	-	-	1,033
Statement of comprehensive income (Note 22)	2,717	-	-	-	-	-	2,717
Other comprehensive income	227	14	-	-	-	-	241
Elimination of accumulated depreciation on revaluation	(2,627)	(14)	-	-	-	-	(2,641)
Write off	-	-	(1,491)	(11,272)	(341)	-	(13,104)
Disposal	-	-	(11)	-	(3)	(1,711)	(1,725)
Transfer	-	-	-	(8)	-	-	(8)
At 31 December 2011	96,850	500	58,709	34,863	10,725	5,027	206,674

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4. PROPERTY AND EQUIPMENT (CONT'D.)

31.12.2011 (cont'd.)	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<--------- At valuation-------->		<-------------------------------- At cost ------------------------>				
Accumulated depreciation							
At 1 January 2011	-	-	49,103	33,580	8,902	2,540	94,125
Charge for the year	2,627	14	4,364	3,934	661	1,145	12,745
Elimination of accumulated depreciation on revaluation	(2,627)	(14)	-	-	-	-	(2,641)
Write off	-	-	(1,489)	(11,270)	(341)	-	(13,100)
Disposal	-	-	(11)	-	-	(1,275)	(1,286)
At 31 December 2011	-	-	51,967	26,244	9,222	2,410	89,843
Net carrying amount	96,850	500	6,742	8,619	1,503	2,617	116,831

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4. PROPERTY AND EQUIPMENT (CONT'D.)

1.1.2011	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<--------- At valuation-------->		<-------------------------------- At cost ------------------------>				
Valuation/cost							
At 1 January 2010	95,400	500	55,832	36,359	9,961	4,767	202,819
Additions	-	-	2,507	7,188	569	999	11,263
Revaluation surplus for the year recognised in:							
Insurance contract liabilities (Note 12(a))	886	-	-	-	-	-	886
Statement of comprehensive income (Note 22)	1,767	-	-	-	-	-	1,767
Other comprehensive income	-	14	-	-	-	-	14
Elimination of accumulated depreciation on revaluation	(2,553)	(14)	-	-	-	-	(2,567)
Write off	-	-	(68)	(104)	(61)	-	(233)
Disposal	-	-	(225)	(8)	-	(1,500)	(1,733)
Transfer	-	-	-	44	-	-	44
At 31 December 2010	95,500	500	58,046	43,479	10,469	4,266	212,260

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4. PROPERTY AND EQUIPMENT (CONT'D.)

1.1.2011 (cont'd.)	Freehold land and buildings RM'000	Leasehold land and buildings RM'000	Furniture, fixtures and fittings RM'000	Computer installations RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
	<--------- At valuation-------->		<------------------------------- At cost ----------------------->				
Accumulated depreciation							
At 1 January 2010	-	-	45,041	30,512	8,293	2,942	86,788
Charge for the year	2,553	14	4,341	3,161	670	955	11,694
Elimination of accumulated depreciation on revaluation	(2,553)	(14)	-	-	-	-	(2,567)
Write off	-	-	(68)	(104)	(61)	-	(233)
Disposal	-	-	(211)	(5)	-	(1,357)	(1,573)
Transfer	-	-	-	16	-	-	16
At 31 December 2010	-	-	49,103	33,580	8,902	2,540	94,125
Net carrying amount at 1.1.2011	95,500	500	8,943	9,899	1,567	1,726	118,135

The revaluation on leasehold buildings and owner occupied properties are performed on annual basis. The fair value is determined from market-based evidence obtained by appraisals undertaken by professional qualified valuers.

The carrying amounts of revalued land and buildings had these assets been carried at cost less accumulated depreciation are as follows:-

	2012 RM'000	2011 RM'000	2010 RM'000
Buildings - Owner occupied properties	61,900	63,679	65,453
Leasehold land	463	-	-
Leasehold buildings	357	367	387

5. INVESTMENT PROPERTIES

	Building RM'000
At Valuation:	
2012	
At 1 January	349,370
Fair value changes (Note 22)	1,030
At 31 December	350,400
2011	
At 1 January	346,500
Fair value changes (Note 22)	2,870
At 31 December	349,370

The fair values of investment properties are based on the market values of the properties as assessed by independent professional valuers. Valuations are performed on an annual basis and the fair value changes are recorded in statement of comprehensive income.

6. INVESTMENTS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Malaysian government securities ("MGS")	6,115,010	5,784,848	4,392,404
Equity securities	2,165,192	1,526,297	1,607,551
Debt securities	5,328,741	4,501,699	4,203,328
Unit and real estate investment trusts	77,530	61,687	58,835
Loans	2,196,905	2,102,899	2,004,899
Deposits with financial institutions	306,316	280,917	351,280
Offshore private equities securities	148,016	108,173	98,643
Offshore mutual funds	30,192	23,616	22,043
Other investments	375,396	393,483	754,808
	16,743,298	14,783,619	13,493,791

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Available-for-Sale ("AFS")	3,484,723	2,979,032	2,503,574
Fair value through profit or loss ("FVTPL")	10,755,354	9,420,771	8,634,038
Loans and receivables ("LAR")	2,503,221	2,383,816	2,356,179
	16,743,298	14,783,619	13,493,791

6. INVESTMENTS (CONT'D.)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Of which, the following investments mature after 12 months:			
AFS	3,272,981	2,721,331	2,195,367
FVTPL	8,044,891	7,186,082	5,885,501
LAR	1,252,035	1,233,839	1,104,444
	12,569,907	11,141,251	9,185,312

(a) AFS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fair value			
Equity securities:	109,657	70,737	92,246
Quoted in Malaysia			
- Investment-linked funds	10,095	9,005	8,755
- Shares in corporations*	53,679	30,625	57,739
Unquoted in Malaysia	45,883	31,107	25,752
Unit and real estate investment trusts	5,900	3,816	2,680
MGS	2,007,577	1,691,156	1,276,882
Debt securities:	1,361,589	1,213,323	1,131,766
Malaysian government guaranteed bonds	349,785	205,526	192,949
Unquoted in Malaysia	1,011,804	1,007,797	938,817
	3,484,723	2,979,032	2,503,574

* Unit trusts and equity securities of corporations are stated net of impairment losses of RM6,850,096 (2011: RM6,850,096).

The impairment of shares is as a result of significant or prolonged decline in the fair value of these investments below their cost.

(b) FVTPL

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fair value			
Designated upon initial recognition			
Equity securities:	2,053,058	1,453,083	1,512,828
Quoted in Malaysia			
- Shares in corporations*	1,876,382	1,334,985	1,415,058
Unquoted in Malaysia	176,676	118,098	97,770
MGS	4,107,433	4,093,692	3,115,522

6. INVESTMENTS (CONT'D.)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
(b) FVTPL			
Fair value			
Designated upon initial recognition			
Debt securities:	3,967,152	3,288,376	3,071,562
Malaysian government guaranteed bonds	1,471,483	885,856	798,930
Unquoted in Malaysia	2,495,669	2,402,520	2,272,632
Offshore private equity securities	148,016	108,173	98,643
Unit and real estate investment trusts	71,630	57,871	56,155
Offshore mutual funds	30,192	23,616	22,043
Other investments	375,396	393,483	754,808
Cost			
Unquoted equity securities in Malaysia	2,477	2,477	2,477
	10,755,354	9,420,771	8,634,038

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
(c) LAR			
Amortised cost *			
Loans	2,196,905	2,102,899	2,004,899
Policy loans	1,037,309	977,676	917,589
Mortgage loans**	780,833	745,015	706,864
Staff loans	22,531	24,309	24,862
Unsecured corporate loans	6,232	5,899	5,584
Malaysian government loans	350,000	350,000	350,000
Deposits with financial institutions	306,316	280,917	351,280
	2,503,221	2,383,816	2,356,179

* The fair value derived by reference to market-equivalent interest rates approximates to the carrying amount.

** Mortgage loans are stated net of impairment losses amounting to RM5,114,000 (2011: RM1,935,000)

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6. INVESTMENTS (CONT'D.)

The weighted average effective rates of return for each class of interest/profit bearing investments are as follows:

	General business and shareholder's fund			Life fund		
	31.12.2012	**31.12.2011**	**1.1.2011**	**31.12.2012**	**31.12.2011**	**1.1.2011**
	% p.a	**% p.a**	**% p.a**	**% p.a**	**% p.a**	**% p.a**
AFS						
MGS	3.56	3.73	3.50	3.99	3.92	3.84
Malaysian government guaranteed bonds	3.78	3.88	4.30	4.33	4.07	3.97
Unquoted debt securities	4.70	4.84	4.86	4.71	4.97	5.05
Deposits with financial institutions	3.04	3.05	3.15	3.68	3.82	2.92

	Life fund			Investment linked fund		
	31.12.2012	**31.12.2011**	**1.1.2011**	**31.12.2012**	**31.12.2011**	**1.1.2011**
	% p.a	**% p.a**	**% p.a**	**% p.a**	**% p.a**	**% p.a**
FVTPL						
MGS	3.79	3.96	3.85	3.59	3.57	3.43
Malaysian government guaranteed bonds	4.24	4.62	4.65	3.95	3.95	3.94
Unquoted debt securities	4.58	4.98	5.06	4.55	4.64	4.97
Deposits with financial institutions				2.99	2.93	2.70

6. INVESTMENTS (CONT'D.)

The weighted average effective interest rates of loans receivable during the year were as follows:

	Investment linked fund			Life fund		
	31.12.2012	**31.12.2011**	**1.1.2011**	**31.12.2012**	**31.12.2011**	**1.1.2011**
	% p.a	**% p.a**	**% p.a**	**% p.a**	**% p.a**	**% p.a**
Policy loans	-	-	-	6.60	6.30	5.80
Mortgage loans	-	-	-	5.54	5.65	5.75
Staff loans						
Housing loan	-	-	-	3.00	3.00	3.00
Car loan	-	-	-	6.00	6.00	6.00
Other loan	-	-	-	6.00	6.00	6.00
Malaysian government loan	4.92	4.92	4.92	4.78	4.78	4.78

7. DEFERRED TAX LIABILITIES

	2012 RM'000	2011 RM'000
At 1 January	(203,126)	(204,538)
Recognised in AFS reserve other comprehensive income	(3,571)	(5,052)
Recognised in asset revaluation reserve		
Other comprehensive income	(51)	(54)
Insurance contract liabilities (Note 12(a))	(79)	(83)
Recognised in statement of comprehensive income	(33,672)	6,601
At 31 December	(240,499)	(203,126)

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 assets shown in the statement of financial position are determined after appropriate offsetting as follows:

		Total	
	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Deferred tax assets	1,984	2,411	15,108
Deferred tax liabilities	(242,483)	(205,537)	(219,646)
	(240,499)	(203,126)	(204,538)

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7. DEFERRED TAX LIABILITIES (CONT'D.)

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

Deferred tax assets

2012

	Receivables RM'000	Properties RM'000	Investments RM'000	Others RM'000	Total RM'000
At 1 January	1,425	986	-	-	2,411
Reclassification from deferred tax liabilities	-	-	-	(63)	(63)
Recognised in statement of comprehensive income	(280)	(152)	-	68	(364)
At 31 December	1,145	834	-	5	1,984

2011

	Receivables RM'000	Properties RM'000	Investments RM'000	Others RM'000	Total RM'000
At 1 January	1,905	1,203	12,000	-	15,108
Reclassification to deferred tax liabilities	-	-	(9,298)	-	(9,298)
Recognised in statement of comprehensive income	(480)	(217)	(2,702)	-	(3,399)
At 31 December	1,425	986	-	-	2,411

7. DEFERRED TAX LIABILITIES (CONT'D.)

Deferred tax liabilities

2012

	Unallocated surplus RM'000	Investments RM'000	Properties RM'000	Others RM'000	Total RM'000
At 1 January	(138,552)	(63,081)	(2,734)	(1,170)	(205,537)
Reclassification to deferred tax assets	-	-	-	63	63
Recognised in other comprehensive income (page 20)					
- Asset revaluation reserve	-	-	(51)	-	(51)
- AFS reserve	-	(3,571)	-	-	(3,571)
Recognised in insurance contract liabilities (Note 12(a))					
- Asset revaluation reserve	-	-	(79)	-	(79)
Recognised in statement of comprehensive income	(16,710)	(16,264)	(82)	(252)	(33,308)
At 31 December	(155,262)	(82,916)	(2,946)	(1,359)	(242,483)

7. DEFERRED TAX LIABILITIES (CONT'D.)

Deferred tax liabilities (cont'd.)

2011

	Unallocated surplus RM'000	Investments RM'000	Properties RM'000	Others RM'000	Total RM'000
At 1 January	(151,131)	(64,923)	(2,359)	(1,233)	(219,646)
Reclassification from deferred tax assets	-	9,298	-	-	9,298
Recognised in other comprehensive income (page 20)					
- Asset revaluation reserve	-	-	(54)	-	(54)
- AFS reserve	-	(5,052)	-	-	(5,052)
Recognised in insurance contract liabilities (Note 12(a))					
- Asset revaluation reserve	-	-	(83)	-	(83)
Recognised in statement of comprehensive income	12,579	(2,404)	(238)	63	10,000
At 31 December	(138,552)	(63,081)	(2,734)	(1,170)	(205,537)

8. REINSURANCE ASSETS

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Reinsurance of insurance contracts	12	104,749	76,479	79,431

9. INSURANCE RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Outstanding premium including amounts due from agents, brokers and coinsurers	274,256	231,860	202,138
Due from reinsurers	89,926	73,254	64,066
	364,182	305,114	266,204
Allowance for impairment	(11,548)	(8,692)	(10,838)
	352,634	296,422	255,366

The carrying amounts disclosed above approximate fair value at the reporting date.

