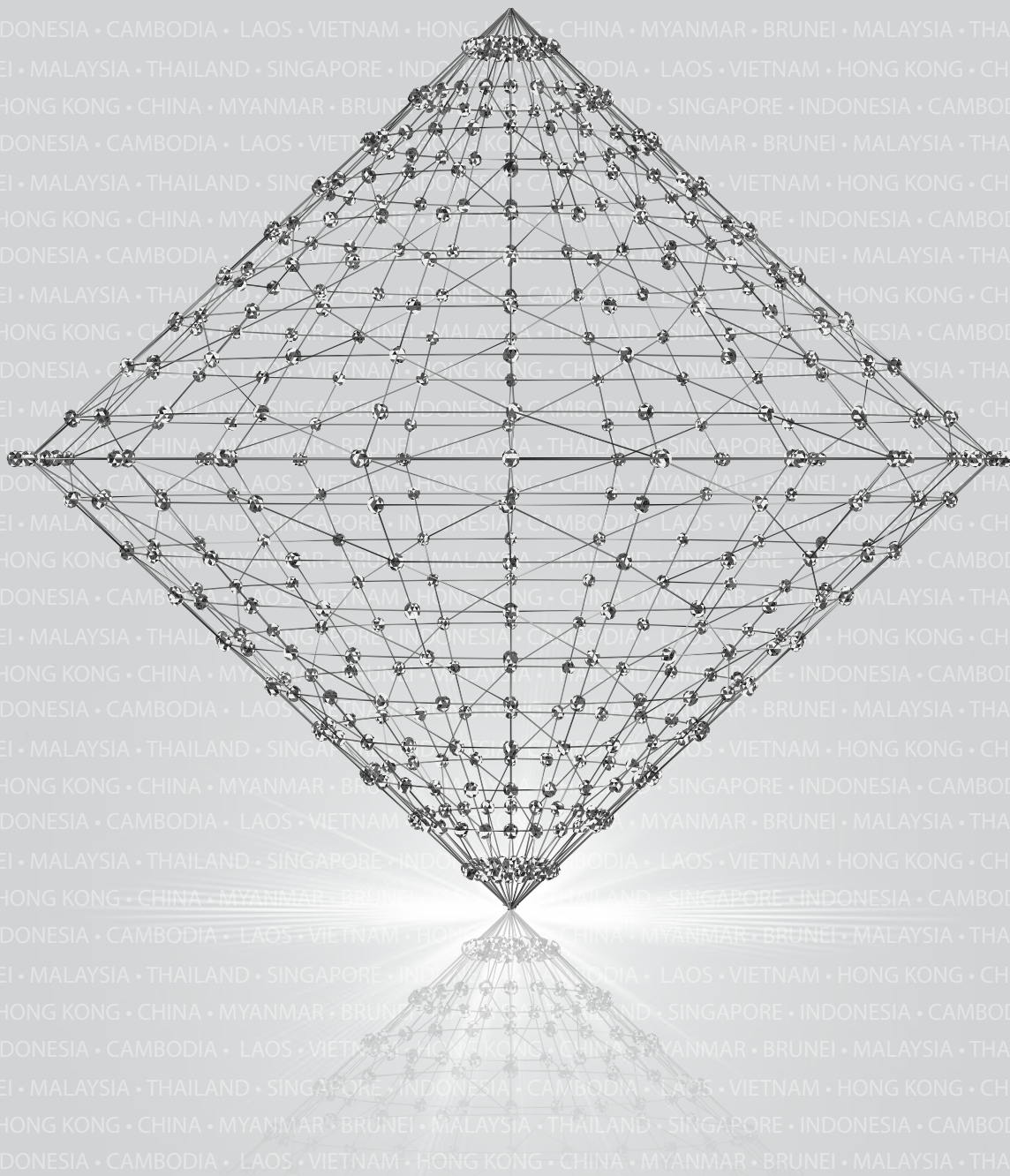


TOGETHER WE PROGRESS



RHB Insurance Berhad

ANNUAL REPORT 2015



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The cover for our 2015 Annual Report depicts a diamond shape formed with interlocking wire mesh. The diamond represents RHB's clarity of focus towards achieving its vision of being a leading multinational financial services group. The wire links further symbolise our commitment to fostering greater ties with our customers and key stakeholders by placing them at the centre of what we do, as described by our revitalised Brand Promise, **"Together We Progress"**.

Our Brand Promise is anchored on being a trusted partner to our customers and stakeholders; delivering simple, fast and seamless experiences; providing solutions that help achieve their goals; and nurturing future generations. These principles will be translated through our daily operations, and drive us in pushing boundaries to create a positive impact for society as a whole, embodying our "Together We Progress" Brand Promise.

Feedback

We need your feedback to make sure we are covering the things that matter to you. Email us at marketing.communications@rhbgroup.com

www.rhbgroup.com

RHB'S ASPIRATIONS

BY 2020...
**TO BE A
 LEADING
 MULTINATIONAL
 FINANCIAL
 SERVICES
 GROUP**



**TOP 3
 IN MALAYSIA/TOP 8 IN
 ASEAN**
 by performance



**STRONG MARKET
 LEADERSHIP IN MALAYSIA**
 across targeted products and
 segments



**REGIONAL POWERHOUSE
 IN ASEAN+**
 20% profit contribution from
 international operations



**NEXT GENERATION
 CUSTOMER CENTRIC BANK**
 delivering innovative and
 personalised
 customer offerings



**PROMINENT EMPLOYER
 OF CHOICE**
 within the region



CORPORATE INFORMATION

As at 25 February 2016

BOARD OF DIRECTORS

- ♦ **Ong Seng Pheow**
Independent Non-Executive Chairman
- ♦ **Datuk Haji Faisal Siraj**
Senior Independent Non-Executive Director
- ♦ **Tuan Haji Md Ja'far Abdul Carrim**
Non-Independent Non-Executive Director
- ♦ **Dato' Othman Jusoh**
Independent Non-Executive Director
- ♦ **Abdul Aziz Peru Mohamed**
Independent Non-Executive Director
- ♦ **Kong Shu Yin**
Managing Director/Chief Executive Officer

COMPANY SECRETARY

- ♦ **Azman Shah Md Yaman**
(LS0006901)

BOARD AUDIT COMMITTEE*

- ♦ **Ong Seng Pheow**
Chairman
- ♦ **Dato' Othman Jusoh**
- ♦ **Datuk Seri Saw Choo Boon**
- ♦ **Datuk Haji Faisal Siraj**

BOARD RISK COMMITTEE#

- ♦ **Tuan Haji Khairuddin Ahmad**
Chairman
- ♦ **Patrick Chin Yoke Chung**
- ♦ **Tuan Haji Md Ja'far Abdul Carrim**
- ♦ **Datuk Seri Saw Choo Boon**
- ♦ **Chin Yoong Kheong**
- ♦ **Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir**

BOARD NOMINATING AND REMUNERATION COMMITTEE#

- ♦ **Datuk Haji Faisal Siraj**
Chairman
- ♦ **Tan Sri Azlan Zainol**
- ♦ **Datuk Seri Saw Choo Boon**
- ♦ **Tan Sri Dato' Teo Chiang Liang**
- ♦ **Tuan Haji Md Ja'far Abdul Carrim**

BOARD TECHNOLOGY COMMITTEE*

- ♦ **Chin Yoong Kheong**
Chairman
- ♦ **Ong Seng Pheow**
- ♦ **Charles Lew Foon Keong**

