

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)
(Incorporated in Malaysia)

**Unaudited Interim Financial Statements
for the financial period from
1 January 2011 to 30 June 2011
(In Ringgit Malaysia)**

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

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Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

(Incorporated in Malaysia)

Unaudited statement of financial position as at 30 June 2011

	Note	30.06.2011 RM'000	30.06.2010 RM'000
Assets			
Property and equipment	8	231,537	207,359
Investment property	9	7,713	7,500
Investments	10	1,678,331	1,740,611
Held-to-maturity		63,153	83,434
Available-for-sale		1,007,205	1,010,706
Held for trading		146,940	136,167
Loans and receivables		461,033	510,304
Reinsurance assets	11	447,459	293,948
Insurance receivables		39,514	20,656
Other receivables		86,421	60,092
Deferred acquisition costs		24,086	41,379
Deferred tax assets		-	3,942
Current tax assets		33,815	6,053
Cash and cash equivalents		49,263	112,004
Total assets		2,598,139	2,493,544
Equity and liabilities			
Share capital		370,000	370,000
Irredeemable convertible subordinated debt		230,000	230,000
Retained earnings		110,721	73,175
Reserves		45,799	11,472
Total equity		756,520	684,647
Insurance contract liabilities	12	1,582,916	1,706,598
Deferred tax liabilities		8,339	-
Other financial liabilities		87,330	6,669
Insurance payables		84,394	23,053
Other payables		53,200	48,931
Provision for retirement benefits		25,440	23,646
Total liabilities		1,841,619	1,808,897
Total equity and liabilities		2,598,139	2,493,544

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

Kurnia Insurans (Malaysia) Berhad

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Unaudited income statement for the 6 months period ended 30 June 2011

	6 months ended 30.06.2011 RM'000	6 months ended 30.06.2010 RM'000
Operating revenue	<u>561,882</u>	<u>513,375</u>
Gross written premiums	518,532	511,189
Change in unearned premiums provision	<u>(70)</u>	<u>(39,073)</u>
Gross earned premiums	<u>518,462</u>	<u>472,116</u>
Gross written premiums ceded to reinsurers	(154,790)	(52,072)
Change in unearned premiums provision	<u>31,852</u>	<u>(2,847)</u>
Premiums ceded to reinsurers	<u>(122,938)</u>	<u>(54,919)</u>
Net earned premiums	<u>395,524</u>	<u>417,197</u>
Investment income	43,421	41,259
Realised gains and losses	5,530	9,113
Fair value gains and losses	3,310	(60)
Commission income	31,607	9,729
Other operating income	<u>174</u>	<u>267</u>
Other income	<u>84,042</u>	<u>60,308</u>
Gross claims paid	(400,624)	(373,771)
Claims ceded to reinsurers	72,740	34,260
Gross change to contract liabilities	56,933	63,877
Change in contract liabilities ceded to reinsurers	<u>(1,654)</u>	<u>(6,637)</u>
Net claims incurred	<u>(272,605)</u>	<u>(282,271)</u>
Commission expense	(72,529)	(55,169)
Management expenses	(77,153)	(82,717)
Other operating expenses	<u>(509)</u>	<u>-</u>
Other expenses	<u>(150,191)</u>	<u>(137,886)</u>
Profit before tax	56,770	57,348
Tax expense	<u>(11,103)</u>	<u>(12,880)</u>
Net profit for the period	<u>45,667</u>	<u>44,468</u>

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

Kurnia Insurans (Malaysia) Berhad

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Unaudited statement of comprehensive income for the 6 months period ended 30 June 2011

	6 months ended 30.06.2011 RM'000	6 months ended 30.06.2010 RM'000
Net profit for the period	45,667	44,468
Other comprehensive income :		
Net gain on fair value of available-for-sale financial assets	2,958	6,027
Revaluation of land and buildings	32,365	-
Tax effects thereon	(2,359)	(1,507)
	<u>32,964</u>	<u>4,520</u>
Total comprehensive income for the period	<u>78,631</u>	<u>48,988</u>
Profit attributable to:		
Owners of the Company	<u>45,667</u>	<u>44,468</u>
Total comprehensive income attributable to:		
Owners of the Company	<u>78,631</u>	<u>48,988</u>

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

Kurnia Insurans (Malaysia) Berhad

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Unaudited statement of changes in equity for the 6 months period ended 30 June 2011