The increase in allowance of impairment of RM2,855,574 (2011: reversal of allowance of RM2,146,169) during the year is recognised in statement of comprehensive income.

10. OTHER RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Sundry receivables and prepayment	50,327	24,156	16,571
Interest, dividend and rent receivables	147,363	135,542	103,124
Deposits	6,285	6,014	5,641
Due from stockbrokers	1,578	2,018	3,548
Due from related companies	1,216	3,689	725
	206,769	171,419	129,609
Allowance for impairment	(1,974)	-	-
	204,795	171,419	129,609

10. OTHER RECEIVABLES (CONT'D.)

The carrying amounts disclosed above approximate fair value at the reporting date. All receivables other than amount due from related companies are short-term in nature and are receivable within one year.

Due from related companies are unsecured, interest-free and repayable on demand.

11. ASSET HELD FOR SALE

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At 1 January	600	560	560
Fair value gain recognised in:			
Statement of comprehensive income	-	29	-
Other comprehensive income	-	11	-
Reclassification to property and equipment (Note 4)	(600)	-	-
At 31 December	-	600	560

The asset held for sale has been reclassified back to property and equipment as the proposed disposal of the leasehold property did not materialise.

12. INSURANCE CONTRACT LIABILITIES

	Note	31.12.2012 Gross RM'000	31.12.2012 Reinsurance RM'000	31.12.2012 Net RM'000	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	1.1.2011 Gross RM'000	1.1.2011 Reinsurance RM'000	1.1.2011 Net RM'000
Life insurance	12(a)	14,404,855	(77,403)	14,327,452	12,670,132	(57,662)	12,612,470	11,675,516	(50,780)	11,624,736
General insurance	12(b)	148,510	(27,346)	121,164	114,441	(18,817)	95,624	140,789	(28,651)	112,138
		14,553,365	(104,749)	14,448,616	12,784,573	(76,479)	12,708,094	11,816,305	(79,431)	11,736,874

(a) Life insurance

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

	31.12.2012 Gross RM'000	31.12.2012 Reinsurance RM'000	31.12.2012 Net RM'000	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	1.1.2011 Gross RM'000	1.1.2011 Reinsurance RM'000	1.1.2011 Net RM'000
Actuarial liabilities	13,390,896	(56,184)	13,334,712	11,141,145	(45,220)	11,095,925	9,376,873	(40,502)	9,336,371
Unallocated surplus	13,216	-	13,216	669,798	-	669,798	1,168,717	-	1,168,717
Provision for outstanding claims	187,433	(21,219)	166,214	144,135	(12,442)	131,693	106,341	(10,278)	96,063
Net asset value attributable to unitholders	808,450	-	808,450	706,276	-	706,276	1,017,225	-	1,017,225
Asset revaluation reserve	4,860	-	4,860	3,957	-	3,957	3,007	-	3,007
Share-based payment reserve	-	-	-	4,821	-	4,821	3,353	-	3,353
	14,404,855	(77,403)	14,327,452	12,670,132	(57,662)	12,612,470	11,675,516	(50,780)	11,624,736

12. INSURANCE CONTRACT LIABILITIES (CONT'D.)

(a) Life insurance (cont'd.)

	With DPF RM'000	Without DPF RM'000	Total RM'000
At 1 January 2011	9,212,687	2,412,049	11,624,736
Movement due to changes in assumptions:			
Mortality/Morbidity	(26,221)	4,514	(21,707)
Lapse/Surrender Rates	52,821	1,661	54,482
Expenses	35,549	(8,013)	27,536
Discount Rates	657,704	53,340	711,044
Others	55,526	(2,237)	53,289
Release in liabilities due to:			
Death Claims	(19,623)	(3,705)	(23,328)
Lapse/Surrender Claims	(91,556)	(6,626)	(98,182)
Maturity Claims	(252,687)	(2,960)	(255,647)
Others	(71,226)	(17,209)	(88,435)
(Decrease)/increase in liabilities due to:			
New policies issued during the year	(136,184)	242,064	105,880
Inforce policies	1,248,809	88,325	1,337,134
Changes in reinsurance assets	(837)	(6,045)	(6,882)
Unallocated Surplus	(498,919)	-	(498,919)
Net asset value attributable to unitholders	-	16,453	16,453
Creation of units	-	139,965	139,965
Cancellation of units	-	(467,367)	(467,367)
Asset revaluation reserve	1,033	-	1,033
Deferred tax effects (Note 7)	(83)	-	(83)
Share-based payment reserve	1,468	-	1,468
At 31 December 2011	10,168,261	2,444,209	12,612,470

12. INSURANCE CONTRACT LIABILITIES (CONT'D.)

(a) Life insurance (cont'd.)

	With DPF RM'000	Without DPF RM'000	Total RM'000
At 1 January 2012	10,168,261	2,444,209	12,612,470
Movement due to changes in assumptions:			
Mortality/Morbidity	-	(25,405)	(25,405)
Lapse/Surrender Rates	308	51	359
Expenses	26,599	76,845	103,444
Discount Rates	858,776	58,571	917,347
Others	51,737	20,105	71,842
Release in liabilities due to:			
Death Claims	(23,622)	(4,177)	(27,799)
Lapse/Surrender Claims	(133,591)	(14,166)	(147,757)
Maturity Claims	(180,994)	(2,287)	(183,281)
Others	(100,643)	(22,890)	(123,533)
(Decrease)/increase in liabilities due to:			
New policies issued during the year	(63,747)	235,031	171,284
Inforce policies	1,397,852	138,696	1,536,548
Changes in reinsurance assets	(4,388)	(15,353)	(19,741)
Unallocated Surplus	(656,582)	-	(656,582)
Net asset value attributable to unitholders	-	41,258	41,258
Creation of units	-	228,880	228,880
Cancellation of units	-	(167,964)	(167,964)
Asset revaluation reserve	982	-	982
Deferred tax effects (Note 7)	(79)	-	(79)
Share-based payment reserve	(4,821)	-	(4,821)
At 31 December 2012	11,336,048	2,991,404	14,327,452

12. INSURANCE CONTRACT LIABILITIES (CONT'D.)

(b) General insurance

	31.12.2012 Gross RM'000	31.12.2012 Reinsurance RM'000	31.12.2012 Net RM'000	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000	1.1.2011 Gross RM'000	1.1.2011 Reinsurance RM'000	1.1.2011 Net RM'000
Provision for claims reported by policyholders	46,701	(7,230)	39,471	52,507	(16,647)	35,860	55,543	(16,631)	38,912
Provision for incurred but not reported claims ("IBNR")	55,024	(13,120)	41,904	22,275	2,586	24,861	44,773	(8,935)	35,838
Provision for claims liabilities (i)	101,725	(20,350)	81,375	74,782	(14,061)	60,721	100,316	(25,566)	74,750
Provision for premium liabilities (ii)	46,785	(6,996)	39,789	39,659	(4,756)	34,903	40,473	(3,085)	37,388
	148,510	(27,346)	121,164	114,441	(18,817)	95,624	140,789	(28,651)	112,138

(i) Provision for claims Liabilities

	31.12.2012 Gross RM'000	31.12.2012 Reinsurance RM'000	31.12.2012 Net RM'000	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000
At 1 January	74,782	(14,061)	60,721	100,316	(25,566)	74,750
Claims incurred in the current financial year	58,217	(7,901)	50,316	55,232	(13,736)	41,496
Changes in loss ratio	3,491	(8,575)	(5,084)	(29,279)	12,401	(16,878)
Other current claim provision movements	-	-	-	(20,059)	6,939	(13,120)
Claims paid during the year **(Note 25(a)&(b))**	(34,765)	10,187	(24,578)	(31,428)	5,901	(25,527)
At 31 December	101,725	(20,350)	81,375	74,782	(14,061)	60,721

(ii) Provision for Premium Liabilities

	31.12.2012 Gross RM'000	31.12.2012 Reinsurance RM'000	31.12.2012 Net RM'000	31.12.2011 Gross RM'000	31.12.2011 Reinsurance RM'000	31.12.2011 Net RM'000
At 1 January	39,659	(4,756)	34,903	40,473	(3,085)	37,388
Premiums written in the year **(Note 19(a)&(b))**	87,712	(30,286)	57,426	85,828	(28,023)	57,805
Premiums earned during the year	(80,586)	28,046	(52,540)	(86,642)	26,352	(60,290)
At 31 December	46,785	(6,996)	39,789	39,659	(4,756)	34,903

13. INSURANCE PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due to agents and intermediaries	716,779	569,008	437,421
Premium deposits	261,541	266,957	225,766
Due to reinsurers and cedants	161,341	122,900	99,835
	1,139,661	958,865	763,022

The carrying amounts disclosed above approximate fair value at the reporting date. The maturity profile of insurance payables is disclosed in Note 39(b).

14. OTHER PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due to related companies	1,233	2,941	5,440
Other payables	51,103	52,243	31,395
Accrued liabilities	59,354	60,654	54,035
Deposits	4,507	7,496	3,827
Due to ING Management Holdings (Malaysia) Sdn. Bhd. Staff Gratuity Scheme (Note 16)	443	401	362
	116,640	123,735	95,059

The carrying amounts disclosed above approximate fair value at the reporting date. All payables other than amount due to related companies are short-term in nature and are payable within one year. The amount due to related companies is unsecured, interest free and repayable on demand.

15. PROVISION FOR AGENTS' RETIREMENT BENEFITS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At 1 January	76,909	65,229	54,454
Provision for the year (Note 27)	21,032	22,944	19,519
Benefits paid during the year	(10,257)	(11,264)	(8,744)
At 31 December	87,684	76,909	65,229

16. DUE TO ING MANAGEMENT HOLDINGS (MALAYSIA) SDN. BHD. STAFF GRATUITY SCHEME

The Company makes contribution to a defined benefit plan that provides retirement benefits for employees upon retirement. The ING Management Holdings (Malaysia) Sdn. Bhd. Staff Gratuity Scheme ("the Scheme") was set up pursuant to a Trust Deed, dated 22 April 2004 between ING Management Holdings (Malaysia) Sdn. Bhd., the Trustees, ING Insurance Berhad and ING Employee Benefits Sdn. Bhd., effective from 1 January 2003. The Scheme was approved by the Inland Revenue Board as a tax exempt retirement benefits scheme under Section 150 of Income Tax Act 1967 effective from 1 January 2006.

Benefits can only be paid to employees on retirement at age 55 years or earlier as a result of ill-health, on death-in-service and permanent emigration from Malaysia. If an employee leaves service, the benefit will be transferred to the EPF. The benefit amount shall be determined based on a proportion of the basic salary of an employee multiplied by the number of year of service less accumulated contributions made by the Company to the EPF.

(i) Statement of financial position

The amounts recognised in the statement of financial position are determined as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Present value of funded defined benefit obligations	69,033	60,260	52,698
Fair value of plan assets	(59,277)	(58,925)	(54,473)
Net unfunded/(funded) status	9,756	1,335	(1,775)
Unrecognised actuarial (losses)/gains	(9,313)	(934)	2,137
Net liability (Note 14)	443	401	362

The movement in the present value of the defined benefit obligations over the year is as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At 1 January	60,260	52,698	49,910
Current service cost	5,143	4,629	4,082
Interest cost	3,275	3,056	3,023
Actuarial losses/(gains)	6,740	1,889	(61)
Benefits paid	(6,385)	(2,012)	(4,256)
At 31 December	69,033	60,260	52,698

16. DUE TO ING MANAGEMENT HOLDINGS (MALAYSIA) SDN. BHD. STAFF GRATUITY SCHEME (CONT'D.)

(i) Statement of financial position (cont'd.)

The movement of the fair value of the plan assets over the year is as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At 1 January	58,925	54,473	49,493
Expected return on plan assets	3,098	2,877	2,760
Actuarial (losses)/gains	(1,638)	(1,182)	2,266
Contribution by employer	5,277	4,769	4,210
Benefits paid	(6,385)	(2,012)	(4,256)
At 31 December	59,277	58,925	54,473

Plan assets consist of the following assets, stated at their respective fair values:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
MGS	16,432	16,384	14,732
Equities	-	11,873	15,891
Bonds	24,076	24,193	22,392
Others	18,769	6,475	1,458
	59,277	58,925	54,473

(ii) Statement of comprehensive income

The amounts recognised in the statement of comprehensive income are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Current service cost	5,143	4,629
Interest cost	3,275	3,056
Expected return of plan assets	(3,098)	(2,877)
Total, included in Management expenses (Note 28)	5,320	4,808

(iii) Actuarial assumptions

Principal actuarial assumptions used for the purposes of the actuarial valuations were as follows:

	31.12.2012 % p.a	31.12.2011 % p.a	1.1.2011 % p.a
Discount rate	4.80	5.60	6.00
Price inflation	3.50	3.50	3.50
Salary inflation rate	6.00	6.00	6.00
Expected rate of return on plan assets	n/a	5.25	5.25

The assumptions made for the expected rates of return on assets have been derived by considering best estimates for the expected long-term real rates of return from the main asset classes.