INVESTMENT COMMITTEE

- ♦ **Dato' Othman Jusoh**
Chairman
- ♦ **Ong Seng Pheow**
- ♦ **Kong Shu Yin**

GROUP SENIOR MANAGEMENT

- ◆ **Dato' Khairussaleh Ramli**
Group Managing Director/
Group Chief Executive Officer,
RHB Banking Group;
Managing Director,
RHB Bank Berhad
- ◆ **Mike Chan Cheong Yuen**
Managing Director, RHB Investment Bank
Berhad
- ◆ **Ibrahim Hassan**
Managing Director, RHB Islamic Bank
Berhad
- ◆ **U Chen Hock**
Head, Group Retail Banking
- ◆ **Yap Choi Foong**
Group Chief Financial Officer
- ◆ **Rohan Krishnalingam**
Group Chief Operations Officer
- ◆ **Norazzah Sulaiman**
Group Chief Marketing & Communications
Officer
- ◆ **Patrick Ho Kwong Hoong**
Group Chief Risk Officer
- ◆ **Jamaluddin Bakri**
Group Chief Human Resource Officer
- ◆ **Christopher Loh Meng Heng**
Group Chief Strategy Officer
- ◆ **Datin Amy Ooi Swee Lian**
Head, Group Business & Transaction
Banking
- ◆ **Mohd Rashid Mohamad**
Group Treasurer

REGISTERED OFFICE

Level 9, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 9285 2233
Fax : 603 9281 9314
Website: www.rhbgroup.com

BUSINESS ADDRESS

Level 12, West Wing
The Icon
No. 1, Jalan 1/68F
Jalan Tun Razak
55000 Kuala Lumpur
Tel : 603 2180 3000
Fax : 603 2161 9255

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 10, 1 Sentral
Jalan Rakyat, Kuala Lumpur Sentral
50470 Kuala Lumpur
P.O. Box 10192
50706 Kuala Lumpur
Tel : 603 2173 1188
Fax : 603 2173 1288

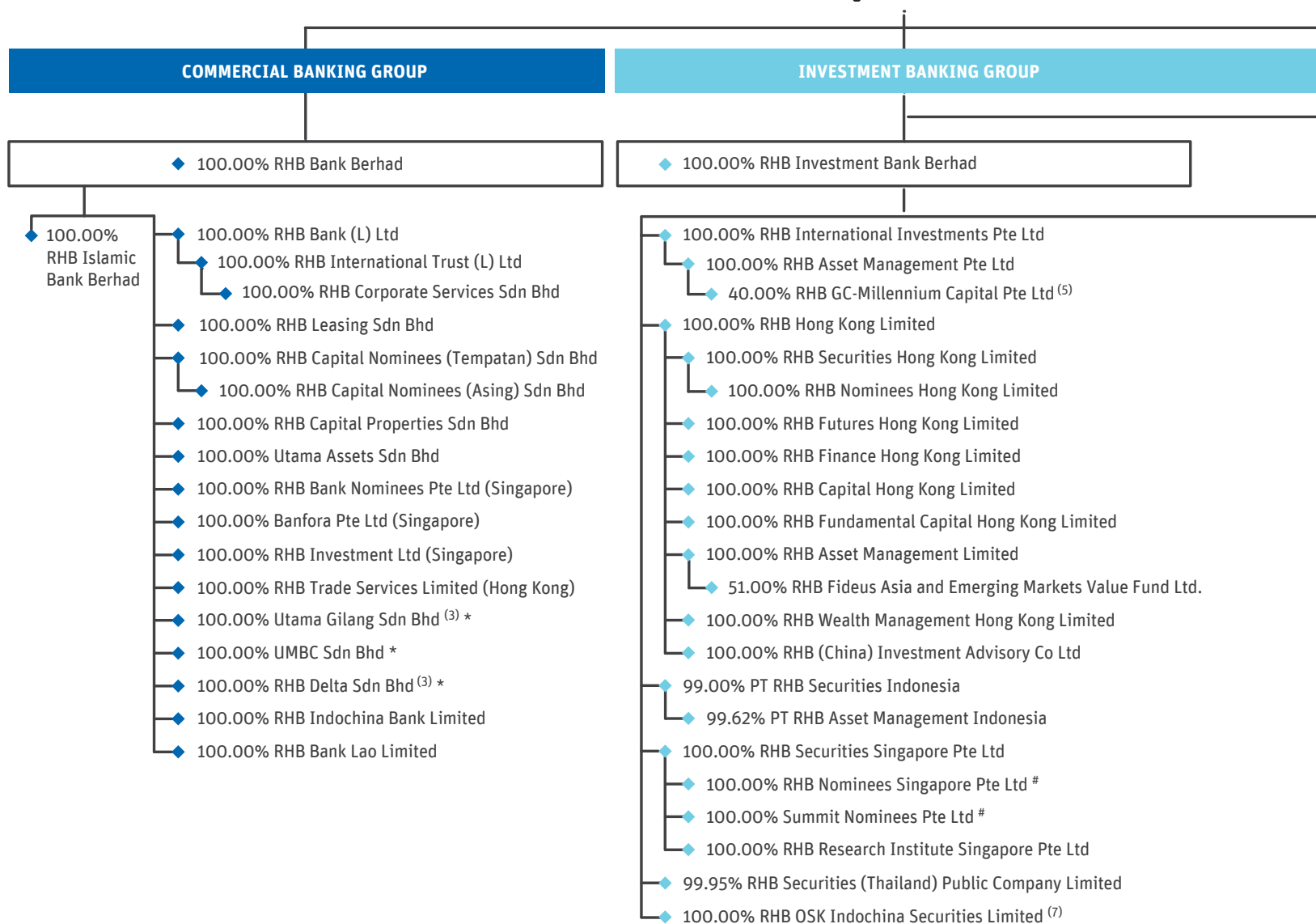
Notes:

- # The committee resides at RHB Capital Berhad and is shared with relevant subsidiaries of the Group.
- * The committee resides at RHB Bank Berhad and is shared with relevant subsidiaries of the Group.