	Non-distributable		Distributable			
	Share capital	Asset revaluation reserve	Irredeemable convertible subordinated debt	Fair value reserve	Retained earnings	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2010	370,000	-	230,000	6,952	38,858	645,810
Total comprehensive income for the period	-	-	-	4,520	44,468	48,988
Interest expense on irredeemable convertible subordinated debt	-	-	-	-	(10,151)	(10,151)
At 30 June 2010	370,000	-	230,000	11,472	73,175	684,647
At 1 January 2011	370,000	-	230,000	12,835	75,706	688,541
Total comprehensive income for the year	-	30,746	-	2,218	45,667	78,631
Interest expense on irredeemable convertible subordinated debt	-	-	-	-	(10,652)	(10,652)
At 30 June 2011	370,000	30,746	230,000	15,053	110,721	756,520

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Kurnia Insurans (Malaysia) Berhad

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Unaudited cash flow statement for the 6 months period ended 30 June 2011

	Note	6 months ended 30.06.2011 RM'000	6 months ended 30.06.2010 RM'000
Operating activities			
Profit before tax		56,770	57,348
Investment income		(43,421)	(41,259)
Realised gains recorded in income statement		(5,530)	(9,113)
Fair value gains recorded in income statement		(3,310)	60
Purchase of held-for-trading financial investments		(53,864)	(44,996)
investments		55,212	74,698
Purchase of available-for-sale financial investments	10.5	(178,833)	(629,135)
financial investments		112,024	542,815
Maturity of available-for-sale financial investments	10.5	40,000	20,500
Decrease/(increase) in loans and receivables	10.5	55,420	(8,364)
		<u>34,468</u>	<u>(37,446)</u>
Non-cash items:			
Depreciation of property and equipment		7,187	8,556
Gain on disposal of property and equipment		(72)	(75)
Reversal of impairment losses on property and equipment		(351)	-
Reversal of allowance for doubtful debts		(1,997)	(5,423)
Bad debts written off		560	680
Bad debts recovered		(76)	(14)
Retirement benefits expense		2,298	2,448
		<u>7,549</u>	<u>6,172</u>
Changes in working capital:			
(Increase)/decrease in reinsurance assets		(98,058)	9,484
Decrease in insurance receivables		4,250	23,006
Increase in other receivables		(45,309)	(28,829)
Decrease/(increase) in deferred acquisition costs		11,980	(4,422)
Decrease in insurance contract liabilities		(56,863)	(24,804)
Increase/(decrease) in other financial liabilities		12,007	(1,525)
Increase in insurance payables		59,596	4,885
(Decrease)/increase in other payables		(12,711)	2,796
		<u>(125,108)</u>	<u>(19,409)</u>
Cash used in operating activities		<u>(83,091)</u>	<u>(50,683)</u>

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

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Unaudited cash flow statement for the 6 months period ended 30 June 2011 (continued)

	6 months ended 30.06.2011 RM'000	6 months ended 30.06.2010 RM'000
Cash used in operating activities	(83,091)	(50,683)
Dividend income received	16,084	9,100
Interest income received	20,620	30,891
Retirement benefits paid	(158)	(521)
Income tax paid	(14,251)	(95)
Net cash flows from operating activities	<u>(60,796)</u>	<u>(11,308)</u>
Investing activities		
Proceeds from disposal of property and equipment	114	1,319
Purchase of property and equipment	(5,385)	(5,733)
Net cash flows used in investing activities	<u>(5,271)</u>	<u>(4,414)</u>
Financing activities		
Finance cost paid to holding company	(10,652)	(10,151)
Net cash flows used in financing activities	<u>(10,652)</u>	<u>(10,151)</u>
Net decrease in cash and cash equivalents	(76,719)	(25,873)
Cash and cash equivalents at beginning of year	125,982	137,877
Cash and cash equivalents at end of year	<u>49,263</u>	<u>112,004</u>
Cash and cash equivalents comprise:		
Cash and bank balances	23,614	32,569
Fixed and call deposits (with maturity of less than three months):		
Licensed financial institutions	25,649	79,435
Cash and cash equivalents	<u>49,263</u>	<u>112,004</u>

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

Kurnia Insurans (Malaysia) Berhad

(Company No. 44191-P)

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Notes to the financial statements

1. Basis of preparation

Statement of compliance

The interim financial statements of the Company is unaudited and have been prepared in accordance with Financial Reporting Standards (“FRS”) as modified by Guidelines/Circulars issued by Bank Negara Malaysia (“BNM”) and should read in conjunction with the Company’s audited financial statements for the financial year ended 31 December 2010.