17. SHARE CAPITAL

	Number of Shares			Amount		
	31.12.2012 '000	31.12.2011 '000	1.1.2011 '000	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Authorised:						
Ordinary shares of RM1 each						
At beginning and end of the year	185,000	185,000	185,000	185,000	185,000	185,000
Redeemable preference shares of RM1 each						
At beginning and end of the year	15,000	15,000	15,000	15,000	15,000	15,000
Issued and fully paid:						
Ordinary shares						
At beginning and end of the year	140,000	140,000	140,000	140,000	140,000	140,000

18. OPERATING REVENUE

	2012 RM'000	2011 RM'000
Gross earned premium	3,692,617	3,408,654
Investment income (Note 20)	692,065	616,783
	4,384,682	4,025,437

19. NET EARNED PREMIUMS

	Note	2012 RM'000	2011 RM'000
(a) Gross earned premium			
Gross premium			
Life		3,612,031	3,322,012
General	12(b)(ii)	87,712	85,828
		3,699,743	3,407,840
Change in unearned premiums provision	12(b)(ii)	(7,126)	814
		3,692,617	3,408,654
(b) Premiums ceded			
Premium ceded			
Life		(315,348)	(261,771)
General	12(b)(ii)	(30,286)	(28,023)
		(345,634)	(289,794)
Change in unearned premiums provision	12(b)(ii)	2,240	1,671
		(343,394)	(288,123)
Net earned premiums		3,349,223	3,120,531

20. INVESTMENT INCOME

	2012 RM'000	2011 RM'000
AFS financial assets		
Interest income	443,195	394,959
Gross dividends/distributions received from investments quoted in Malaysia	72,028	53,141
Financial assets at FVTPL		
Interest income	5,621	3,597
Gross dividends/distributions received from investments quoted in Malaysia	7,744	5,398
Interest income on LAR	158,862	150,274
Rental income	14,970	12,496
Investment expenses	(8,272)	(7,586)
(Amortisation on premiums)/accretion of discounts, net	(5,077)	1,723
Others	2,994	2,781
	692,065	616,783

21. REALISED GAINS AND LOSSES

	2012 RM'000	2011 RM'000
Property and equipment		
Realised gains	409	462
AFS financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	4,885	10,901
Unquoted debt securities in Malaysia	24,571	11,261
	29,456	22,162
FVPTL (Designated upon initial recognition)		
Realised gains:		
Equity securities		
- quoted in Malaysia	59,277	130,266
- unquoted outside Malaysia	3,029	1,152
Offshore private equity securities	357	1,180
Unquoted debt securities in Malaysia	31,226	21,511
Warrants	5,118	1,311
Offshore mutual funds	1,711	1,185
	100,718	156,605
	130,583	179,229

22. FAIR VALUE GAINS AND LOSSES

	2012 RM'000	2011 RM'000
Investment properties (Note 5)	1,030	2,870
Owner-occupied buildings (Notes 4&11)	1,895	2,746
Change in fair value of FVTPL investments	191,454	15,457
Bad debts written off on LAR	(3,428)	-
Impairment losses on LAR	(3,179)	(152)
	187,772	20,921

23. FEE AND COMMISSION INCOME

	2012 RM'000	2011 RM'000
Policyholder administration and investment management services	6,938	6,716
Surrender charges and other contract fee	395	280
Reinsurance outwards commission income	30,527	23,224
	37,860	30,220

24. OTHER OPERATING EXPENSES, NET

	2012 RM'000	2011 RM'000
Fund management charge	6,503	6,837
Agency incentive program_loyalty and performance benefits	40,000	-
Allowance/(writeback) for impairment	8,103	(1,103)
Sundry income	(1,749)	(733)
	52,857	5,001

25. NET BENEFITS AND CLAIMS

	Note	2012 RM'000	2011 RM'000
(a) Gross benefits and claims paid			
Life insurance contracts		1,731,907	1,922,954
General insurance contracts	12(b)(i)	34,765	31,428
		1,766,672	1,954,382
(b) Claims ceded to reinsurers			
Life insurance contracts		(199,961)	(140,780)
General insurance contracts	12(b)(i)	(10,187)	(5,901)
		(210,148)	(146,681)

26. CHANGES IN CONTRACT LIABILITIES

	Note	2012 RM'000	2011 RM'000
(a) Gross change in contract liabilities			
Life insurance contracts	12(a)	1,738,641	992,198
General insurance contracts	12(b)(i)	26,943	(25,534)
		1,765,584	966,664
(b) Change in contract liabilities ceded to reinsurers			
Life insurance contracts	12(a)	(19,741)	(6,882)
General insurance contracts	12(b)(i)	(6,289)	11,505
		(26,030)	4,623

27. COMMISSION AND AGENCY EXPENSES

	2012 RM'000	2011 RM'000
Agency remuneration	471,649	495,492
Agents retirement benefits	21,032	22,944
	492,681	518,436

28. MANAGEMENT EXPENSES

	2012 RM'000	2011 RM'000
Staff salaries	120,610	103,843
EPF	12,693	11,502
Staff gratuity cost (Note 16)	5,320	4,808
Staff benefits	2,090	9,825
Directors' remuneration: fees and other emoluments	445	384
Audit fees		
- statutory	455	407
- others	185	(179)
Hire of equipment	1,619	1,976
Rental of offices	13,376	13,652
Depreciation of property and equipment	12,286	12,745
Amortisation of intangible assets	2,420	1,791
IGSF levies	-	(287)
Entertainment	1,938	2,032
EDP expenses	10,203	8,763
Advertising and promotion	27,648	26,879
Repair and maintenance	2,426	2,585
Training	4,113	5,212
Printing and stationery	4,194	4,021
Electricity and water	3,977	4,055
Telephone and postages	11,150	10,004
Legal and consultancy fees	423	26
Outsourcing fees	33,590	34,165
Other expenses	65,489	56,559
	336,650	314,768

Directors' and CEO's remuneration:

	2012 RM'000	2011 RM'000
Executive Director/CEO remuneration, included in staff salaries:		
Salaries	1,656	1,430
Bonuses	-	791
Benefits-in-kind	376	777
Other emoluments	76	55
	2,108	3,053
Non-executive Directors		
Fees	381	322
Other emoluments	64	62
	445	384
Total directors' and CEO's remuneration	2,553	3,437

The above reflects the emoluments of the non-executive Directors in their capacity as Directors.

Other emoluments of RM1,800,000 (2011: nil), not included in the above, were paid to the independent non-executive Directors during the year by ING Management Holdings (Malaysia) Sdn. Bhd. and is not included in the Company's profit or loss for the year.

29. TAXATION

	General business and shareholder's fund	
	2012	2011
	RM'000	RM'000
Income tax:		
- Provision for the year	13,874	77,792
- (Over)/under provision of tax expense in prior years	(8,203)	2,105
	5,671	79,897
Deferred tax:		
- Relating to origination of temporary differences	16,970	(12,058)
	22,641	67,839

The domestic income tax for the shareholder's fund and general fund are calculated based on the corporate tax rate of 25% (2011: 25%) of the estimated distributable income and non-distributable income for the financial year.

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

	2012	2011
	RM'000	RM'000
Profit before taxation	147,547	288,884
Taxation at Malaysian statutory tax rate of 25%	36,887	72,221
Income not subject to tax	-	(23)
Expenses not deductible for tax purposes	787	704
(Over)/under provision of income tax expense in prior years	(8,203)	2,105
Set-off for tax charged on surplus transferred to shaholder's fund	(6,830)	(7,168)
Tax expense for the year	22,641	67,839

The taxation charge on the life fund and investment linked funds are based on the method prescribed under the Income Tax Act, 1967 for life business, where the income tax on the life fund is calculated at 8% of the estimated assessable investment income for the financial year.

	Life fund and investment linked fund	
	2012	2011
	RM'000	RM'000
Income tax:		
- Provision for the year	57,202	56,130
- Over/(under) provision of tax expense in prior years	(2,214)	20
	54,988	56,150
Deferred tax:		
- Relating to origination of temporary differences	16,702	5,457
Taxation of life insurance fund (Note 42)	71,690	61,607

29. TAXATION (CONT'D.)

Prior to the year of assessment 2008, Malaysian companies adopted 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 dividends 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 Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 December 2012 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2012, the Company had sufficient credit in the Section 108 balance to pay franked dividends amounting to RM206,423,000 (2011: RM206,423,000) out of its distributable retained earnings. If the balance of the distributable retained earnings of RM842,298,000 (2011: RM779,983,000) were to be distributed as dividends, the Company may distribute such dividends under the single tier system.

30. EARNINGS PER SHARE

Basic earnings per ordinary share of the Company is calculated based on the net profit for the year over the number of ordinary shares in issue during the financial year.

	2012 RM'000	2011 RM'000
Net profit for the year	124,906	221,045
Ordinary shares in issue during the year	140,000	140,000
Basic earnings per share (sen)	89.2	157.9

The Company has no potential dilutive ordinary shares in issue as at reporting date and therefore, diluted earnings per share has not been presented.

31. DIVIDENDS

	Dividend in respect of year		Dividend recognised in year	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Interim dividends paid during the year :				
- dividend of 133% less tax of 25%	-	139,650	-	139,650
Dividend per share (sen) net	-	99.75		

32. BANK GUARANTEES - UNSECURED

At 31 December 2012, the Company had outstanding bank guarantees issued by third party financial institutions in the normal course of business totalling RM1,692,188 (2011: RM1,701,188).

33. CAPITAL COMMITMENTS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Authorised and contracted for:			
Property and equipment	5,719	14,932	5,373
Investments	99,596	42,850	58,090
	105,315	57,781	63,463
Authorised but not contracted for:			
Property and equipment	1,081	13,220	550
	1,081	13,220	550
Total capital commitments	106,396	71,001	64,013

34. OPERATING LEASE ARRANGEMENTS

(a) The Company as lessee

The Company has entered into operating lease agreements for the use of buildings, computers and printers. These leases have 3 years lease terms.

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Future minimum rental payments:			
Not later than 1 year	15,788	14,786	15,538
Later than 1 year	31,085	9,288	49,824
	46,873	24,074	65,362

The lease payments recognised in the statement of comprehensive income during the financial year are disclosed in Note 28.

(b) The Company as lessor

The Company has entered into operating lease agreements on its investment property portfolio and certain self-occupied properties. These leases have remaining lease terms between 1 to 5 years. These leases generally include a clause to enable revision of rental charges upon expiry of the initial terms based on prevailing market rates. Certain leases include contingent rental arrangements computed on sales or profits achieved by tenants.

34. OPERATING LEASE ARRANGEMENTS (CONT'D.)

(b) The Company as lessor (cont'd.)

The future minimum lease payments receivable under operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Not later than 1 year	22,847	18,979	14,890
Later than 1 year	23,605	16,102	9,045
	46,452	35,081	23,935

Rental income recognised in statement of comprehensive income during the financial year are described in Note 20.

35. CASH FLOWS FROM OPERATING ACTIVITIES

	2012 RM'000	2011 RM'000
Surplus for the year	219,237	350,491
Investment income	(697,142)	(615,060)
Realised gains recorded in profit or loss	(130,174)	(178,767)
Fair value losses recorded in profit or loss	(187,772)	(20,921)
Increase in LAR	(125,680)	(27,493)
Non-cash items:		
Depreciation of property and equipment	12,286	12,745
Gain on disposal of property and equipment	(409)	(462)
Property and equipment written off	7	12
Amortisation on premium/(accretion of discounts), net	5,077	(1,723)
Amortisation of intangible assets	2,420	1,791
Impairment allowance/(reversal of impairment allowance)	5,030	(2,146)
Bad debts written off	3,027	1,043
Changes in assets and liabilities:		
(Increase)/decrease in reinsurance assets	(28,270)	2,952
Increase in insurance receivables	(64,270)	(39,953)
Decrease/(increase) in other receivables	96,047	(13,895)
Increase in insurance contract liabilities	1,767,886	967,317
Increase in provision for retirement gratuity	5,422	4,880
Increase in share based payment	-	1,361
Increase in insurance payables	180,796	195,843
Increase in other payables	3,681	40,074
Cash generated from operating activities	1,067,199	678,089

36. RELATED PARTY DISCLOSURES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the year:

	2012 RM'000	2011 RM'000
Expense/(income):		
Former intermediate holding company/ultimate holding company:		
Management fees paid:		
- ING Insurance International B. V., Netherlands	8,900	7,181
- ING Asia Pacific Ltd., Hong Kong	14,052	14,663
IT infrastructure services		
- ING Insurance International B. V., Netherlands	513	-
Fellow subsidiaries/former fellow subsidiaries:		
Claims administration fees paid		
- ING Employee Benefits Sdn Bhd	44,638	45,416
Reinsurance arrangement		
- ING Re (Netherlands) N. V.	(336)	-
- ING Employee Benefit - Global Network	(495)	-
Fund management fee		
- ING Funds Bhd	160	738
Management fees received		
- ING Employee Benefits Sdn Bhd	(1,932)	(1,427)
- ING Funds Bhd	(364)	(186)

36. RELATED PARTY DISCLOSURES (CONT'D.)

(a) In addition to the transactions detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the year (cont'd.):

	2012 RM'000	2011 RM'000
Expense/(income): (cont'd.)		
Fellow subsidiaries/former fellow subsidiary: (cont'd.)		
Rental income received		
- ING Employee Benefits Sdn Bhd	(656)	(656)
- ING Funds Bhd	(479)	(465)
- ING Corporate Advisory (M) Sdn Bhd	(89)	(89)
- Tacorp Holdings Sdn Bhd	(19)	(19)
- ING PUBLIC Takaful Ehsan Bhd	(302)	(213)
Insurance premium received		
- ING Employee Benefits Sdn Bhd	(19)	(32)
- Mandema and Partners B. V.	176	-
Professional fee		
- ING Real Estate Investment Management (Singapore) Pte Ltd	-	1,187
Outsourcing fees		
- ING PUBLIC Takaful Ehsan Bhd	(1,568)	(1,240)
Rebates received from investment		
- Pomona Asia Pacific Private Equity Fund	(98)	(96)
Private equity consultancy fee		
- ING Investment Management Ltd	202	-
Disposal of Company's asset		
- ING PUBLIC Takaful Ehsan Bhd	(1)	-
Disposal of Company's motor vehicle		
- Former Director	(340)	
- Former Employee	(79)	(398)

36. RELATED PARTY DISCLOSURES (CONT'D.)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2012 RM'000	2011 RM'000
Short-term employee benefits	7,860	9,740
EPF expenses	295	934
Benefits-in-kind	1,127	668
Other long-term benefits	-	98
Share-based payment	52	835
Total	9,334	12,275

Included in the compensation of key management personnel are:

	2012 RM'000	2011 RM'000
Directors' remuneration (Note 28)	2,553	3,437

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel of the Company includes the Directors, Chief Executive Officer, Chief Financial Officer and Senior Management.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Introduction

To ensure measured risk-taking throughout the organisation, the Company operates through a comprehensive risk management framework. This ensures the identification, measurement and control of risks at all levels of the organisation so that the Company’s financial strength is safeguarded.