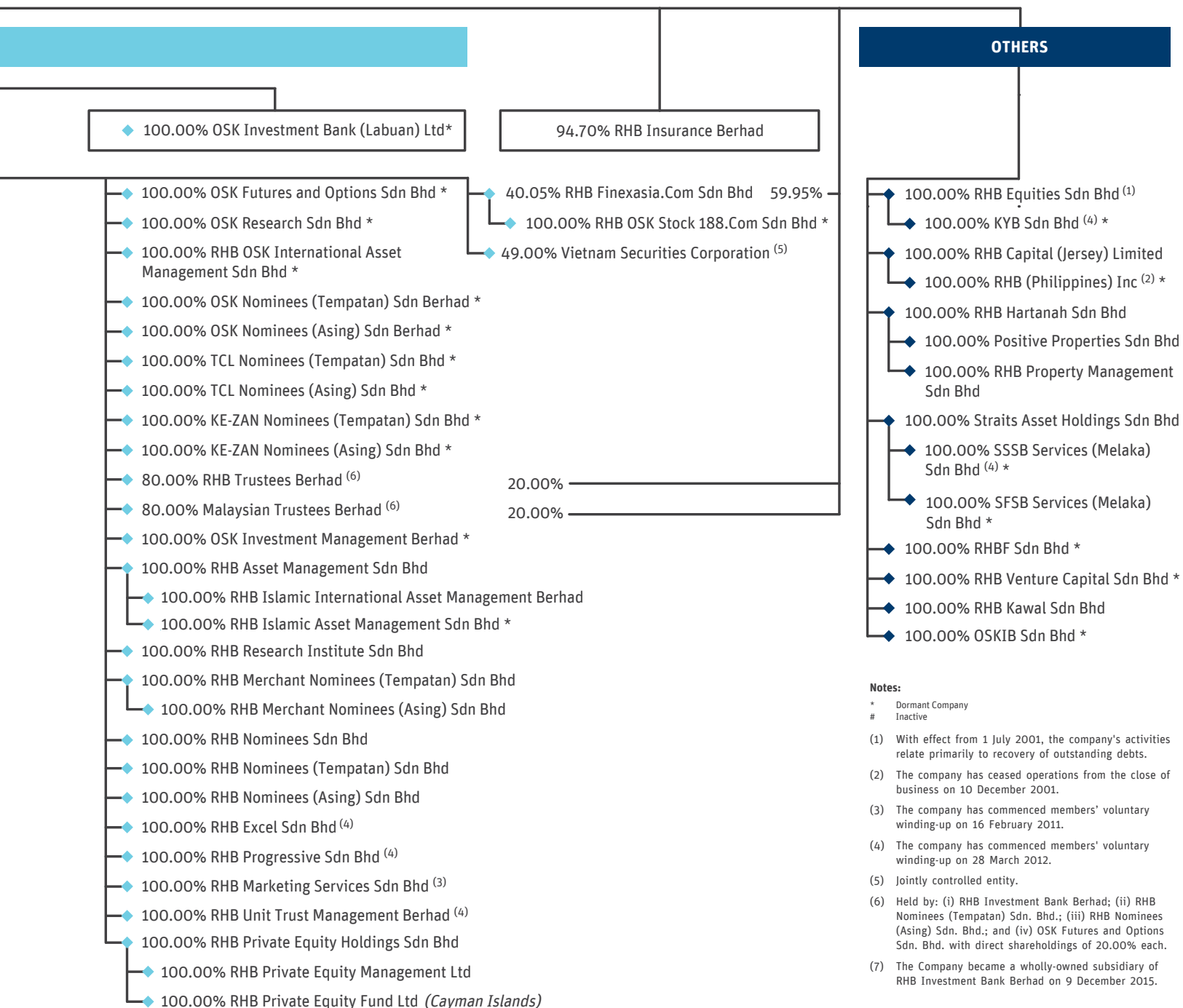
GROUP CORPORATE STRUCTURE



RHB Capital Berhad



* As at 25 February 2016



PROFILES OF THE BOARD OF DIRECTORS



ONG SENG PHEOW

Aged 67, Malaysian
Independent Non-Executive Chairman

Appointment to the Board

Appointed as Independent Non-Executive Director on 1 January 2008 and was subsequently appointed as the Company's Chairman on 23 May 2013.

Board Committee Memberships

- Board Audit Committee (Chairman)
- Board Technology Committee (Member)
- Investment Committee of RHB Insurance (Member)

Qualification

- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Skills and Experience

Mr Ong Seng Pheow has over 34 years of audit and accounting experience. He was a partner of Ernst & Young from 1984 to 2003. His last held position in Ernst & Young was as the National Director of Assurance and Advisory Business Services. He also served on committees and working groups of Malaysian Institute of Certified Public Accountants.

Directorships in Other Public Companies

- RHB Bank Berhad
- RHB Trustees Berhad
- Malaysian Trustees Berhad
- Daiman Development Berhad
- LCTH Corporation Berhad
- George Kent (Malaysia) Berhad
- HELP International Corporation Berhad

No. of Board Meetings Attended in the Financial Year: 14/14



DATUK HAJI FAISAL SIRAJ

Aged 70, Malaysian
Senior Independent Non-Executive Director

Appointment to the Board

Appointed as an Independent Non-Executive Director on 1 January 2008 and was subsequently appointed as Senior Independent Non-Executive Director on 5 July 2013.

Board Committee Memberships

- Board Nominating & Remuneration Committee (Chairman)
- Group Board Audit Committee (Member)
- Board Audit Committee (Member)
- Islamic Risk Management Committee (Member)

Qualification

- Fellow of the Institute of Chartered Accountants in England & Wales
- Member of the Malaysian Institute of Accountants
- Member of the Malaysian Institute of Certified Public Accountants

Skills and Experience

Datuk Haji Faisal Siraj started his career in 1968 with KPMG, London. On his transfer from KPMG, London to KPMG, Kuala Lumpur, he was posted to KPMG Kota Kinabalu until 1976. Datuk Haji Faisal joined the Malaysia Mining Corporation ("MMC") Group in 1976. He was the Group Executive Director and a Member of the MMC Board from 1981 to 1994. In 1995, he joined DRB-HICOM Berhad ("DRB-HICOM") as the Group Chief Financial Officer in the capacity of Senior Group Director, Financial Services and Treasury Division and was a member of DRB-HICOM Board, before his retirement in 2005.

Directorships in Other Public Companies

- RHB Capital Berhad
- RHB Islamic Bank Berhad
- RHB Trustees Berhad
- Malaysian Trustees Berhad

No. of Board Meetings Attended in the Financial Year: 14/14



TUAN HAJI MD JA'FAR ABDUL CARRIM

Aged 61, Malaysian
Non-Independent Non-Executive Director

Appointment to the Board

Appointed as Independent Non-Executive Director on 11 August 2009 and was subsequently redesignated as the Non-Independent Non-Executive Director of RHB Insurance Berhad on 20 June 2013.

Board Committee Memberships

- Board Nominating & Remuneration Committee (Member)
- Board Risk Committee (Member)
- Board Credit Committee (Member)
- Islamic Risk Management Committee (Member)

Qualification

- Member of the Institution of Engineers, Malaysia
- Bachelor of Science in Civil Engineering from Loughborough University, United Kingdom
- Ordinary National Diploma in Civil Engineering from Brighton Technical College, Brighton, United Kingdom

Skills and Experience

A civil engineer by training, Tuan Haji Md Ja'far Abdul Carrim's career of some 32 years include a stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the Board of Directors level. His extensive experience covers inter alia, the areas of manufacturing, property development and construction.

Tuan Haji Md Ja'far is a Council Member for the Chair on Financial Planning for Old Age at University Malaya. He also sits on the Board of Employees Provident Fund, Malaysia.

Directorships in Other Public Companies

- RHB Islamic Bank Berhad

No. of Board Meetings Attended in the Financial Year: 14/14



DATO' OTHMAN JUSOH

Aged 67, Malaysian
Independent Non-Executive Director

Appointment to the Board

Appointed as an Independent Non-Executive Director on 1 April 2010.

Board Committee Memberships

- Board Audit Committee (Member)
- Investment Committee of RHB Insurance Berhad (Chairman)
- Investment Committee of RHB Asset Management Sdn Bhd (Member)
- Investment Committee of RHB Islamic International Asset Management Berhad (Member)
- Investment Committee of PT RHB OSK Asset Management (Member)

Qualification

- Master in Business Administration from University of Oregon, USA
- Bachelor of Economics (Honours) in Analytical Economics from University of Malaya

Skills and Experience

Dato' Othman has held various senior positions in the Ministry of Finance until his retirement in June 2004. He has also served as the Group Chief Executive of Malaysian Kuwaiti Investment Co. Sdn Bhd from 1995 to 1998 and as the Executive Director of Asian Development Bank from August 2000 to July 2003. He was also the Chief Executive Officer of Perbadanan Tabung Pendidikan Tinggi Nasional from August 2004 to August 2006.