The significant accounting policies and methods of computation applied in the preparation of the quarterly financial statements are consistent with those adopted in the Company’s audited financial statements for the financial year ended 31 December 2010, except for:

- (i) the change in accounting policy to adopt the revaluation model to measure freehold land and buildings and leasehold buildings classified as property and equipment in accordance with *FRS 116: Property, plant and equipment*. This change in accounting policy has been accounted for prospectively upon the initial application of the revaluation model in accordance with FRS 116. Under the revaluation model, the properties are stated at revalued amounts, which are the fair values at the date of the revaluation less subsequent accumulated depreciation (except for freehold land which has an unlimited useful life and therefore is not depreciated) and any subsequent accumulated impairment losses. Any revaluation surplus is credited to the revaluation reserve included within equity.
- (ii) the change in accounting policy with respect to the subsequent measurement of investment property from the cost model to the fair value model, with changes in fair value recognised in profit and loss, in accordance to *FRS 140 Investment Property*. The Company applied the impact of adopting fair value model, which amounted to RM160,000 (net of tax), prospectively and not otherwise adjusted to the opening balance of retained earnings as required by FRS140, since it is not material to the Company’s financial results.

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1. Basis of preparation (continued)

Statement of compliance (continued)

- (iii) the adoption of the following Financial Reporting Standards (“FRS”), amendments to FRSs, and Issues Committee Interpretations (“IC Interpretations”)

FRSs/Interpretations	Effective date
Amendments to FRS 132, <i>Financial Instruments: Presentation – Classification of Right Issues</i>	1 March 2010
Amendments to FRS 5, <i>Non-current Assets Held For Sale and Discontinued Operations</i>	1 July 2010
Amendments to FRS 138, <i>Intangible Assets</i>	1 July 2010
IC Interpretation 16, <i>FRS 2, Hedges of a Net Investment in a Foreign Operation</i>	1 July 2010
IC Interpretation 17, <i>Distributions of Non-cash Assets to Owners</i>	1 July 2010
Amendments to IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 July 2010
Amendments to FRS 7, <i>Financial Instruments: Disclosure - Improving Disclosures about Financial Instruments</i>	1 January 2011
IC Interpretation 4, <i>Determining whether an Arrangement contains a Lease</i>	1 January 2011
Improvements to FRSs (2010)	1 January 2011

The initial applications of the aforesaid applicable standards, amendments or interpretations are not expected to have any significant financial impact to the financial statements upon their first adoption.

2. Comments on seasonality or cyclicity

The business operations of the Company were not significantly affected by seasonality or cyclical factors for the period under review.

3. Unusual item affecting assets, liabilities, equity, net income or cash flows

There were no items affecting assets, liabilities, equity, net income or cash flows which are unusual because of their nature, size or incidence in the current interim period ended 30 June 2011.

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4. Material changes in estimates

There were no material changes in the basis used for accounting estimates for the current financial period ended 30 June 2011.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

5. Dividend paid

No dividend has been paid by the Company in the current interim period ended 30 June 2011.

6. Events after the interim period

There were no material events after the interim period that has not been reflected in the financial statements for the interim period.

7. Effect of changes in the composition of the Company

There were no changes in the composition of the Company during the period under review.

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8. Property and equipment

	30.06.2011	30.06.2010
	RM'000	RM'000
<i>Cost / Valuation</i>		
At 1 January	397,810	394,848
Additions	5,385	5,733
Disposals	(2,247)	(1,705)
Elimination of accumulated depreciation on revaluation	(33,468)	-
Revaluation surplus	32,365	-
As at 30 June	<u>399,845</u>	<u>398,876</u>
	-----	-----
<i>Depreciation</i>		
	30.06.2011	30.06.2010
	RM'000	RM'000
At 1 January	190,740	178,388
Depreciation for the period	7,187	8,556
Disposals	(2,188)	(461)
Elimination of accumulated depreciation on revaluation	(33,468)	-
As at 30 June	<u>162,271</u>	<u>186,483</u>
	-----	-----
<i>Impairment</i>		
	30.06.2011	30.06.2010
	RM'000	RM'000
At 1 January	6,406	5,034
Impairment loss recognised/(reversed) in income statement for the period	(351)	-
Disposals	(18)	-
As at 30 June	<u>6,037</u>	<u>5,034</u>
	-----	-----
<i>Net carrying amounts</i>	<u><u>231,537</u></u>	<u><u>207,359</u></u>

8. Property and equipment (continued)

Revaluation of land and buildings

Land and buildings have been revalued at the reporting date based on valuations performed by accredited independent valuers. The fair value of the land and buildings are the estimated market value of the property derived using the market value of properties in the vicinity and past transaction prices. The determination of the fair value involves a degree of judgment. As such, the fair value of the land buildings may be different from its actual market price.