The mission of the Company’s risk management function is to build a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in the Company’s business processes.

The following principles support this objective:

- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines are monitored;

- The Company’s risk profile is transparent, managed to avoid surprises, and is consistent with delegated authorities;

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(a) Introduction (cont'd.)

- Delegated authorities are consistent with the overall insurance strategy and risk appetite; and

- Transparent communication to internal and external stakeholders on risk management and value creation.

(b) Risk governance

The Company's risk management framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Executive Board (and ratified by the Supervisory Board) and is cascaded throughout the Company. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence.

The risk management function, both at corporate and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting. Risk managers in the business lines have a functional reporting line to the Chief Risk Officer ("CRO") described below. The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial and operational risk management and forms the third line of defence.

(i) Risk management function

The risk management function is embedded in all levels of the Company organisation.

Chief Risk Officer

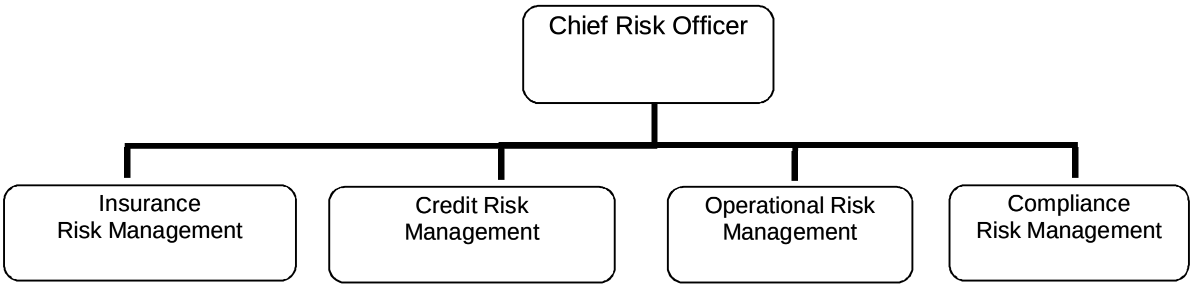
The CRO bears primary overall responsibility for the insurance risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that the Company's insurance risk profile is consistent with its financial resources and the risk appetite defined by the Executive Board. The CRO is also responsible for establishing and maintaining a robust organisational basis for the management of risk throughout the Company.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(b) Risk governance (cont'd.)

(i) Risk management function (cont'd.)

Risk organisations



The organisation chart above illustrates the functional reporting lines within the Company risk organisation. The risk organisation is structured independently from the business lines and is organised as follows:

- Credit Risk Management is responsible for the credit risk management of the Company;
- Insurance Risk Management is responsible for the insurance, market and liquidity risk management of the Company;
- Operational Risk Management is responsible for the operational risk management of the Company; and
- Compliance Risk Management is responsible for:

  (i) supporting and advising management on fulfilling its compliance responsibilities;

  (ii) identifying, assessing, monitoring and reporting on the compliance risks faced by the Company; and

  (iii) advising employees on their (personal) compliance obligations.

The CRO is responsible for the harmonisation and standardisation of risk management practices. The heads of these departments report to the CRO and bear direct responsibility for risk (mitigating) decisions at the insurance level.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(b) Risk governance (cont'd.)

(i) Risk management function (cont'd.)

Risk Committee

The risk committees described below are also part of the second line of defence. They act within the overall risk policy and delegated authorities granted by the Company Executive Board and have an advisory role to the CRO. To ensure a close link between the business lines and the risk management function, the business line heads and the respective Risk Managers are represented on each committee.

- Asset and Liability of the Company ("ALCO"): The investment risk of the Company is controlled and monitored through the Asset Liability Management (“ALM”) and Investment committees, both at the local and regional levels. Investment policies and guidelines are set out in the investment mandate, which is reviewed and approved by the local ALM committee and approved by the regional ALM committee. The mandate is endorsed by the Company’s Board of Directors.

- The local ALM committee meets regularly to discuss on investment issues, which includes compliance, asset allocation decisions, liabilities characteristics, liquidity needs, strategies and risk-adjusted returns.

- The Operational Risk Committee ("ORC") is established to identify, measure and monitor the operational risks of the business unit with appropriate quality of coverage (granularity) and to ensure that an appropriate management action is taken by the responsible line managers at the appropriate level of granularity. The ORC is chaired by the CEO and the objective is to steer the risk management activities of the first and second line of defense.

(ii) Risk policies

The Company has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding on all business units. The governance framework of the business units aligns with the Company's framework and meets local (regulatory) requirements. Senior management is responsible to ensure policies, procedures and standards are implemented and adhered to. Employees globally have access to the Group’s governance framework through an internal website. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practices.

37. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D.)

(c) Policy implementation

To ensure robust non-financial risk management, the Company monitors the full implementation of the Company's risk policies and minimum standards. The Company has to demonstrate that appropriate steps have been taken to control their operational and compliance risk. The Company applies scorecards to measure the quality of the internal control within a business unit. Scoring is based on the ability to demonstrate that the required risk management processes are in place and effective within the Company.

(d) Capital management framework

The RBC Framework for the insurance industry came into effect on 1 January 2009. Under this framework, the insurer has to maintain a capital adequacy level that is commensurate with its risk profiles. The minimum capital requirement under the RBC regulated by Bank Negara Malaysia is 130%.

Besides the RBC, the Company also measured its capital requirements based on the Group's Economic Capital ("EC") requirements prior to 18th December 2012. EC is the amount of assets that needs to be held in addition to the market value of liabilities to assure a non-negative surplus at a 99.95% level of confidence on a 1 year time horizon.

For monitoring purpose, the Company has put in place a Capital Management Plan that outlines the different target measures that has been set by the Company. This is to ensure that the capital is adequate and efficiently managed.

38. INSURANCE RISK

(a) Life insurance business

Insurance risk comprises of product pricing risks, reserving risks and underwriting risks resulting from the pricing and acceptance of insurance contracts.

Product pricing and reserving risks arise with respect to the adequacy of insurance premium rate levels, provisions with respect to insurance liabilities and solvency capital. This is taking into consideration the supporting assets, changes in interest rates and developments in mortality, morbidity, lapses and expenses as well as general market conditions. Specific attention is given to the adequacy of provisioning. The Company believes that its insurance provisions are adequate.

The Dynamic Solvency Test (Stress Test) is carried out regularly by the Appointed Actuary to project and evaluate the impact of various changing economic and financial factors on the financial position of the Company.

38. INSURANCE RISK (CONT'D.)

(a) Life insurance business (cont'd.)

Experience studies are carried out annually to monitor the actual experience of the Company and the result of these studies are used to set assumptions used in the modelling of liabilities. If actual experience differs from that expected, corrective actions may be undertaken if necessary.

Underwriting risks are inherent in the process whereby applications submitted for insurance coverage are reviewed. The maximum underwriting exposure is limited through exclusions, cover limits and reinsurance.

The Company's actuarial and underwriting risks are controlled at Company level together with ING Group level input. The Corporate Actuarial division is responsible for monitoring the adequacy of premium rate levels, provisions and solvency capital, taking into consideration the supporting assets. The assumptions for pricing and risk management are controlled through a stringent product approval process involving the Regional Office, the Company's appointed actuary and related Business Unit Heads.

In the RBC Framework, the life insurance liabilities risk capital charge aims to address the risk of under-estimation of insurance liabilities and adverse claims experience, over and above the amount of reserves already provided for at the 75% confidence level. It is computed by taking the difference of liability cashflows computed based on the BNM stipulated risk margins with the 75% confidence level risk margins.

The table below shows the concentration of life insurance contract liabilities by type of contract.

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2012			
Whole Life	8,663,690	(15,241)	8,648,449
Endowment	3,709,162	(527)	3,708,635
Term - mortgage	686,962	(9,262)	677,700
Term - others	46,354	(11,974)	34,380
Medical and health	272,035	(17,914)	254,121
Riders	12,693	(1,266)	11,427
Total life insurance	13,390,896	(56,184)	13,334,712

38. INSURANCE RISK (CONT'D.)

(a) Life insurance business (cont'd.)

The table below shows the concentration of life insurance contract liabilities by type of contract.(cont'd.)

31.12.2011			
Whole Life	7,062,419	(12,539)	7,049,880
Endowment	3,386,321	(313)	3,386,008
Term - mortgage	549,323	(6,075)	543,248
Term - others	(39,503)	(9,253)	(48,756)
Medical and health	238,488	(16,080)	222,408
Riders	(55,903)	(960)	(56,863)
Total life insurance	11,141,145	(45,220)	11,095,925
1.1.2011			
Whole Life	5,808,885	(11,723)	5,797,162
Endowment	3,123,909	(165)	3,123,744
Term - mortgage	395,255	(4,032)	391,223
Term - others	(95,585)	(7,431)	(103,016)
Medical and health	218,195	(16,151)	202,044
Riders	(73,786)	(1,000)	(74,786)
Total life insurance	9,376,873	(40,502)	9,336,371

As all of business is derived from Malaysia, all life insurance contract liabilities are in Malaysia.

Key assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions. The assumptions in use are determined using statistical models based on the company's actual historical experience, the industry's experience and reinsurer's experience as well as the judgement of the appointed actuary. Assumptions are further evaluated on a regular basis in order to ensure realistic and reasonable valuations.

38. INSURANCE RISK (CONT'D.)

(a) Life insurance business (cont'd.)

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

- Mortality rate : This reflects the Company's future expected death.
- Lapse and Surrender rates : This reflects the Company's future expected sustainability experience.
- Discount rate : This reflects the Company's future expected return.

The assumptions that have a significant effect on the statement of financial position and statement of comprehensive income of the Company are listed below by portfolio assumptions impacting net liabilities.

	Mortality rates (%)		Lapse and Surrender rates (%)		Discount rate (%)	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Type of business						
Life Insurance						
- With DPF contracts	85% - 100% of M9903 (1)	85% - 100% of M9903 (1)	1.03% - 28%	1.03% - 28%	4.5% - 5.8% (2)	4.5% - 7.0% (2)
- Without DPF contracts	60% - 100% of M9903 (1)	60% - 100% of M9903 (1)	0.5% - 45%	0.5% - 45%	2.9% - 3.7% (3)	2.9% - 4.1% (3)

<u>*Notes:*</u>

(1) *Industry mortality and morbidity experience tables that were observed in Malaysia between year 1999 and 2003. The percentage applied will mainly vary according to age and gender of Life Insured.*

(2) *The rates are based on company's expected yield on DPF funds.*

(3) *The rates are based on Malaysian Government Securities (MGS) yield as of 31 December 2011 and 31 December 2012.*

38. INSURANCE RISK (CONT'D.)

(a) Life insurance business (cont'd.)

Sensitivities

The analysis below is performed to quantify the impact of possible movements in key assumptions with all other assumptions held constant. The impact is shown on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate liabilities, but to demonstrate the impact due to changes in assumptions, assumptions are changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions.

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000
Increase/(decrease):			
Life insurance business			
2012			
Mortality/morbidity	+10	226,744	226,648
Lapse and surrender rates	-10	108,307	108,266
Discount rate	-100 bps	252,639	252,572
2011			
Mortality/morbidity	+10	214,247	214,247
Lapse and surrender rates	-10	48,533	48,533
Discount rate	-100 bps	207,487	207,487

(b) General insurance

The table below sets out the concentration of general insurance contract liabilities by type of contract.

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2012			
Motor	88,545	(711)	87,834
Fire	20,668	(10,329)	10,339
Marine cargo, aviation cargo & transit	38	-	38
Personal accident	33,900	(15,776)	18,124
Miscellaneous	5,359	(530)	4,829
	148,510	(27,346)	121,164

38. INSURANCE RISK (CONT'D.)

(b) General insurance (cont'd.)

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2011			
Motor	71,832	(3,640)	68,192
Fire	18,117	(8,019)	10,098
Marine cargo, aviation cargo & transit	55	(13)	42
Personal accident	15,396	(2,814)	12,582
Miscellaneous	9,041	(4,331)	4,710
	114,441	(18,817)	95,624
1.1.2011			
Motor	80,366	(1,185)	79,181
Fire	25,592	(12,434)	13,158
Marine cargo, aviation cargo & transit	112	(15)	97
Personal accident	25,191	(10,575)	14,616
Miscellaneous	9,528	(4,442)	5,086
	140,789	(28,651)	112,138

Key assumptions

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

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

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

Sensitivities

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

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

38. INSURANCE RISK (CONT'D.)

(b) General insurance (cont'd.)

Sensitivities (cont'd.)