Directorships in Other Public Companies

- RHB Islamic International Asset Management Berhad
- PUC Founder (MSC) Berhad

No. of Board Meetings Attended in the Financial Year: 13/14

PROFILES OF THE BOARD OF DIRECTORS (continued)



ABDUL AZIZ PERU MOHAMED

Aged 67, Malaysian
Independent Non-Executive Director

Appointment to the Board

Appointed as an Independent Non-Executive Director on 2 March 2012.

Board Committee Memberships

Board Credit Committee (Member)

Qualification

Attended various training programmes at the Harvard Business School and Pacific Bankers Rim programmes in the United States of America

Skills and Experience

Encik Abdul Aziz Peru Mohamed is currently the Chief Executive Officer/Director of As-Salihin Trustee Berhad, a trust company specialising in Islamic estate planning. He held various Senior Management positions in the banking industry with almost 30 years in an accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as Chairman of the Rules Committee of Association of Banks of Malaysia and has held several other key positions including as a Board Member of Mayban Property Trust and Maybank Trustee Bhd.

Directorships in Other Public Companies

- RHB Bank Berhad
- As-Salihin Trustee Berhad
- RHB Islamic International Asset Management Berhad

No. of Board Meetings Attended in the Financial Year: 14/14



KONG SHU YIN

Aged 55, Malaysian
Managing Director/Chief Executive Officer

Appointment to the Board

Appointed as Managing Director/Chief Executive Officer of RHB Insurance Berhad on 13 March 2011.

Board Committee Memberships

Nil

Qualification

- Bachelor of Engineering from University Malaya
- Fellow of the Institute of Chartered Insurance in United Kingdom
- Fellow of the Institute of Malaysian Insurance

Skills and Experience

Mr Kong Shu Yin has 30 years of experience in the insurance business. Prior to joining RHB Insurance, he was with one of the largest general insurers in Malaysia, in various capabilities including Chief Executive Officer (CEO). He also has experience with the Thailand and Indonesian insurance markets.

Mr Kong Shu Yin is currently the Chairman of ISM Insurance Services Malaysia Berhad, an organisation established by the insurance and takaful industry to provide statistical services to its members and the public. He is also the Chairman of the Malaysian Motor Insurance Pool and the Deputy Chairman of Persatuan Insurans Am Malaysia (PIAM) for year 2012 until April 2015.

Directorships in Other Public Companies

- ISM Insurance Services Malaysia Berhad

No. of Board Meetings Attended in the Financial Year: 14/14

STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTION

“THE SUCCESS OR FAILURE OF ANY ORGANISATION IS OFTEN ATTRIBUTED TO THE QUALITY OF ITS CORPORATE GOVERNANCE. IN HEAVILY REGULATED SECTORS LIKE BANKING AND INSURANCE, THE COLLAPSE OF FINANCIAL INSTITUTIONS ESPECIALLY MAJOR GLOBAL PLAYERS INVARIABLY INVITES GREATER PUBLIC SCRUTINY AND THE TIGHTENING OF RULES AND REGULATIONS... WHILE IT IS IMPORTANT THAT THE RELEVANT CORPORATE GOVERNANCE STANDARDS ARE FURTHER STRENGTHENED, THIS MUST BE REINFORCED BY AN HONEST REFLECTION ON GAPS THAT EXIST IN PRACTICE AND A STRONG RESPONSE BY THOSE AT THE VERY TOP OF THE ORGANISATION TO ELEVATE AN INSTITUTION’S GOVERNANCE PRACTICES AND ARRANGEMENTS. IT IS IN OUR COLLECTIVE INTERESTS TO ENSURE THAT CORPORATE GOVERNANCE PRACTICES IN THE FINANCIAL SECTOR REMAIN SOUND OVER TIME. REGULATION ALONE WILL NOT ACHIEVE THIS. AS KEY PUBLIC INTEREST ENTITIES, FINANCIAL INSTITUTIONS ARE EXPECTED TO LEAD BY EXAMPLE AND REMAIN AT THE FOREFRONT IN REGARD TO CORPORATE GOVERNANCE PRACTICES.”

Datuk Nor Shamsiah Mohd Yunus, Deputy Governor, Bank Negara Malaysia

Opening Speech, Launch of the FIDE Forum’s Directors’ Remuneration Report 2015, Lanai Kijang, Kuala Lumpur
7 December 2015

COMMITMENT TO GOVERNANCE

RHB Insurance Berhad (“RHB Insurance” or “The Company”) is fully committed to protect the interests of all its stakeholders by applying good corporate governance, including greater transparency and sustainable disclosure.

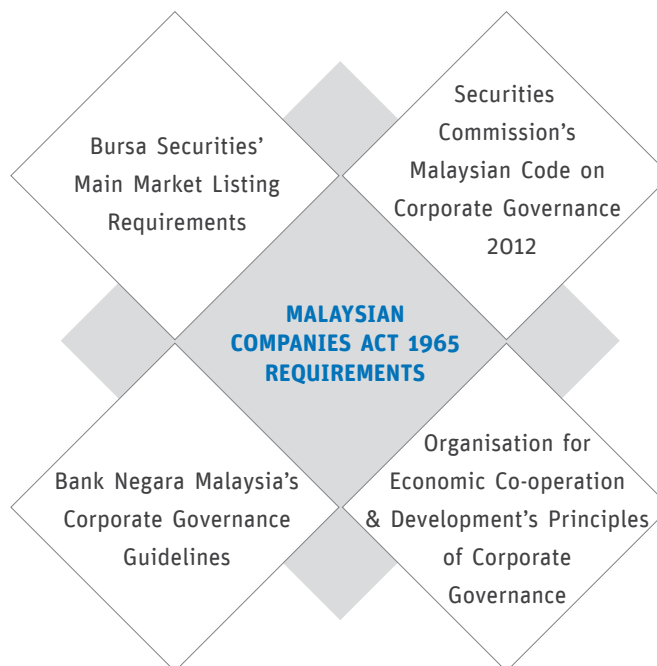
Excellence in corporate governance is an important element in promoting the Company’s financial services among the ASEAN and Greater China economic communities. RHB Banking Group’s current transition from the “A New Dawn” era to the next chapter of sustainable operation is rapidly progressing, thus echoing its commitment to its “Together We Progress” tagline hand in hand with its stakeholders, as the Company operates and manages its business in an orderly fashion.



STATEMENT ON CORPORATE GOVERNANCE (continued)

CONFORMANCE CULTURE

RHB Insurance recognises that good corporate governance is key to ensuring long-term sustainability for the Group. As such, the Company fully subscribes and adopts the broad principles set out in the following requirements and guidelines, where applicable:



In leading the organisation and ensuring that all the Group's strategic objectives and business scorecards are met, the Board is bound by its Charter, the Terms of Reference ("TOR") for its various Board Committees, and also by the Group Code of Ethics and Business Conduct for Directors.