The revaluation surplus net of applicable deferred income taxes of RM30,746,000 was credited to other comprehensive income. Whilst the reversal of impairment loss of RM351,000 was recognised in the income statement.

Had the land and buildings of the Company been carried under the cost model, their carrying amount would have been as follows:-

	30.06.2011 RM'000	30.06.2010 RM'000
Land and buildings	163,832	166,043

9. Investment property

	30.06.2011 RM'000	30.06.2010 RM'000
At 1 January	7,500	7,500
Change in fair value - income statement	213	-
At 30 June	7,713	7,500

The fair value of the investment property is the estimated market value of the property derived using the market value of properties in the vicinity and past transaction prices. The determination of the fair value involves a degree of judgment. As such, the fair value of the investment property may be different from its actual market price.

The following are recognised in the income statement in respect of investment property:

	01.01.2011 to 30.06.2011 RM'000	01.01.2010 to 30.06.2010 RM'000
Rental income	20	39
Direct operating expenses	(16)	(16)

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10. Investments

The Company's investments are categorised as follows:-

	30.06.2011	30.06.2010
	RM'000	RM'000
	Carrying	Carrying
	amount	amount
Cagamas bonds	1,008	2,017
Government guaranteed bonds	10,058	20,134
Corporate debt securities	391,579	417,189
Equity securities	47,474	62,935
Unit and property trust funds	767,179	728,032
Loans and receivables	461,033	510,304
	<u>1,678,331</u>	<u>1,740,611</u>

The following investments mature after 12 months

	30.06.2011	30.06.2010
	RM'000	RM'000
Held-to-maturity financial assets	63,153	63,458
Available-for-sale financial assets	876,720	954,376
Loans and receivables	266,641	410,548
	<u>1,206,514</u>	<u>1,428,382</u>

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10. Investments (continued)

10.1 Held-to-maturity

	30.06.2011 RM'000	30.06.2010 RM'000
Amortised cost		
Corporate debt securities		
Unquoted in Malaysia	63,153	83,434
	<u>63,153</u>	<u>83,434</u>
Fair value		
Corporate debt securities		
Unquoted in Malaysia	62,344	77,403
	<u>62,344</u>	<u>77,403</u>

10.2 Available-for-sale

	30.06.2011 RM'000	30.06.2010 RM'000
Cost		
Equity securities		
Unquoted in Malaysia	1,430	1,430
Fair value		
Quoted unit and property trust funds	666,283	653,370
Corporate debt securities		
Unquoted in Malaysia	339,492	355,906
	<u>1,007,205</u>	<u>1,010,706</u>

10. Investments (continued)

10.3 Held-for-trading

	30.06.2011 RM'000	30.06.2010 RM'000
Fair value		
Quoted equity securities	46,044	61,505
Quoted unit and property trust funds	100,896	74,662
	<u>146,940</u>	<u>136,167</u>

10.4 Loans and receivables

	30.06.2011 RM'000	30.06.2010 RM'000
Amortised cost		
Fixed and call deposits with licensed banks	448,714	459,728
Negotiable instrument of deposits	-	29,007
Commercial loans		
- Performing loans	-	6,590
- Non-performing loans	6,000	6,000
Mortgage loans	6,278	8,923
Other loans	41	56
	<u>461,033</u>	<u>510,304</u>
Fair value		
Fixed and call deposits with licensed banks	448,714	459,728
Negotiable instrument of deposits	-	29,007
Commercial loans		
- Performing loans	-	6,590
- Non-performing loans	6,000	6,000
Mortgage loans	6,278	8,923
Other loans	41	56
	<u>461,033</u>	<u>510,304</u>

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10. Investments (continued)

10.5 Carrying values of financial instruments

	HTM RM'000	LAR RM'000	AFS RM'000	HFT RM'000	TOTAL RM'000
At 1 January 2010	83,515	501,628	934,092	161,459	1,680,694
Purchase	-	-	629,135	44,996	674,131
Maturities	-	9,500	(20,500)	-	(11,000)
Disposals	-	(1,136)	(542,815)	(74,698)	(618,649)
Realised gains recorded in:					
Income statement	-	-	4,643	4,470	9,113
Fair value gains recorded in:					
Income statement	-	-	-	(60)	(60)
Other comprehensive income	-	-	6,027	-	6,027
Amortisation net of accretion	(81)	312	124	-	355
At 30 June 2010	83,434	510,304	1,010,706	136,167	1,740,611