	Change in assumptions %	Impact on gross liabilities RM'000	Impact on net liabilities RM'000	Impact on profit before tax RM'000	Impact on equity RM'000
Increase/(decrease)					
2012					
Average claim cost	+10%	926	998	(998)	(749)
2011					
Average claim cost	+10%	2,319	1,630	(1,630)	(1,223)

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each reporting date, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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38. INSURANCE RISK (CONT'D.)

31.12.2012

Gross claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2007	84,559	82,399	83,559	82,462	81,920	79,392	80,219	80,219
2007	38,393	44,654	42,725	42,047	41,115	40,297	-	40,297
2008	52,708	56,101	56,404	55,245	53,441	-	-	53,441
2009	42,329	48,179	46,650	46,308	-	-	-	46,308
2010	26,510	28,246	29,108	-	-	-	-	29,108
2011	17,789	21,833	-	-	-	-	-	21,833
2012	26,788	-	-	-	-	-	-	26,788
Total	26,788	21,833	29,108	46,308	53,441	40,297	80,219	297,994

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2007	(47,526)	(67,292)	(70,757)	(73,114)	(75,305)	(75,825)	(78,657)	(78,657)
2007	(16,956)	(32,563)	(35,327)	(37,844)	(38,613)	(39,087)	-	(39,087)
2008	(22,120)	(47,168)	(49,639)	(50,950)	(51,683)	-	-	(51,683)
2009	(24,413)	(38,083)	(40,085)	(40,943)	-	-	-	(40,943)
2010	(12,334)	(22,703)	(25,088)	-	-	-	-	(25,088)
2011	(9,562)	(17,654)	-	-	-	-	-	(17,654)
2012	(14,330)	-	-	-	-	-	-	(14,330)
Total	(14,330)	(17,654)	(25,088)	(40,943)	(51,683)	(39,087)	(78,657)	(267,442)

Treaty reinsurance accepted	(318)
MMIP	16,467
IBNR	55,024
Gross general insurance claim liabilies per statement of financial position (Note 12(b))	101,725

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38. INSURANCE RISK (CONT'D.)

31.12.2012 (cont'd)

Net claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2007	59,606	63,365	63,964	63,460	62,962	61,299	60,167	60,167
2007	32,343	36,927	35,979	35,250	34,598	33,617	-	33,617
2008	32,585	37,092	37,844	37,315	35,325	-	-	35,325
2009	33,464	37,870	37,261	35,068	-	-	-	35,068
2010	23,726	25,709	24,997	-	-	-	-	24,997
2011	16,086	18,458	-	-	-	-	-	18,458
2012	19,413	-	-	-	-	-	-	19,413
Total	19,413	18,458	24,997	35,068	35,325	33,617	60,167	227,045

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2007	(39,199)	(50,867)	(53,960)	(56,161)	(58,195)	(58,688)	(59,527)	(59,527)
2007	(13,867)	(27,675)	(29,612)	(31,512)	(32,250)	(32,695)	-	(32,695)
2008	(15,921)	(30,026)	(32,012)	(33,265)	(33,819)	-	-	(33,819)
2009	(17,431)	(29,181)	(31,093)	(31,778)	-	-	-	(31,778)
2010	(10,980)	(20,461)	(21,751)	-	-	-	-	(21,751)
2011	(8,492)	(15,242)	-	-	-	-	-	(15,242)
2012	(9,109)	-	-	-	-	-	-	(9,109)
Total	(9,109)	(15,242)	(21,751)	(31,778)	(33,819)	(32,695)	(59,527)	(203,921)

Treaty reinsurance accepted	(119)
MMIP	16,467
IBNR	41,904
Net general insurance claim liabilities per statement of financial position (Note 12(b))	81,375

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38. INSURANCE RISK (CONT'D.)

31.12.2011

Gross claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2006	71,345	73,114	74,461	75,109	74,844	72,939	78,448	78,448
2006	49,687	46,947	47,710	46,944	46,607	44,657	-	44,657
2007	38,393	44,654	42,725	42,047	41,115	-	-	41,115
2008	52,708	55,961	56,264	55,105	-	-	-	55,105
2009	41,019	46,379	44,850	-	-	-	-	44,850
2010	24,567	26,303	-	-	-	-	-	26,303
2011	17,789	-	-	-	-	-	-	17,789
Total	17,789	26,303	44,850	55,105	41,115	44,657	78,448	308,267

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2006	(49,408)	(62,153)	(64,774)	(67,042)	(68,746)	(70,188)	(71,116)	(71,116)
2006	(18,610)	(36,924)	(39,195)	(40,549)	(41,769)	(42,101)	-	(42,101)
2007	(16,956)	(32,563)	(35,327)	(37,844)	(38,613)	-	-	(38,613)
2008	(22,120)	(47,028)	(49,499)	(50,810)	-	-	-	(50,810)
2009	(23,103)	(36,283)	(38,285)	-	-	-	-	(38,285)
2010	(12,334)	(22,703)	-	-	-	-	-	(22,703)
2011	(9,562)	-	-	-	-	-	-	(9,562)
Total	(9,562)	(22,703)	(38,285)	(50,810)	(38,613)	(42,101)	(71,116)	(273,190)

Treaty reinsurance accepted	7,322
MMIP	10,108
IBNR	22,275
Gross general insurance claim liabilies per statement of financial position (Note 12(b))	74,782

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38. INSURANCE RISK (CONT'D.)

31.12.2011 (cont'd)

Net claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2006	60,701	62,333	64,345	64,961	64,893	63,153	64,415	64,415
2006	31,016	33,515	33,735	33,472	33,167	32,043	-	32,043
2007	32,343	36,927	35,979	35,250	34,598	-	-	34,598
2008	32,585	36,957	37,710	37,180	-	-	-	37,180
2009	32,207	36,142	35,533	-	-	-	-	35,533
2010	21,861	23,844	-	-	-	-	-	23,844
2011	16,086	-	-	-	-	-	-	16,086
Total	16,086	23,844	35,533	37,180	34,598	32,043	64,415	243,699

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2006	(42,334)	(53,364)	(55,584)	(57,723)	(59,326)	(60,698)	(61,325)	(61,325)
2006	(15,228)	(25,709)	(27,681)	(28,941)	(30,048)	(30,363)	-	(30,363)
2007	(13,867)	(27,675)	(29,612)	(31,512)	(32,250)	-	-	(32,250)
2008	(15,921)	(29,892)	(31,878)	(33,131)	-	-	-	(33,131)
2009	(16,174)	(27,453)	(29,365)	-	-	-	-	(29,365)
2010	(10,980)	(20,461)	-	-	-	-	-	(20,461)
2011	(8,492)	-	-	-	-	-	-	(8,492)
Total	(8,492)	(20,461)	(29,365)	(33,131)	(32,250)	(30,363)	(61,325)	(215,387)

Treaty reinsurance accepted	(2,559)
MMIP	10,108
IBNR	24,861
Net general insurance claim liabilities per statement of financial position (Note 12(b))	60,721

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38. INSURANCE RISK (CONT'D.)

1.1.2011

Gross claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2005	190,852	197,985	199,892	197,243	198,636	198,081	196,810	196,810
2005	31,634	34,872	35,452	35,850	35,518	35,313		35,313
2006	49,687	46,947	47,710	46,944	46,607			46,607
2007	38,393	44,654	42,725	42,047				42,047
2008	52,708	55,961	56,264					56,264
2009	41,019	46,379						46,379
2010	24,567							24,567
Total	24,567	46,379	56,264	42,047	46,607	35,313	196,810	447,987

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2005	(145,221)	(165,620)	(172,682)	(177,532)	(182,925)	(185,161)	(187,119)	(187,119)
2005	(17,894)	(28,916)	(30,367)	(31,562)	(32,564)	(33,537)		(33,537)
2006	(18,610)	(36,924)	(39,195)	(40,549)	(41,769)			(41,769)
2007	(16,956)	(32,563)	(35,327)	(37,844)				(37,844)
2008	(22,120)	(47,028)	(49,499)					(49,499)
2009	(23,103)	(36,283)						(36,283)
2010	(12,334)							(12,334)
Total	(12,334)	(36,283)	(49,499)	(37,844)	(41,769)	(33,537)	(187,119)	(398,385)

Treaty reinsurance accepted	5,133
MMIP and MIB	808
IBNR	44,773
Gross general insurance claim liabilies per statement of financial position (Note 12(b))	100,316

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38. INSURANCE RISK (CONT'D.)

1.1.2011 (cont'd)

Net claims development table by accident year (RM' 000) - For all lines of business

A. Current estimate of cumulative claims incurred

Accident Year	1	2	3	4	5	6	7	Total
Before 2005	159,364	166,333	165,877	165,557	166,827	167,267	164,240	164,240
2005	26,276	28,591	29,850	30,229	29,988	29,795		29,795
2006	31,016	33,515	33,735	33,472	33,167			33,167
2007	32,343	36,927	35,979	35,250				35,250
2008	32,585	36,957	37,710					37,710
2009	32,207	36,142						36,142
2010	21,861							21,861
Total	21,861	36,142	37,710	35,250	33,167	29,795	164,240	358,165

B. Cumulative payments to-date

Accident Year	1	2	3	4	5	6	7	Total
Before 2005	(125,766)	(143,087)	(149,641)	(153,247)	(157,500)	(159,468)	(160,857)	(160,857)
2005	(14,558)	(23,970)	(25,158)	(26,279)	(27,220)	(28,147)		(28,147)
2006	(15,228)	(25,709)	(27,681)	(28,941)	(30,048)			(30,048)
2007	(13,867)	(27,675)	(29,612)	(31,512)				(31,512)
2008	(15,921)	(29,892)	(31,878)					(31,878)
2009	(16,174)	(27,453)						(27,453)
2010	(10,980)							(10,980)
Total	(10,980)	(27,453)	(31,878)	(31,512)	(30,048)	(28,147)	(160,857)	(320,875)

Treaty reinsurance accepted	814
MMIP and MIB	808
IBNR	35,838
Net general insurance claim liabilities per statement of financial position (Note 12(b))	74,750

39. FINANCIAL RISKS

(a) Credit risk

Credit risk, which arises from lending, investing and insurance activities, is the risk of loss arising from the default by a debtor or counterparty.

Under the RBC Framework, the credit risk capital charge aims to mitigate risks of losses resulting from asset defaults, related losses of income and the inability or unwillingness of a counterparty to fully meet its contractual financial obligations. The risk charge differs by asset group/ratings multiplied by the exposure amount (i.e. asset value).

Investment Assets

Risk is controlled via the diversification requirement for single issuer, single borrower group, credit rating and sectors, where there are maximum limits assigned to each factor. In addition, there is a strict credit evaluation policy in place. The credit evaluation policy includes detailed qualitative and financial credit analysis. The analysis will include, but is not limited to, a discussion of the business and how it works, market share projections, competitors and barriers to entry, quality of management, and any regulatory or legal issues as well as the issuer's ability to service and repay its obligations.

Each issuer will be assigned an internal risk rating as defined by the Company internal risk rating system. An annual review will be done for all credit ratings to determine whether a downgrade in the risk rating is necessary, and recommendations are reviewed by the Chief Investment Officer ("CIO").

High risk assets will be reviewed on a monthly basis to determine the requirement for impairment allowance. The outstanding debt and suspense balance will be written off when there is no prospect of recovering the principal.

Reinsurance Arrangements

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year. The creditworthiness of reinsurers is assessed on an annual basis by reviewing their financial strength through published credit ratings and other publicly available financial information.

Insurance Receivables

The credit risk in respect of life insurance receivables is incurred on non-payment of premiums or contributions and will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. To mitigate the credit risk of policy loans, the maximum loan amount is capped at 80% of the guaranteed surrender value.

General insurance receivables comprise of amounts due from agents, brokers and other intermediaries. The risk arises where these parties collect premiums from customers to be paid to the Company. The credit risk from these receivables are mitigated with a focus on day-to-day monitoring of the outstanding position by the credit control staff. There are guidelines and regulations in setting the allowable period for recoveries as well as in evaluating intermediaries before their appointment.

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Loans

The mortgage loans in the company's portfolio are generally secured by collateral with the outstanding loan amount against the security value at an average of 63%. The maximum loan-to-value ratio should not in excess of 90% of the security value. The company's secured government loan is guaranteed by the government in which the credit risk exposure is very minimal.

Investment-linked financial assets

The Company also issues investment-linked policies. In the investment-linked business, the policyholder bears the investment risk on the assets held in the investment-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material credit risk on investment-linked financial assets.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position and items such as future commitments. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Insurance and shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
31.12.2012			
LAR:			
Loans	2,188,905	8,000	2,196,905
Deposits with financial institutions	277,412	28,904	306,316
AFS financial assets:			
Malaysian government securities	2,007,577	-	2,007,577
Debt securities	1,361,589	-	1,361,589
Financial assets at FVTPL:			
Malaysian government securities	4,088,236	19,197	4,107,433
Debt securities	3,841,866	125,286	3,967,152
Other investments	-	375,396	375,396
Reinsurance assets	104,749	-	104,749
Insurance receivables	352,634	-	352,634
Other receivables	199,112	5,683	204,795
Cash and bank balances	106,450	4,768	111,218
	14,528,530	567,234	15,095,764

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

	Insurance and shareholders' funds RM'000	Investment-linked funds RM'000	Total RM'000
31.12.2011			
LAR:			
Loans	2,094,899	8,000	2,102,899
Deposits with financial institutions	264,816	16,101	280,917
AFS financial assets:			
Malaysian government securities	1,691,156	-	1,691,156
Debt securities	1,213,323	-	1,213,323
Financial assets at FVTPL:			
Malaysian government securities	4,064,048	29,644	4,093,692
Debt securities	3,226,251	62,125	3,288,376
Other investments	-	393,483	393,483
Reinsurance assets	76,479	-	76,479
Insurance receivables	296,422	-	296,422
Other receivables	169,366	2,053	171,419
Cash and bank balances	123,789	2,145	125,934
	13,220,549	513,551	13,734,100
1.1.2011			
LAR:			
Loans	1,996,899	8,000	2,004,899
Deposits with financial institutions	335,179	16,101	351,280
AFS financial assets:			
Malaysian government securities	1,276,882	-	1,276,882
Debt securities	1,131,766	-	1,131,766
Financial assets at FVTPL:			
Malaysian government securities	3,098,768	16,754	3,115,522
Debt securities	3,030,194	41,368	3,071,562
Other investments	-	754,808	754,808
Reinsurance assets	79,431	-	79,431
Insurance receivables	255,366	-	255,366
Other receivables	128,508	1,101	129,609
Cash and bank balances	173,925	2,741	176,666
	11,506,918	840,873	12,347,791

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Concentration of credit risk by sectoral distribution

The following tables present the concentration of credit risk arising from debt securities by sectoral distribution.