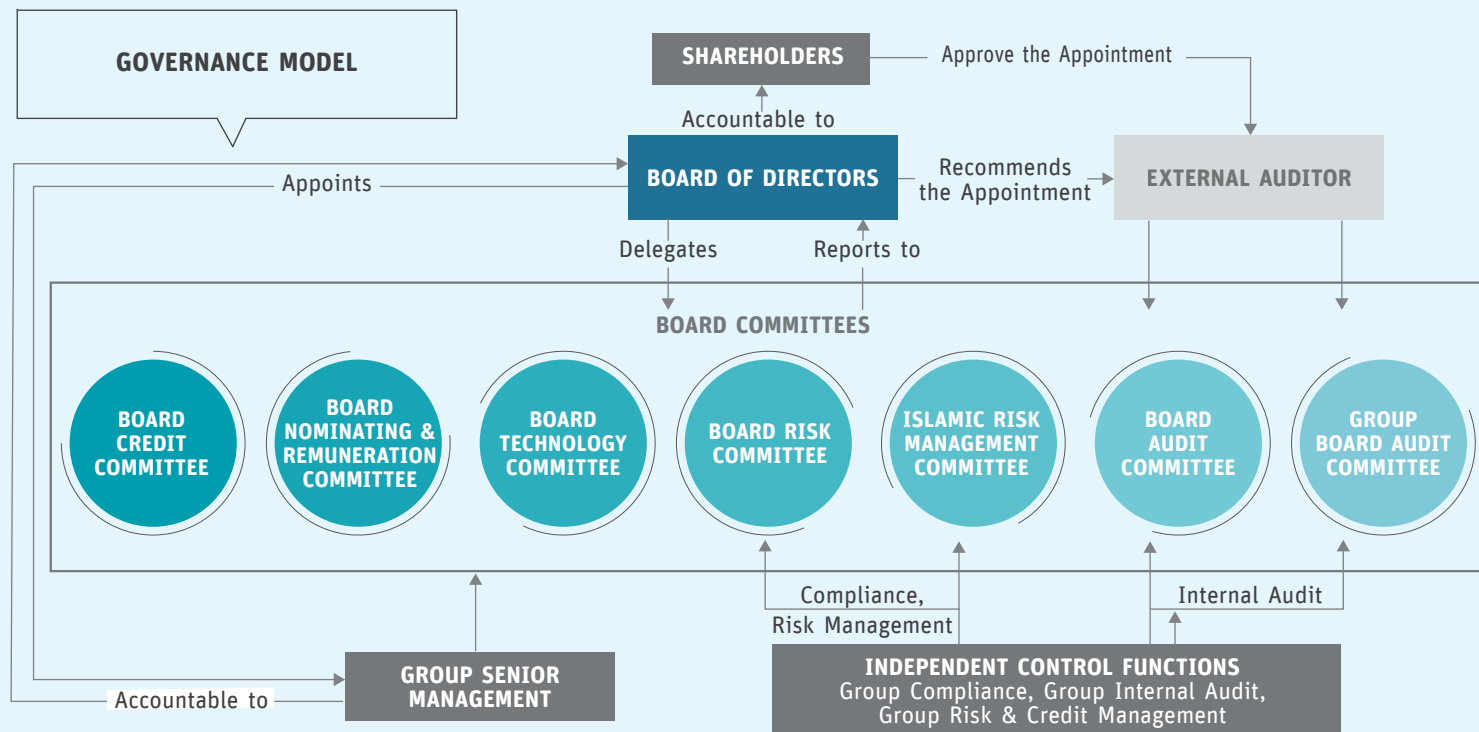
For Senior Management, Key Performance Indicators ("KPIs") and the TOR for various management committees reiterate the strategic objectives and risk appetite that the Board has set to achieve common organisational goals and value creation.

Complementing this are the Group Manual of Authority, Power of Attorney, Delegated Lending and Financing Authority (Discretionary Powers), Group Code of Ethics and Conduct for Employees, and Group Whistleblowing Policy, all of which were approved by the Board to ensure that good governance practices and fiduciary duties are implemented by the Senior Management and other key personnel.

This compliance culture encourages the Group's Directors, Senior Management and the rest of its employees to embrace professional business ethics and practise self-compliance with internal and external requirements.

This process is embedded top-down, where the Company's shared values encourage its Directors and employees in having P.R.I.D.E. in upholding the spirit and the letter of legal and regulatory requirements. All employees are guided by and committed to the following core shared values of the Group:

- **Professional**
We are committed to maintain a high level of proficiency, competency and reliability in all that we do.
- **Respect**
We are courteous, humble and we show empathy to everyone through our actions and interactions.
- **Integrity**
We are honest, ethical and we uphold a high standard of governance.
- **Dynamic**
We are proactive, responsive and forward thinking.
- **Excellence**
We will continuously achieve high standards of performance and service deliverables.



GOVERNANCE MODEL & FRAMEWORK

The **Governance Model** outlines a clear organisational structure with robust internal control and risk management mechanisms which promote high standards of governance and of integrity, transparency and well-defined accountabilities and responsibilities of the shareholders, Board and Board Committees, Senior Management, external and internal auditors and other Independent Control Functions.

As the Board further commits to working under a solid governance structure with greater transparency, a framework on governance has been established. It is within this ambit that the Board approved the **Group Governance Framework** as the basis of effective governance and oversight to support RHB Banking Group's overall strategies.

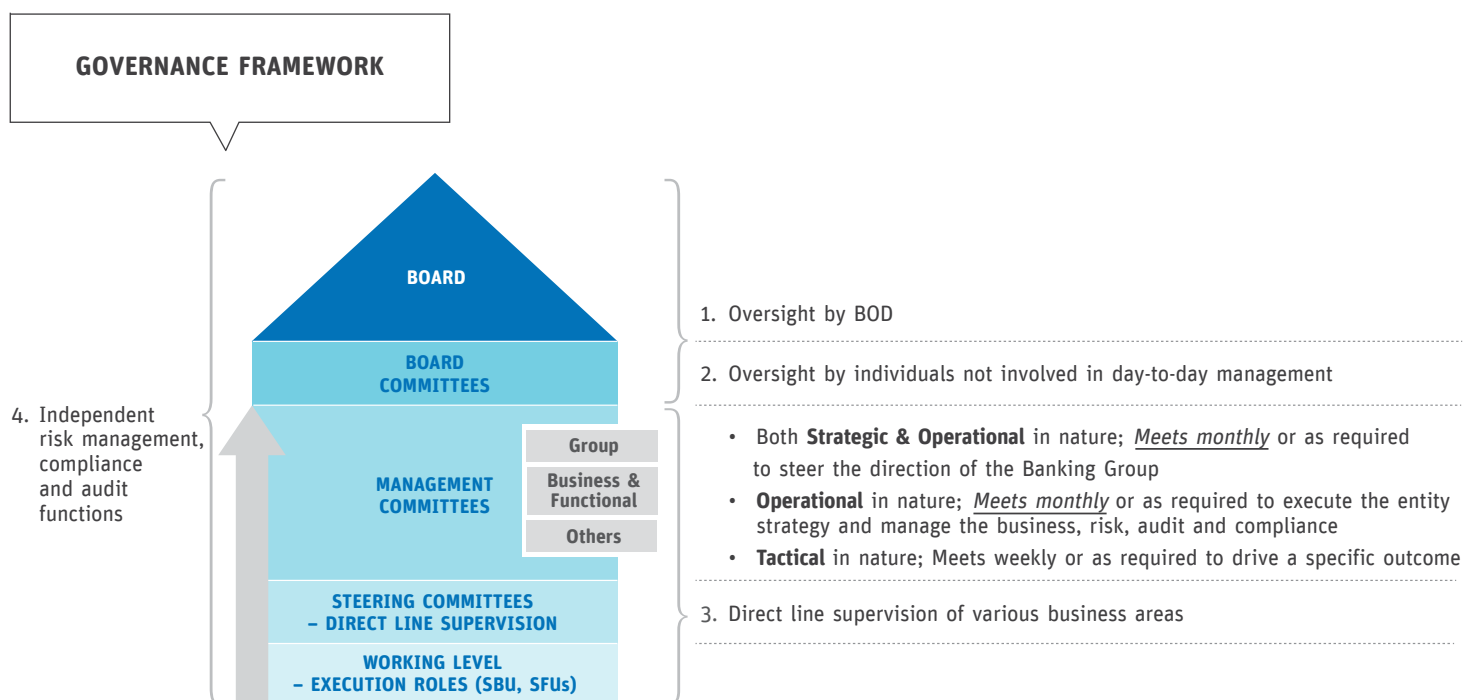
A clear and transparent governance structure for various central and sub-committees set by the Board members and the Senior Management has institutionalised the Company as a risk-focused organisation with proper control functions and good corporate governance practices. Under this framework, there are various

levels of oversight functioning across the Group's business and functional activities. These include, among others, direct supervision, Senior Management, independent parties comprising of risk management, compliance and internal audit, Group Managing Director ("GMD"), Managing Directors ("MDs"), Board Committees and the Board.