	HTM RM'000	LAR RM'000	AFS RM'000	HFT RM'000	TOTAL RM'000
At 1 January 2011	63,278	516,174	975,898	141,451	1,696,801
Purchase	-	-	178,833	53,864	232,697
Maturities	-	(17,729)	(40,000)	-	(57,729)
Disposals	-	(37,691)	(112,024)	(55,212)	(204,927)
Realised gains recorded in:					
Income statement	-	-	1,790	3,740	5,530
Fair value gains recorded in:					
Income statement	-	-	-	3,097	3,097
Other comprehensive income	-	-	2,958	-	2,958
Amortisation net of accretion	(125)	279	(250)	-	(96)
At 30 June 2011	63,153	461,033	1,007,205	146,940	1,678,331

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10. Investments (continued)

10.6 Estimation of fair value

The fair value of Negotiable Instrument of Deposits is based on quoted market price as determined by the issuer at the end of the reporting period.

The fair values of quoted shares of corporations and unit trusts are based on quoted closing market prices at the end of the reporting period.

The fair values of Malaysian Government Securities, Cagamas Bonds, and Government Guaranteed Bonds are based on their indicative market prices.

The estimated fair values of unquoted corporate debt securities are based on the average indicative market yields obtained from three financial institutions which involve projections of the market yields based on past transactions. There are elements of significant uncertainty in projecting the expected market yield and these uncertainties arise from changes in the underlying risk and overall economic conditions. As such, the projected market yields may be different from the actual market yields in future.

The carrying amount of secured short term loans and fixed and call deposits with a maturity period less than one year are assumed to approximate their fair values.

The mortgage loans with variable rates are considered to approximate their fair values. For mortgage and other loans with fixed rates, fair values are derived by discounting future cash flows, using interest rates for similar instruments, where applicable, taking into consideration the nature and contracted terms of these loans. Based on management's assessment as at 30 June 2011, the estimated fair values of the loans approximate their carrying values.

It was not practical to estimate the fair value of the Company's investment in unquoted shares of corporations due to the lack of comparable quoted market price and the inability to estimate fair value without incurring excessive costs.

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11. Reinsurance assets

		01.01.2011 to 30.06.2011 RM'000	01.01.2010 to 30.06.2010 RM'000
Reinsurance of insurance contracts	Note		
Claims liabilities	12.1	301,221	256,032
Premium liabilities	12.2	<u>146,238</u>	<u>37,916</u>
		<u>447,459</u>	<u>293,948</u>

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12. Insurance contract liabilities

General insurance contract liabilities consist of:

Note	← 30.06.2011 →		← 30.06.2010 →	
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000
Provision for claims reported by policyholders	787,198	(221,017)	566,181	877,290
Provision for incurred but not reported claims ("IBNR")	293,673	(80,204)	213,469	348,899
Provision for outstanding claims	1,080,871	(301,221)	779,650	1,226,189
Provision for unearned premiums	502,045	(146,238)	355,807	480,409
	1,582,916	(447,459)	1,135,457	1,706,598
				(293,948)
				1,412,650

Net
RM'000

Reinsurance
RM'000

Gross
RM'000

Net
RM'000

Reinsurance
RM'000

Gross
RM'000

Note

30.06.2011

30.06.2010

Net
RM'000

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13. Capital and other commitments

Capital expenditure and other commitments approved by the Directors but not provided for in the financial statements as at 30 June 2011 amounted to approximately:

	30.06.2011 RM'000	30.06.2010 RM'000
Property and equipment		
Contracted but not provided for	<u>2,569</u>	<u>10,955</u>

14. Regulatory capital requirements

The capital structure of the Company as at 30 June 2011, as prescribed under the RBC Framework is provided below:

	30.06.2011 RM'000	30.06.2010 RM'000
Eligible Tier 1 capital		
Share capital (paid-up)	370,000	370,000
Reserves, including retained earnings	110,721	73,175
	<u>480,721</u>	<u>443,175</u>
Tier 2 capital		
Irredeemable convertible subordinated debt	230,000	230,000
Eligible reserves	45,799	11,472
	<u>275,799</u>	<u>241,472</u>
Total capital available	<u><u>756,520</u></u>	<u><u>684,647</u></u>