Debt securities

Life fund

Sector	31.12.2012 RM'000	31.12.2012 As a % of total debt securities	31.12.2011 RM'000	31.12.2011 As a % of total debt securities	1.1.2011 RM'000	1.1.2011 As a % of total debt securities
Finance, Insurance, Real Estate and Business Services	3,476,761	66.82%	2,711,369	61.07%	2,774,029	66.65%
Electricity, Gas and Water	687,219	13.21%	562,026	12.66%	381,648	9.17%
Govt. and Other Services	533,009	10.24%	466,174	10.50%	446,400	10.73%
Transport, Storage and Communications	171,475	3.30%	444,792	10.02%	459,918	11.05%
Construction	301,236	5.79%	200,713	4.52%	70,458	1.69%
Manufacturing	24,846	0.48%	54,500	1.23%	29,507	0.71%
Agriculture, Forestry and Fishing	8,908	0.17%	-	0.00%	-	0.00%
	5,203,454		4,439,574		4,161,960	

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Investment linked fund

Sector	31.12.2012 RM'000	31.12.2012 As a % of total debt securities	31.12.2011 RM'000	31.12.2011 As a % of total debt securities	1.1.2011 RM'000	1.1.2011 As a % of total debt securities
Finance, Insurance, Real Estate and Business Services	89,182	71.18%	29,900	48.13%	26,800	64.78%
Electricity, Gas and Water	21,452	17.12%	13,361	21.51%	5,380	13.01%
Govt. and Other Services	3,682	2.94%	3,687	5.93%	3,672	8.88%
Transport, Storage and Communications	3,188	2.54%	1,869	3.01%	2,106	5.09%
Construction	2,812	2.24%	7,478	12.04%	2,602	6.29%
Manufacturing	4,970	3.97%	5,830	9.38%	808	1.95%
	125,286		62,125		41,368	

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39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating

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

(i) Investments and cash and bank balances

	Neither past-due nor impaired						
	Investment grade (AAA-A)	Non-investment grade	Not rated	Past due but not impaired	Past due and impaired	Investment linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2012							
LAR:							
Loans	-	-	2,100,118	83,673	5,114	8,000	2,196,905
Deposit with financial institutions	277,412	-	-	-	-	28,904	306,316
AFS financial assets:							
Malaysian government securities	-	-	2,007,577	-	-	-	2,007,577
Debt securities	994,917	-	366,672	-	-	-	1,361,589
Financial assets at FVTPL:							
Malaysian government securities	-	-	4,088,236	-	-	19,197	4,107,433
Debt securities	2,201,430	-	1,640,436	-	-	125,286	3,967,152
Other investments	-	-	-	-	-	375,396	375,396
Cash and bank balances	105,613	-	837	-	-	4,768	111,218
	3,579,372	-	10,203,876	83,673	5,114	561,551	14,433,586

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39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

(i) Investments and cash and bank balances (cont'd.)

	Neither past-due nor impaired						
	Investment grade (AAA-A)	Non-investment grade	Not rated	Past due but not impaired	Past due and impaired	Investment linked fund	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2011							
LAR:							
Loans	-	-	2,001,297	91,667	1,935	8,000	2,102,899
Deposit with financial institutions	238,552	-	26,264	-	-	16,101	280,917
AFS financial assets:							
Malaysian government securities	-	-	1,691,156	-	-	-	1,691,156
Debt securities	1,045,495	-	167,828	-	-	-	1,213,323
Financial assets at FVTPL:							
Malaysian government securities	-	-	4,064,048	-	-	29,644	4,093,692
Debt securities	2,352,743	-	873,508	-	-	62,125	3,288,376
Other investments	-	-	-	-	-	393,483	393,483
Cash and bank balances	123,111	-	678	-	-	2,145	125,934
	3,759,901	-	8,824,779	91,667	1,935	511,498	13,189,780
1.1.2011							
LAR:							
Loans	-	-	1,892,425	102,691	1,783	8,000	2,004,899
Deposit with financial institutions	296,802	-	28,976	-	-	25,502	351,280
AFS financial assets:							
Malaysian government securities	-	-	1,276,882	-	-	-	1,276,882
Debt securities	957,420	-	174,346	-	-	-	1,131,766
Financial assets at FVTPL:							
Malaysian government securities	-	-	3,098,768	-	-	16,754	3,115,522
Debt securities	2,091,468	-	938,726	-	-	41,368	3,071,562
Other investments	-	-	-	-	-	754,808	754,808
Cash and bank balances	172,697	-	1,228	-	-	2,741	176,666
	3,518,387	-	7,411,351	102,691	1,783	849,173	11,883,385

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39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Credit exposure by credit rating (cont'd.)

(ii) Receivables

	Neither past-due nor impaired						
	Investment grade (AAA-BB) RM'000	Non-investment grade (B) RM'000	Not applicable RM'000	Past due but not impaired RM'000	Past due and impaired RM'000	Investment linked fund RM'000	Total RM'000
31.12.2012							
Reinsurance assets	62,030	1,392	41,327	-	-	-	104,749
Insurance receivables	59,049	107	194,260	87,670	11,548	-	352,634
Other receivables	31,944	-	167,168	-	-	5,683	204,795
	153,023	1,499	402,755	87,670	11,548	5,683	662,178
31.12.2011							
Reinsurance assets	46,590	1,219	28,670	-	-	-	76,479
Insurance receivables	43,781	-	175,083	68,866	8,692	-	296,422
Other receivables	30,761	-	138,605	-	-	2,053	171,419
	121,132	1,219	342,358	68,866	8,692	2,053	544,320
1.1.2011							
Reinsurance assets	41,238	1,118	37,075	-	-	-	79,431
Insurance receivables	99,930	902	82,872	60,824	10,838	-	255,366
Other receivables	28,493	-	98,375	-	-	2,741	129,609
	169,661	2,020	218,322	60,824	10,838	2,741	464,406

For reinsurance assets, it is impracticable to perform credit rating analysis as IBNR reinsurance asset is calculated on a holistic basis, and not by an individual reinsurer.

Receivables at which credit rating are not available are classfied under "Not Applicable". These include outstanding premiums and agent balances, direct clients, co-insurers and brokers.

The receivables are unsecured in nature. There is no significant concentration of credit risk related to any debtor classified under receivables.

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Age analysis of financial assets past-due but not impaired

	< 30 days RM'000	31-60 days RM'000	61-90 days RM'000	91-180 days RM'000	> 180 days RM'000	Total RM'000
31.12.2012						
Mortgage and staff loans	-	35,515	22,243	14,714	11,201	83,673
Insurance receivables	6,169	15,151	902	49,040	16,408	87,670
	6,169	50,666	23,145	63,754	27,609	171,343
31.12.2011						
Mortgage and staff loans	-	33,104	20,933	20,285	17,345	91,667
Insurance receivables	2,787	21,451	987	21,893	21,749	68,866
	2,787	54,555	21,919	42,177	39,095	160,533
1.1.2011						
Mortgage and staff loans	-	30,604	26,885	22,943	22,259	102,691
Insurance receivables	2,823	21,285	4,310	21,688	10,718	60,824
	2,823	51,889	31,195	44,631	32,977	163,515

39. FINANCIAL RISKS (CONT'D.)

(a) Credit risk (cont'd.)

Impaired financial assets

At 31 December 2012, based on individual and collective assessment of loans and receivables and insurance receivables, there are impaired mortgage loans of RM5,114,000 and insurance receivables of RM11,548,000. A reconciliation of the allowance for impairment losses for these classes of assets are as follows:

	Mortgage and staff loans		Insurance receivables	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
At beginning of year	1,935	1,783	8,692	10,838
Net charge/(recoveries) for the year*	3,179	152	2,856	(2,146)
At end of year	5,114	1,935	11,548	8,692

*Allowance for impairment of insurance receivables during the year is recognized in other operating expenses.

Collateral-loans

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation, when applicable.

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

Type of loans	Types of collaterals
Mortgage loans	Legal title of the properties
Secured staff loans	Legal title of the properties and vehicles

39. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk

Liquidity risk falls under the supervision of the ALCO function. Liquidity risk is the risk that the Company cannot meet its financial liabilities when they fall due, at a reasonable cost and in a timely manner.

Liquidity risk is managed through the monitoring of projected and actual cash inflows and outflows, so that a sufficient level of liquidity is maintained within each portfolio to meet its financial obligations. A large part of the liabilities of the Company are long-term in nature and considerable efforts are invested in matching and maintaining financial instruments to meet these liabilities when due.

Maturity profiles

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment linked fund RM'000	Total RM'000
31.12.2012									
Financial assets:									
AFS	3,484,723	264,557	663,026	864,419	2,332,035	158,840	115,558	-	4,398,435
LAR	2,503,221	172,051	44,628	48,251	629,005	659,182	1,043,541	36,904	2,633,562
FVTPL	10,755,354	541,599	949,823	1,582,807	6,941,302	900,278	1,933,115	775,427	13,624,351
Insurance receivables	352,634	265,448	17,720	-	-	-	69,466	-	352,634
Reinsurance assets	104,749	104,749	-	-	-	-	-	-	104,749
Other receivables	204,795	199,112	-	-	-	-	-	5,683	204,795
Cash and bank balances	111,218	106,450	-	-	-	-	-	4,768	111,218
Total assets	17,516,694	1,653,966	1,675,197	2,495,477	9,902,342	1,718,300	3,161,680	822,782	21,429,744
Insurance contract liabilities:									
With DPF	11,380,106	307,687	645,729	802,917	1,702,329	7,715,935	205,509	-	11,380,106
Without DPF	3,173,259	641,974	188,408	55,884	295,955	1,182,587	-	808,450	3,173,259
Insurance payables	1,139,661	458,754	74,620	80,463	41,131	148	484,545	-	1,139,661
Other payables	116,640	110,546	-	-	-	-	-	6,094	116,640
Total liabilities	15,809,666	1,518,961	908,757	939,264	2,039,415	8,898,670	690,054	814,544	15,809,666

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39. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment linked fund RM'000	Total RM'000
31.12.2011									
Financial assets:									
AFS	2,979,032	325,359	621,896	719,633	1,834,751	89,207	74,552	-	3,665,398
LAR	2,383,816	188,229	45,130	47,070	647,844	628,363	983,575	24,101	2,564,312
FVTPL	9,420,771	633,848	1,347,001	1,207,452	5,754,326	911,006	1,335,184	687,116	11,875,933
Insurance receivables	296,422	211,246	16,723	-	-	-	68,453	-	296,422
Reinsurance assets	76,479	76,479	-	-	-	-	-	-	76,479
Other receivables	171,419	169,366	-	-	-	-	-	2,053	171,419
Cash and bank balances	125,934	123,789	-	-	-	-	-	2,145	125,934
Total assets	15,453,873	1,728,316	2,030,750	1,974,155	8,236,921	1,628,576	2,461,764	715,415	18,775,897
Insurance contract liabilities:									
With DPF	10,197,469	317,289	368,741	791,217	1,894,563	6,002,949	822,710	-	10,197,469
Without DPF	2,587,104	569,879	80,231	83,692	233,137	913,889		706,276	2,587,104
Insurance payables	958,865	398,538	69,744	74,849	45,627	152	369,955	-	958,865
Other payables	123,735	120,815	-	-	-	-	-	2,920	123,735
Total liabilities	13,867,173	1,406,521	518,716	949,758	2,173,327	6,916,990	1,192,665	709,196	13,867,173

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39. FINANCIAL RISKS (CONT'D.)

(b) Liquidity risk (cont'd.)

Maturity profiles (cont'd.)

	Carrying value RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Over 15 years RM'000	No maturity date RM'000	Investment linked fund RM'000	Total RM'000
1.1.2011									
Financial assets:									
AFS	2,503,574	308,716	707,123	552,801	1,342,408	121,431	71,189	-	3,103,668
LAR	2,356,179	328,973	52,273	37,101	535,046	599,027	923,173	24,101	2,499,694
FVTPL	8,634,038	535,885	1,645,634	1,073,102	4,125,891	849,990	1,533,668	812,930	10,577,100
Insurance receivables	255,366	178,421	9,524	153	-	-	67,268	-	255,366
Reinsurance assets	79,431	79,431	-	-	-	-	-	-	79,431
Other receivables	129,609	128,508	-	-	-	-	-	1,101	129,609
Cash and bank balances	176,666	173,925	-	-	-	-	-	2,741	176,666
Total assets	14,134,863	1,733,859	2,414,554	1,663,157	6,003,345	1,570,448	2,595,298	840,873	16,821,534
Insurance contract liabilities:									
With DPF	9,224,329	426,785	262,486	573,795	1,936,637	4,759,355	1,265,271	-	9,224,329
Without DPF	2,591,976	582,391	13,483	54,876	170,681	737,173	16,147	1,017,225	2,591,976
Insurance payables	763,022	314,295	61,026	64,277	46,992	151	276,281	-	763,022
Other payables	95,059	86,412	-	-	-	-	-	8,647	95,059
Total liabilities	12,674,386	1,409,883	336,995	692,948	2,154,310	5,496,679	1,557,699	1,025,872	12,674,386

39. FINANCIAL RISKS (CONT'D.)

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

The Company is exposed to movements in interest rates and equity markets. These market risks are monitored via ALM. Risk and return trade offs are selected, consistent with the Company’s goals and objectives.