As the framework is based on conformance with regulatory requirements of the Prudential Framework of Corporate Governance For Insurers issued by Bank Negara Malaysia ("BNM"), this solid foundation is thus important to create value in the Group whether in the short, medium or long-term.

The Board continuously explores enhancements to the Group's governance processes to ensure it remains robust even as it continues to expand. The Governance Model and framework is currently being used as guidance and reference to build a strong governance structure and conformance culture within the Company and other RHB entities in the Banking Group.

STATEMENT ON CORPORATE GOVERNANCE (continued)



* Based on BNM Guidelines on Corporate Governance for licensed institutions

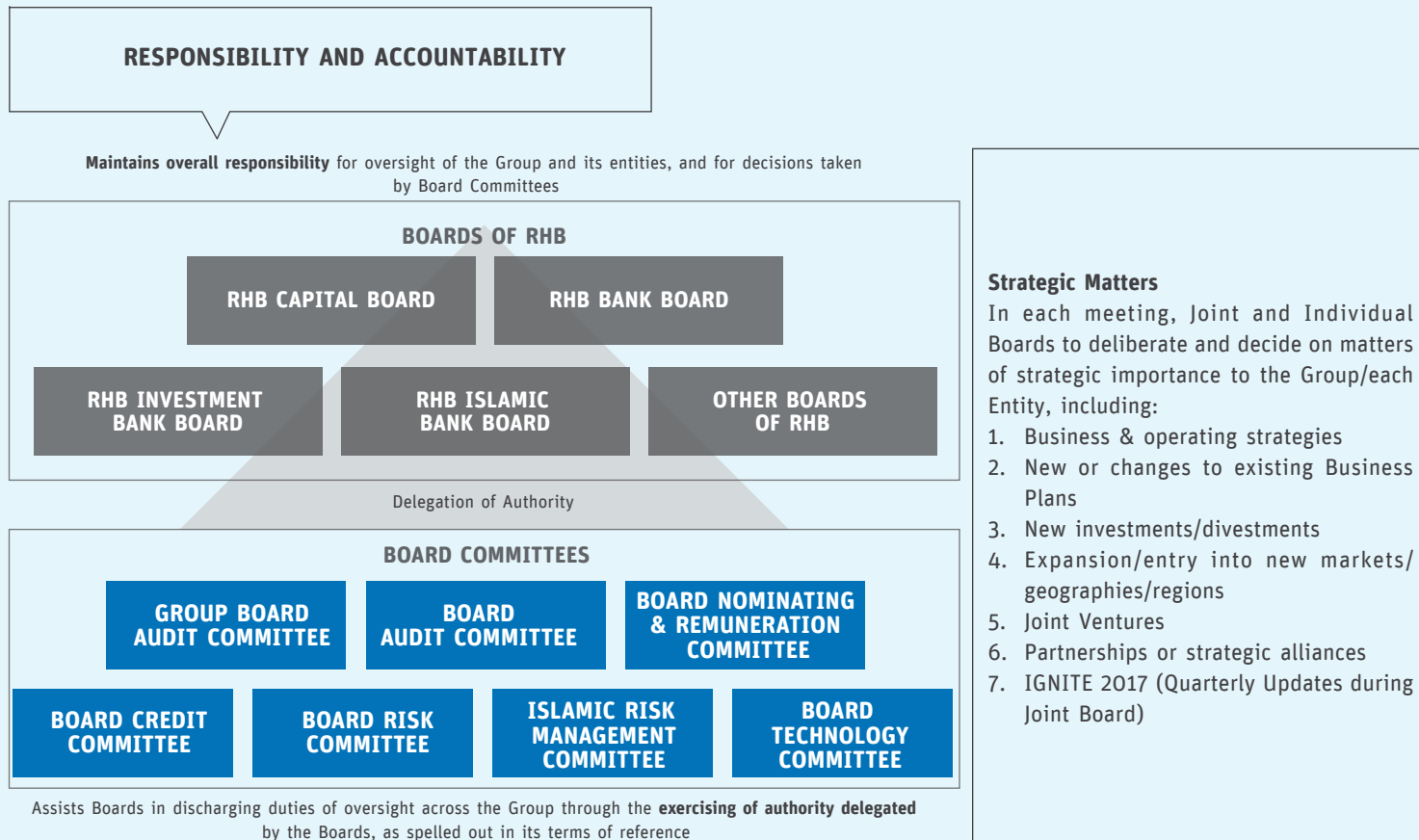
Business Governance

The Board acknowledges that conformance to internal and external requirements must be balanced with the Company's financial and business performance to give an overall picture of the Company's sustainability in the long-run. The Annual Business Scorecard which sets out quantitative and qualitative key performance indicators for the key Senior Management is reviewed periodically by the Board against the Group Balanced Scorecard and the Group Risk Appetite.

The progress made by the Board Committees is also scrutinised by the main Board. Each Committee's performance and progress will be deliberated on and the Board will decide on matters of strategic importance to the Group or respective entity.

In terms of monitoring financial and business performance, the main Board will discuss and make final decisions on strategic matters recommended by its respective Board Committees. An overview and analysis of the Company's financial performance are available on pages 50 to 55 of this Annual Report and also on the corporate website (www.rhbgroup.com).

All final achievements by the MD/Chief Executive Officer ("CEO"), Senior Management and employees will be reflected on at financial year-end in terms of performance rewards and in line with the retention policy.



THE BOARD OF DIRECTORS

Board Charter

The Board Charter, which sets out the key corporate governance principles adopted by the various Boards of the Group, was developed for each of the Group's major entities. It clearly defines the roles and responsibilities of the Boards, Chairperson, Senior Independent Director and the GMD/MD/CEO in the areas of strategy setting, management of company, succession planning, risk management, integrity of internal control and communication plan.

Within these boundaries, the respective Boards discuss, set and agree with Management on the Annual Balanced Scorecard, KPIs and the risk appetite that are to be duly executed and achieved by Management. The performance and progress of Management is then reviewed by the respective Boards at specified intervals.

Roles and Responsibilities of the Board

The Board is charged with leading and governing the Company in an effective, efficient and responsible manner. The Directors, collectively and individually, are aware of their responsibilities to shareholders/stakeholders and the manner in which the affairs of the Company are managed. They discharge their roles and duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Company's shareholders and stakeholders, and ensure the Company adheres to the highest standards of corporate governance.

The Board assumes an active role and takes full responsibility for key strategy setting, business plans, financial objectives and major capital and operating budgets. While the Board scrutinises the frameworks and policies proposed by the Management, the Board

STATEMENT ON CORPORATE GOVERNANCE (continued)

also monitors the Management's performance in implementing the adopted strategies as well as provides direction and advice to ensure the achievement of the objectives.