Market risk exposure excludes investment linked funds as the risk is mainly borne by policyholders.

Under the RBC Framework, the market risk capital charge is calculated based on a risk charge applied to the exposure amount and the risk charge varies by asset classes. The aim is to mitigate risks of financial losses from reduction in the market value of assets, interest rate mismatch risk and concentration risk.

The Company also monitors market and credit risk using Market Value at Risk (MVaR). A MVaR limit is set by the Group Insurance ALCO which, when breached should be reported to the ALCO and resolved in accordance with the policy. The MVaR limit is measured based on a 99.95% confidence level over a one-year horizon.

Investment mandates by insurance funds are prepared and updated annually by the local ALCO. The mandate specifies the Strategic Asset Allocation, Risk Tolerance and Target Duration for each insurance funds.

(i) Currency risk

Currency risk refers to risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia (RM) and its exposure to foreign exchange risk arises principally with respect to Euro, Australian Dollar (AUD) and US Dollar (USD).

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

39. FINANCIAL RISKS (CONT'D.)

(c) Market risk (cont'd.)

(i) Currency risk (cont'd.)

The Company does not engage in derivative transactions for speculative purposes. Where deemed necessary and in line with the Company's risk management policy, the Company enters into derivative transactions solely for hedging purposes.

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

The foreign-denominated funds are exposed to currency risk as a result of the foreign currency transactions and exposure on the investment assets denominated in foreign currencies. The following table demonstrates the sensitivity of the Company's profit before tax to a reasonably possible change in USD, AUD and EURO exchange rates against the RM, with all other variables held constant.

	Change in variables	2012 Impact on profit before tax RM'000	2011 Impact on profit before tax RM'000
Increase/(decrease)			
Currency			
USD	+ 10%	7,122	3,748
AUD	+ 10%	4,318	3,497
EURO	+ 10%	3,362	3,573
USD	- 10%	(7,122)	(3,748)
AUD	- 10%	(4,318)	(3,497)
EURO	- 10%	(3,362)	(3,573)

39. FINANCIAL RISKS (CONT'D.)

(c) Market risk (cont'd.)

(ii) Interest rate risk

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

The Company is exposed to interest rate risk through: (i) investments in fixed income instruments, deposits with financial institution and loans; and (ii) policy liabilities in the insurance funds.

Floating rate/yield instruments expose the Company to cash flow interest/profit risk, whereas fixed rate/yield instruments expose the Company to fair value interest/profit risk.

The Company's interest/profit risk policy requires management to manage the risk by maintaining an appropriate mix of variable and fixed rate/yield instruments. The policy also requires management to manage the maturities of interest/profit-bearing financial assets and liabilities. Given the long duration of policy liabilities and the uncertainty of the cash flows of the insurance funds, it is not possible to hold assets that will perfectly match the policy liabilities. This results in a net interest rate risk or asset liability mismatch risk which is managed and monitored by ALCO.

The Company has no significant concentration of interest rate/profit yield risk.

Under the RBC Framework, the interest rate risk charge required is the higher of the reduction in surplus under the increasing and decreasing rate scenario.

The following analysis is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of floating rate/yield financial instruments) and equity (that reflects adjustments to profit before tax and re-valuing fixed rate/yield AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate/profit yield risk but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

39. FINANCIAL RISKS (CONT'D.)

(c) Market risk (cont'd.)

(ii) Interest rate risk (cont'd.)

	Change in variables	2012 Impact on profit before tax RM'000	2012 Impact on equity RM'000	2011 Impact on profit before tax RM'000	2011 Impact on equity RM'000
(Decrease)/increase					
RM	+ 50 bps	(287,761)	(98,405)	(238,543)	(80,076)
RM	- 50 bps	287,761	98,405	238,543	80,076

Impact on equity includes adjustments for tax, when applicable.

(iii) Price risk

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

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

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

The following analysis is performed for reasonably possible movements in market indices with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in profit or loss) and equity (that reflects adjustments to profit before tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

39. FINANCIAL RISKS (CONT'D.)

(c) Market risk (cont'd.)

(iii) Price risk

		31 December 2012		31 December 2011	
	Change in variables	**Impact on profit before tax RM'000**	**Impact on equity RM'000**	**Impact on profit before tax RM'000**	**Impact on equity RM'000**
Market indices					
Bursa Malaysia	+ 10%	190,181	11,556	133,518	7,456
Bursa Malaysia	- 10%	(190,181)	(11,556)	(133,518)	(7,456)

(d) Fair value hierarchy

The Company has categorised its financial instruments that are measured in the statement of financial position at fair value into a three level hierarchy based on the priority of the inputs to the valuation. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and the lowest priority to valuation techniques based on unobservable inputs. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide reliable pricing information on an ongoing basis. The three levels have been defined as follows:

Level 1 : Quoted prices (unadjusted) in active markets for identical assets or liablities;

Level 2 : Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie: as prices) or indirectly (ie derived from prices); and

Level 3 : Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

39. FINANCIAL RISKS (CONT'D.)

(d) Fair value hierarchy (cont'd.)

The fair value hierarchy of the financial instruments carried at fair value were as follows:

31.12.2012	Level 1	Level 2	Level 3	Total
AFS financial assets				
Malaysian government securities	-	2,007,577	-	2,007,577
Equity securities:				
Quoted in Malaysia	63,774	-	-	63,774
Unquoted in Malaysia	-	45,883		45,883
Debt securities	-	1,361,589	-	1,361,589
Unit and real estate investment trusts	5,900	-	-	5,900
Financial assets at FVTPL				
Malaysian government securities	-	4,107,433	-	4,107,433
Equity securities:				
Quoted in Malaysia	1,876,382	-	-	1,876,382
Unquoted in Malaysia	-	179,153	-	179,153
Debt securities	-	3,967,152	-	3,967,152
Unit and real estate investment trusts	71,630	-	-	71,630
Offshore mutual funds	-	30,192	-	30,192
Other investments	-	375,396	-	375,396
Offshore private equities securities	-	148,016	-	148,016
	2,017,686	12,222,391	-	14,240,077

39. FINANCIAL RISKS (CONT'D.)

(d) Fair value hierarchy (cont'd.)

31.12.2011	Level 1	Level 2	Level 3	Total
AFS financial assets				
Malaysian government securities	-	1,691,156	-	1,691,156
Equity securities:				
Quoted in Malaysia	39,630	-	-	39,630
Unquoted in Malaysia	-	31,107	-	31,107
Debt securities	-	1,213,323	-	1,213,323
Unit and real estate investment trusts	3,816	-	-	3,816
Financial assets at FVTPL				
Malaysian government securities	-	4,093,692	-	4,093,692
Equity securities:				
Quoted in Malaysia	1,334,985	-	-	1,334,985
Unquoted in Malaysia	-	120,575	-	120,575
Debt securities	-	3,288,376	-	3,288,376
Unit and real estate investment trusts	57,871	-	-	57,871
Offshore mutual funds	-	23,616	-	23,616
Other investments	-	393,483	-	393,483
Offshore private equities securities	-	108,173	-	108,173
	1,436,302	10,963,501	-	12,399,803

39. FINANCIAL RISKS (CONT'D.)

(d) Fair value hierarchy (cont'd.)

	Level 1	Level 2	Level 3	Total
1.1.2011				
AFS financial assets				
Malaysian government securities	-	1,276,882	-	1,276,882
Equity securities:				
Quoted in Malaysia	66,494	-	-	66,494
Unquoted in Malaysia	-	25,752	-	25,752
Debt securities	-	1,131,766	-	1,131,766
Unit and real estate investment trusts	2,680	-	-	2,680
Financial assets at FVTPL				
Malaysian government securities	-	3,115,522	-	3,115,522
Equity securities:				
Quoted in Malaysia	1,415,058	-	-	1,415,058
Unquoted in Malaysia	-	100,247	-	100,247
Debt securities	-	3,071,562	-	3,071,562
Unit and real estate investment trusts	56,155	-	-	56,155
Offshore mutual funds	-	22,043	-	22,043
Other investments	-	754,808	-	754,808
Offshore private equities securities	-	98,643	-	98,643
	1,540,387	9,597,225	-	11,137,612

40. NON FINANCIAL RISK

(a) Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the related risk of reputation loss, as well as legal risk whereas strategic risks are not included. Effective operational risk management leads to more stable business processes (including IT systems) and lower operational risk costs.

The Company recognises the following operational risk policy areas:
• Control risk
• Unauthorised activity risk
• Processing risk
• Employment practice risk
• Personal and physical security risk
• Information (technology) risk
• Continuity risk
• Fraud risk
• Compliance risk

40. NON FINANCIAL RISK (CONT'D.)

(a) Operational risk (Cont'd.)

(i) Risk Areas

- Control risk is the risk of loss due to not complying with controls set through governance procedures and/or project management methods. Control risk deals with, for example, identifying potential flaws in the set-up or structure of the governance process, maintaining a proper control and governance structure, having clear roles and responsibilities, an adequate reporting structure and ensure that there is good risk response on identification of risks. Control risk events typically deal with a deficiency in the governance framework. Control risks can lead to losses incurred due to non-compliance with controls established in connection with items such as governance procedures, new product approval procedures, and/or project management methods. Control risk can stem from improper or insufficient monitoring of entities or activities.

- Unauthorised activity risk is the risk of a loss caused by unauthorised employee activities, including but not limited to unauthorised approvals or overstepping of authority.

- Processing risk is the risk of losses due to human errors or omissions during (transaction) processing caused by unexpected or unforeseen problems. Processing risk deals with the risk of losses due to failed transaction processing or process management. These events are normally not intentional and usually occur when documenting or completing current business transactions.

- Employment practice risk is the risk of loss due to actions which are inconsistent with employment, health or safety laws, or agreements, from payment of personal injury claims or from diversity/discrimination events.

- Personal and physical security risk is the risk of criminal and environmental threats that might endanger the security of the Company personnel (within and outside Company locations, while travelling or being expatriated) and the Company assets or might have an impact on the Company organisation.

- Information (technology) risk is the risk of loss due to inadequate information security, resulting in a loss of information confidentiality and/or integrity and/or availability. Aspects of information (technology) risks are user access controls, IT resilience, platform security controls, change management controls, sourcing controls, security monitoring controls and fundamental information security controls.

- Continuity risk is the risk of events (e.g. natural disasters, power outages, terrorism) leading to a situation that threatens the continuation of business (including people and assets).

- Internal and external fraud risk is the risk of loss due to deliberate abuse of procedures, systems, assets, products and/or services of the Company by those who intend to deceitfully or unlawfully benefit themselves or others.

40. NON FINANCIAL RISK (CONT'D.)

(a) Operational risk (cont'd.)

(i) Risk Areas (cont'd.)

- Compliance risk is defined as the risk of damage to the Company's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage compliance risk could expose the Company to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of the Company.

Clear and accessible policies and minimum standards are embedded in the Company business processes in all business lines. An infrastructure is in place to enable management to track incidents and operational risk issues. A comprehensive system of internal controls creates an environment of continuous improvement in managing operational risk. The Company uses this knowledge (including lessons learned from incidents) to improve the control of key processes.

(ii) Organisation of operational risk management

The Head of Operational Risk Management ("ORM") reports directly to the CRO and is responsible for managing operational risks and developing and establishing the Operational Risk Framework within the Company. The ORM function is organised along functional reporting lines. The Company's operational risk manager report functionally to the Regional Head of ORM.

The ORM function consists of functional departments for Operational Risks, for Information (technology) risks and for Security & Investigations. The ORM function is responsible for implementing and communicating the Company's operational risk framework, policies, minimum standards and guidelines.

ORM uses a layered functional approach within business units to ensure systematic and consistent implementation of the group-wide ORM framework, policies and minimum standards. The local ORM officer has the responsibility to assist local management in managing operational risk.

To avoid potential conflicts of interests, it is imperative that the ORM officer is impartial and objective when advising business management on operational risk matters in the Company. To facilitate this, a strong functional reporting line to the next higher level ORM officer is in place. The functional reporting line has clear accountabilities with regard to objective setting, remuneration, performance management and appointment of new ORM staff.

40. NON FINANCIAL RISK (CONT'D.)

(a) Operational risk (cont'd.)

(iii) Operational risk framework

The Company has developed a comprehensive framework supporting and governing the process of identifying, mitigating, measuring and monitoring operational risks thus reflecting the stages described in the Enterprise Risk Management model of Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

40. NON FINANCIAL RISK (CONT'D.)

(a) Operational risk (cont'd.)

(iii) Operational risk framework (cont'd.)

In the organisation, Operational Risk Committee ("ORC") was established to identify, measure and monitor the operational risks of the business unit with appropriate quality of coverage (granularity) and to ensure that appropriate management action is taken by the responsible line managers at the appropriate level of granularity. The ORC is chaired by management to steer risk management activities of the first and second line of defence in their entities.

The operational risk appetite within the Company is defined as the acceptable and authorised maximum level of risk, in each of the operational risk areas, that must be adhered to in order for the Company to achieve its business plan within approved budgets. This risk appetite is monitored quarterly through the Non-Financial Risk Dashboard ("NFRD") which reports on key risk exposures.

Processes are in place to identify key threats, vulnerabilities and the associated risks which might cause adverse events. Event identification is performed proactively and precedes a risk assessment. Different techniques for event identification exist within the Company, e.g. the structured team approach, scenario analysis, external events inventories, internal incident analysis (e.g. based on information from incident reporting), and key risk indicator events.

At least once a year, business units and departments perform an integrated risk assessment with the involvement of other departments such as Operational Risk, Compliance, Legal and Finance.

Based on the results of the risk assessment, response measures must be determined for the identified risks. Risk response actions balance the expected cost for implementing these measures with the expected benefits resulting from risk reduction. Risk response can be achieved through several combinations of mitigation strategies, for example reducing likelihood of occurrence, reducing impact, risk avoidance, risk acceptance or through the transfer of risk. Tracking takes place through a global Action Tracking system.

Certain operational risks can best be transferred to the insurance market if risks are high but difficult to mitigate internally. In order to protect the Company against financial consequences of uncertain operational events, the Company has acquired insurance policies issued by third-party insurers with world-wide cover for Professional Liability, Directors and Officers Liability, Employment Practices Liability and Fiduciary Liability. The portion of the risks that the Company retains is of a similar magnitude to the risk retained for casualty business-related catastrophe exposures.

40. NON FINANCIAL RISK (CONT'D.)

(a) Operational risk (cont'd.)

(iii) Operational risk framework (cont'd.)

Management at all levels in the organisation periodically need information on their key operational risks (including compliance and legal risks) and mitigating actions. In order to make it easier for management to access this kind of information, business units periodically report through the NFRD.

The yearly objective setting process for both business management and ORM professionals aims to keep improving the management of operational risk throughout the Company to ensure that the Company stays in control of its current and future operational risks. The Company's ORM Framework is further maturing towards an integrated controls framework according to pre-agreed requirements and development stages in the individual business units. This development is measured through the scorecard process. The scorecards are an integral part of the Company's operational risk capital model.

The Operational Risk Capital calculation model of the Company calculates the amount of capital that is required to absorb unexpected operational risk losses in times of severe stress. The Operational Risk Capital model of the Company is based on a Loss Distribution Approach ("LDA"). The loss distribution is based on both external and internal loss data exceeding EUR 1 million. The model is adjusted for the scorecard results taking into account the specific quality of control in a business line and the occurrence of large incidents. This provides an incentive to local (operational risk) management to better manage operational risk.

Under the RBC framework, operational risk capital charge is computed as 1% of total assets.

(b) Compliance risk

Compliance risk is defined as the risk of damage to the Company's integrity as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies, procedures and ethical standards. In addition to reputational damage, failure to effectively manage compliance risk could expose the Company to fines, civil and criminal penalties, and payment of damages, court orders and suspension or revocation of licenses, which would adversely impact customers, staff and shareholders of the Company.

40. NON FINANCIAL RISK (CONT'D.)

(b) Compliance risk (cont'd.)

The Company believes that fully embedded Compliance Risk Management preserves and enhances the trust of its customers, shareholders and staff. Being trusted is essential to building sustainable businesses.The Company's Business Principles set the foundation for the high ethical standards the Company expects of all business activities.

The Company's Business Principles require all staff at every level to conduct themselves, not only in compliance with laws and regulations, but also by acting with integrity, being open and clear, respectful, and responsible.

Clear and practical policies and procedures are embedded in the Company business processes in all business lines. Systems are in place to enable management to track current and emerging compliance risk issues, to communicate these to internal and external stakeholders, and to drive continuous improvement. The Company understands that good Compliance Risk Management involves understanding and delivering on the expectations of customers and other stakeholders, thereby strengthening the quality of key relationships.

(i) The scope of the compliance risk management function

The Compliance Risk Management function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry. The Compliance Risk Management function actively educates and supports the business in managing areas including anti-money laundering, preventing terrorist financing, conflicts of interest, proper sales and trading conduct and protection of customer interest.

The Company separates compliance risk into four conduct-related integrity risk areas. These are shown in the following table with examples of the sub-risks in each risk area:

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40. NON FINANCIAL RISK (CONT'D.)

(b) Compliance risk (cont'd.)

(i) The scope of the compliance risk management function (cont'd.)

Client related integrity risk	Personal conduct related integrity risk	Organisational conduct related integrity risk	Financial services conduct related integrity risk
• Money laundering • Terrorist financing • Political or reputational exposed person • Client engagements or transactions with (ultra) high risk countries	• Market abuse and personal trading • Breaches of the The Company Business Principles or local code of conduct • Outside positions by The Company officers • Gifts or entertainment given or received; bribery • External incident reporting	• Organisational conflicts of interest, market abuse and insider trading • Anti-trust/competition law • New or modified products and services(e.g customer base, design) and governance changes • Agreed sector/industry standards • Regulatory registration and reporting requirements • Third party intermediaries as representatives of the Company	• Marketing, sales and trading conduct • Conduct of advisory business • Complaint handling • Transparency of product offerings (e.g. costs, disclosures)

40. NON FINANCIAL RISK (CONT'D.)

(b) Compliance risk (cont'd.)

In addition to effective reporting systems, the Company has a whistleblower procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or business principles.

(ii) Organisation of compliance risk management functions

The Local Compliance Officer ("LCO") reports directly to the CRO. The LCO is responsible for implementing and communicating the company-wide Compliance Risk Management Charter and Framework, implementing the minimum standards for managing Compliance risks and assists and supports the Board in managing the Company's compliance risks.

The Company uses a functional approach within business units to ensure systematic and consistent implementation of the company-wide charter and framework, policies, minimum standards and related procedures. The LCO has the responsibility to assist local management in managing compliance risk within the Company.

To avoid potential conflicts of interest, it is imperative that the LCO are impartial and objective when advising business management on compliance risk in the Company. To facilitate this, a strong functional reporting line to the next higher level LCO is in place. The functional reporting line has clear accountabilities relating to objective setting, remuneration, performance management and the appointment of new Compliance Risk Management staff as well as obligations to veto and escalate.

41. TOTAL CAPITAL AVAILABLE

The total capital available of the Company as at 31 December 2012, as computed under the RBC Framework is provided below:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Eligible tier 1 capital			
Share capital (paid-up)/working fund	140,000	140,000	140,000
Reserves, including retained earnings	5,199,162	4,926,746	5,115,353
	5,339,162	5,066,746	5,255,353
Tier 2 capital			
Eligible reserves	99,274	654,187	584,001
	99,274	654,187	584,001
Amount deducted from capital	(9,032)	(4,517)	(4,671)
Total capital available	5,429,404	5,716,416	5,834,683

42. INSURANCE FUNDS

The Company's activities are organised by funds and segregated into the life, general, shareholders' and investment-linked funds in accordance with the Insurance Act, 1996 and Insurance Regulations, 1996.

The Company's statement of financial position and statement of comprehensive income have been further analysed by funds and the shareholders' and general funds has been presented together as one fund.

Statement of financial position by fund
As at 31 December 2012

	General business and shareholder's fund			Life fund			Investment linked fund			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets												
Investments	1,220,632	741,866	534,794	14,710,335	13,330,536	11,929,950	812,331	711,217	1,029,047	16,743,298	14,783,619	13,493,791
Intangible assets	-	-	-	8,383	4,085	3,667	-	-	-	8,383	4,085	3,667
Reinsurance assets	27,346	18,817	28,651	77,403	57,662	50,780	-	-	-	104,749	76,479	79,431
Insurance receivables	40,676	56,928	47,072	311,958	239,494	208,294	-	-	-	352,634	296,422	255,366
Other assets	84,966	36,064	28,519	708,444	723,892	739,109	10,451	4,198	3,842	803,861	764,154	771,470
Total assets	1,373,620	853,675	639,036	15,816,523	14,355,669	12,931,800	822,782	715,415	1,032,889	18,012,925	15,924,759	14,603,725
Equity, policyholders' funds and liabilities												
Total equity	1,875,076	1,736,964	1,636,131	-	-	-	-	-	-	1,875,076	1,736,964	1,636,131
Insurance contract liabilities	148,510	114,441	140,789	13,596,405	11,963,856	10,658,291	808,450	706,276	1,017,225	14,553,365	12,784,573	11,816,305
Insurance payables	34,936	38,110	29,633	1,104,725	920,755	733,389	-	-	-	1,139,661	958,865	763,022
Other liabilities	(684,902)	(1,035,840)	(1,167,517)	1,115,393	1,471,058	1,540,120	14,332	9,139	15,664	444,823	444,357	388,267
Total policyholders' funds and liabilities	(501,456)	(883,289)	(997,095)	15,816,523	14,355,669	12,931,800	822,782	715,415	1,032,889	16,137,849	14,187,795	12,967,594
Total equity, policyholders' funds and liabilities	1,373,620	853,675	639,036	15,816,523	14,355,669	12,931,800	822,782	715,415	1,032,889	18,012,925	15,924,759	14,603,725

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42. INSURANCE FUNDS (CONT'D.)

Statement of comprehensive income by fund
For the year ended 31 December 2012

	General business and shareholder's fund		Life fund		Investment linked fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Operating revenue	116,516	110,845	4,005,593	3,744,595	262,573	169,997	4,384,682	4,025,437
Gross premiums	80,586	86,642	3,383,151	3,182,047	228,880	139,965	3,692,617	3,408,654
Premiums ceded to reinsurers	(28,046)	(26,352)	(315,348)	(261,771)	-	-	(343,394)	(288,123)
Net premiums	52,540	60,290	3,067,803	2,920,276	228,880	139,965	3,349,223	3,120,531
Investment income	35,930	24,203	622,442	562,548	33,693	30,032	692,065	616,783
Fee and commission income	4,394	3,580	33,466	26,640	-	-	37,860	30,220
Gains and losses and other operating income	6,795	4,449	230,577	184,903	28,126	5,797	265,498	195,149
Other revenue	47,119	32,232	886,485	774,091	61,819	35,829	995,423	842,152
Gross benefits and claims paid	(34,765)	(31,428)	(1,548,553)	(1,439,490)	(183,354)	(483,464)	(1,766,672)	(1,954,382)
Claims ceded to reinsurers	10,187	5,901	199,961	140,780	-	-	210,148	146,681
Gross change to contract liabilities	(26,943)	25,534	(1,636,467)	(1,303,147)	(102,174)	310,949	(1,765,584)	(966,664)
Change in contract liabilities ceded to reinsurers	6,289	(11,505)	19,741	6,882	-	-	26,030	(4,623)
Net claims	(45,232)	(11,498)	(2,965,318)	(2,594,975)	(285,528)	(172,515)	(3,296,078)	(2,778,988)

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42. INSURANCE FUNDS (CONT'D.)

Statement of comprehensive income by fund
For the year ended 31 December 2012 (cont'd.)

	General business and shareholder's fund		Life fund		Investment linked fund		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Depreciation and amortisation	(157)	(157)	(14,380)	(14,380)	-	-	(14,537)	(14,537)
Other operating and management expenses	(31,877)	(32,085)	(782,862)	(786,582)	(55)	-	(814,794)	(818,667)
Other expenses	(32,034)	(32,242)	(797,242)	(800,962)	(55)	-	(829,331)	(833,204)
Surplus for the year	22,393	48,782	191,728	298,430	5,116	3,279	219,237	350,491
Taxation of life fund	-	-	(66,574)	(58,328)	(5,116)	(3,279)	(71,690)	(61,607)
Surplus after taxation/profit before taxation	22,393	48,782	125,154	240,102	-	-	147,547	288,884
Surplus transferred from life fund	125,154	240,102	(125,154)	(240,102)	-	-	-	-
Profit before taxation	147,547	288,884	-	-	-	-	147,547	288,884
Taxation	(22,641)	(67,839)	-	-	-	-	(22,641)	(67,839)
Net profit for the year	124,906	221,045	-	-	-	-	124,906	221,045

43. SIGNIFICANT AND SUBSEQUENT EVENT

On 17th December 2012, ING Insurance Asia N.V., the holding company of ING Management Holdings (Malaysia) Sdn. Bhd., signed a Sales and Purchase Agreement with AIA Company Limited (formerly known as American International Assurance Company Limited) (“AIA”) to dispose of its 100% equity interest in ING Management Holdings (Malaysia) Sdn. Bhd., the holding company of the Company, and its three subsidiaries namely, ING Employee Benefits Sdn. Bhd., the Company and ING PUBLIC Takaful Ehsan Berhad to AIA. The sale as far as ING Management Holdings (Malaysia) Sdn Bhd., ING Employee Benefits Sdn Bhd., the Company and ING PUBLIC Takaful Ehsan Berhad were concerned, was pursuant to Section 67 of the Insurance Act 1996 and Section 34 of the Takaful Act 1984.

The sale was completed on 18th December 2012. Consequently, ING Groep N.V. ceased to be the Company’s ultimate holding company.

On 3rd January 2013, American International Assurance Bhd (‘AIA Berhad”), a related company of the Company, submitted an application for a scheme of transfer to Bank Negara Malaysia for approval to transfer the assets, liabilities and business of the Company to AIA Berhad, subject to confirmation by the Court and any other regulatory approvals required for the Scheme of Transfer. The approval from Bank Negara Malaysia was received on 25th February 2013.