(a) Governing the Company's business conduct and operations

The Board governs the business conduct, performance and operations of the Company. To ensure high performance, the Board reviews the Company's business strategies and approves the Group Balanced Scorecard. Management's performance is monitored against the Balanced Scorecard on a regular basis. Interventions and regular reviews may be held to ensure that the execution of plans is aligned with the set objectives and goals.

The Board also governs the Company's risk management, internal controls, Human Resource ("HR") management and information technology through the delegation of certain decision-making and/or oversight responsibilities to various Board Committees, namely the Board Risk Committee, Board Nominating & Remuneration Committee, Board Audit Committee and Board Technology Committee. At the highest executive level, the MD assumes the overall responsibilities of executing the Company's strategies and plans in line with the Board's direction, oversees the Company's operations and drives the Company's businesses and performance towards achieving the Company's vision and goals.

In carrying out his tasks, the MD is supported by the key Senior Management of the Company.

The Board is updated on the Company's performance during monthly Board meetings. The reports include a comprehensive summary of the Company's business drivers and financial performance of each reporting period vis a vis the Company's approved Balanced Scorecard and industry benchmarks, risk management report, compliance report and transformation updates. The Board is also kept abreast of the key strategic initiatives, significant operational issues and latest developments in the financial services industry.

In addition, the Compliance Officer, on a monthly basis, provides the Board with a report on the Company's compliance with its statutory obligations as well as rules and regulations governing the Company's business and operations, actions taken to address shortcomings as well as self-regulating

initiatives taken by the Company, especially initiatives that are critical to the Company's business and operations under local and foreign jurisdictions. Areas for improvement, non-compliance and action plans are highlighted and recommended to the Board for information and approval where required.

The Board also reviews management reports. Special meetings are held between scheduled meetings when any direction or decision is required expeditiously from the Board.

As part of the Company's initiative to continuously improve employee engagement and employee value propositions, an employee engagement survey, namely the "Internal Customer Effectiveness Survey", was conducted in November 2015 to assess the level of employee engagement and quality of service rendered by the respective Strategic Business Groups and Strategic Functional Groups within the Group. Themed "Voice Out Now - Igniting Engagement 2015", the Group sought to acquire valuable information from the employees in order to craft sustainable improvements in primary aspects of operations.

(b) Risk Management

The Board is responsible for identifying the principal risks and implementation of appropriate systems to manage and control these risks. In ensuring effective risk assessment and control, the Board Risk Committee ("BRC") has been entrusted with providing oversight and governance of risks for the Group. The BRC comprises five Independent Non-Executive Directors ("INEDs") and one Non-Independent Non-Executive Director ("NINED") representing the Group's respective entities. Matters deliberated at BRC meetings are presented to the Board on a monthly basis.

The Board is satisfied that the BRC has effectively and efficiently discharged its functions to support the Board in ensuring, among others, that the Company is adequately capitalised to support risks undertaken and to meet regulatory requirements.

A Group Risk Management Report (including the entities' risk metrics and tolerance dashboard) is also presented to the Board on a monthly basis.

The Company maintains and reviews its internal control procedures to ensure, as far as possible, the protection of its assets and liabilities as well as its shareholders' investments. The Board considers that the Company's risk management framework and system of internal control, which are in place throughout the financial year, up to and as of the date of this report, are operating adequately and effectively. An overview of the Company's systems of risk management is contained in the Risk Management Statement set out on pages 34 to 38 of this Annual Report.

(c) Talent Development and Succession Planning

Talent development and succession planning are key priorities to the Board in ensuring a high-performing workforce which contributes to the Company's sustainability and competitiveness. The Board has entrusted the Board Nominating & Remuneration Committee ("BNRC") with the responsibility of providing high-level oversight and direction on human resource matters, and with recommending remuneration and human resource strategies such as employee value propositions, retention strategies, performance management and succession planning.

The BNRC also approves changes to Group HR policies in line with the HR strategy and direction set by the Board. Additionally, the BNRC supports the Board and that of the subsidiaries in reviewing and assessing the appointment of Directors, Board Committee members, Shariah Committee and key Senior Management officers. It also advises on the optimal size and mix of skills for the Group's Boards.

In line with IGNITE 2017, the Group has made a concerted effort to enhance and realign its HR and talent management to attract and retain regional talent and build a high-performing regional workforce. During the year, this saw the BNRC considering the renewal of service contracts and new appointments for key management positions based on their profiles, professional achievements and personal assessments. This included successfully identifying and attracting suitable candidates for all senior positions. The BNRC also considered their remuneration package(s) in finalising the terms and conditions of their service contracts. In addition, the BNRC reviewed the current organisation structure in enhancing greater alignment and accountability to deliver business value and outcomes.

The BNRC also continuously monitors succession planning updates presented by Group HR to ensure the smooth transition of key personnel into critical positions, and ensures that the development plans for identified successors are put in place based on their readiness to assume the positions. Other major issues deliberated on by the BNRC are salary and grading structure, retention plans and incentive schemes for key Senior Management as well as employee value propositions.

(d) Internal Control

The Board is responsible for ensuring the adequacy and integrity of the Company's internal control system. With the support of the Board Audit Committee and Group Internal Audit, the Board ensures that there is a process for reviewing the adequacy and effectiveness of the Company's internal control system. Details pertaining to the Company's internal control system and review of its adequacy and effectiveness are set out in the Statement on Risk Management and Internal Control in this Annual Report.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Board Composition and Balance

The Board of RHB Insurance is currently represented by six Members, comprising an Independent Non-Executive Chairman, one Non-Independent Non-Executive Director (NINED), three Independent Non-Executive Directors (INEDs) and the Managing Director (MD), as follows:

BOARD COMPOSITION

- **1 INE Chairman**
– Mr Ong Seng Pheow
- **1 Senior INED**
– Datuk Haji Faisal Siraj
- **1 NINED**
– Tuan Haji Md Ja'far Abdul Carrim
- **2 INED**
– Encik Abdul Aziz Peru Mohamed
– Dato' Othman Jusoh
- **1 MD of RHB Insurance**
– Mr Kong Shu Yin

The above structure and composition of the Board comply with the BNM's Guidelines on Minimum Standard For Prudential Management of Insurers (Consolidated) where it is stipulated that the Board should include a balance of executive directors and non-executive directors (including independent non-executives) such that no individual or small group of individuals can dominate the Board's decision making. However, Directors with executive powers must not account for more than 40% of the total board members at any time. YBhg Datuk Haji Faisal Siraj has been appointed as the Senior INED (SINED), to whom concerns pertaining to the Group may be conveyed by shareholders and the public.

As best practice, the majority of non-executive directors should comprise independent directors. This is to ensure independence of the Board and help to mitigate any possible conflict of interest between the policy-making process and the day-to-day management of the insurer. The current Independent Directors of the Company nevertheless account for 75% of the non-executive directors, **exceeding** BNM's requirement i.e. the majority of non-executive

directors on the board of an insurer should comprise independent directors and fulfil the criteria of independence as defined in the BNM's Guidelines on Corporate Governance for Licensed Institutions ("BNM's CG Guidelines").

Their presence ensures an effective check and balance on the functioning of the Board. Independent directors of the Company are not involved in the day-to-day management of the Company, nor do they participate in any of its business dealings. This ensures they remain free of any conflict of interest and can undertake their roles and responsibilities as INEDs effectively.

Boardroom Diversity Policy

Recognising the increasing importance of boardroom diversity in pursuing business and governance performance, the Group established a boardroom diversity policy in 2013. The policy is also in line with the Securities Commission's goal for women directors to make up 30% of boards. Diversity, which includes but is not limited to gender, age, ethnicity and cultural background, is therefore a key consideration in assessing and reviewing the Board's composition as it strives to achieve the targeted level of women's participation.

In view that organisations are best served by having a constantly evolving board of directors with staggered terms and a healthy combination of fresh perspectives and experience, **age limits** at 70 and 73 are set for the Group's Non-Executive Directors ("NED"), with the exception of major shareholders' representatives. At the first checkpoint, Directors who are **over** the age limit of 70 shall retire at the next AGM but are eligible for appointment or re-appointment on the Boards of RHB Banking Group, subject to shareholders' approval. At the second checkpoint, Directors who exceed the age limit of 73 cannot continue their service tenure further and shall retire at the next AGM of the company concerned. Only one NED in the Company, namely YBhg Datuk Haji Faisal Siraj, reached the age of 70 during the current financial year and according to the Internal Guidelines on Tenure of Appointment/Re-Appointment of Non-Executive Directors for RHB Banking Group, YBhg Datuk Haji Faisal Siraj shall be eligible for re-appointment on the Board of the Company subject to the shareholders' approval during the AGM, upon the endorsement and recommendation of the BNRC.

The BNRC and Board had on 22 February 2016 and 31 March 2016, respectively recommended to the shareholder for approval, to re-appoint YBhg Datuk Haji Faisal Siraj as an INED of the Company until the next AGM pursuant to the Internal Guidelines.

Assessment of Independence

The independence of the Directors is reviewed annually and benchmarked against best practices and regulatory provisions. Independent Directors are required to attest to their compliance with the criteria and definition of “Independent Director” as stipulated under Clause 2.26 and Clause 9.1 of BNM’s CG Guidelines for Licensed Institutions and BNM’s Guidelines on Minimum Standards for Prudential Management For Insurers (Consolidated), respectively.

All Independent Directors are independent from the Company’s substantial shareholders, are not substantial shareholders themselves or directly associated with any substantial shareholders. Based on individual Director’s self-disclosure, the Board is generally satisfied with the level of independence demonstrated by all the INEDs and their ability to act in the best interest of the Company.

At every Board Meeting, all Directors are required to disclose their interest or any possible conflicts on any matter put forth in the meeting. When required, the interested Director shall excuse himself/herself and abstain from deliberation and voting to allow unbiased and free discussion and decision making. In the event a corporate proposal requires shareholder approval, interested Directors will abstain from voting in respect of their shareholdings in the Company and will further ensure that persons connected to them similarly abstain from voting on the resolution.

Tenure of Independent Directors

In an effort to preserve the independence of INEDs, the Group has put in place its Internal Guidelines on Tenure of Appointment/Re-Appointment of Non-Executive Directors for RHB Banking Group (“Internal Guidelines”). The Board believes the tenure of INEDs should balance experience and learning with the need for renewal and fresh perspectives.

According to the Internal Guidelines, Mr Ong Seng Pheow is also subject to retirement at the forthcoming AGM in 2016 as Mr Ong Seng Pheow has served in the Group for more than a consecutive or cumulative term of 9 years i.e. he was appointed as an INED of RHB Bank Berhad on 20 November 2006.

The Board acknowledges that Mr Ong Seng Pheow consistently demonstrates the values and principles associated with independence during Board and Board Committees’ discussions. He is able to effectively delineate his roles for providing oversight as INED whilst continuously enhancing his knowledge of the operations and issues of the Company. He brings independent and objective judgement which mitigates risks arising from conflict of interest or undue influence from interested parties.

With the above justifications, the Board had recommended to the shareholder for approval, to retain Mr Ong Seng Pheow as an INED of the Company until the conclusion of the next AGM pursuant to the Internal Guidelines.

Roles of the Chairman and Managing Director

The distinct and separate roles and responsibilities of the Chairman and MD ensure balance of power and authority such that no one individual has unfettered powers of decision making.

The Independent Non-Executive Chairman, Mr Ong Seng Pheow, manages the affairs of the Board with a view of ensuring that it functions effectively and meets its obligations and responsibilities. He also leads the Board in executing its responsibilities to shareholders and ensures that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary in the Board’s decision-making.

Additionally, the Chairman must ensure that general meetings are conducted efficiently and in accordance with the requirements of the Companies Act 1965, and that shareholders have adequate opportunity to air their views and obtain answers to their queries.

The MD, Mr Kong Shu Yin, who has extensive experience and knowledge in the insurance business, assumes the overall responsibilities of executing the Company’s strategies in line with the Board’s direction and driving the Company’s businesses and performance towards achieving the Company’s vision and goals.

Mr Kong Shu Yin leads the Senior Management in the execution of the Company’s strategic initiatives.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Nomination Framework

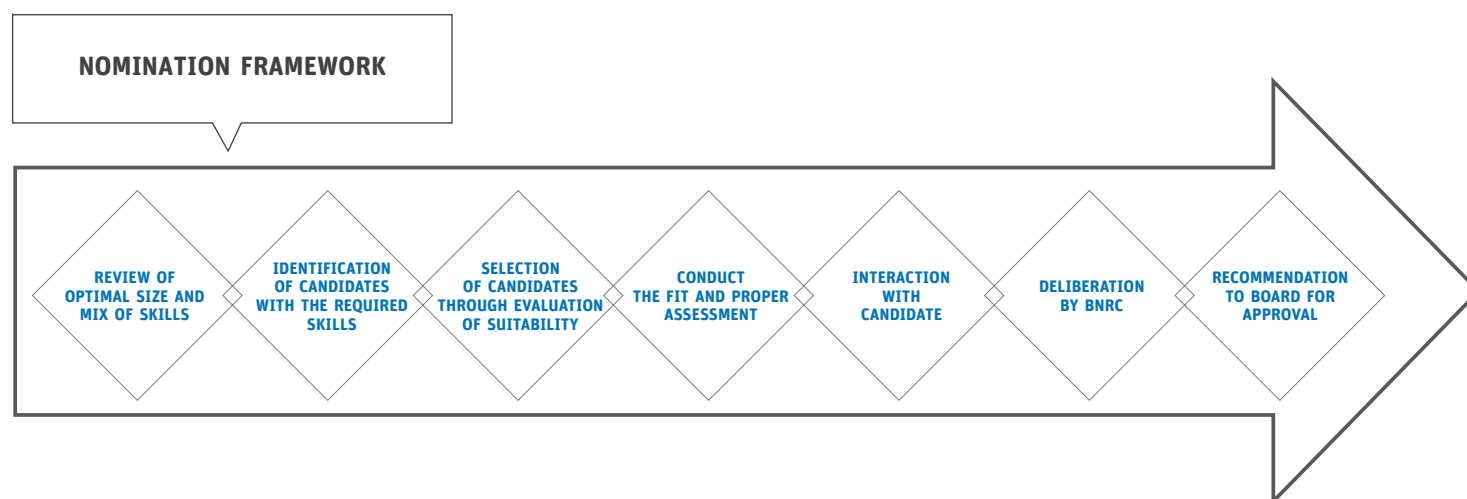
New Director nominees are assessed by the BNRC in accordance with RHB Banking Group's Policy and Guidelines on Fit and Proper for Key Responsible Persons ("Fit and Proper Policy").

The assessment takes into account the nominees' background, skills, knowledge and experience, and is part of a transparent nomination process before a recommendation is made for the Board's approval.

These assessments are carried out against a benchmark of documented competencies which have been prepared for each role, the completion of declarations by each individual, the obtaining of evidence of material qualification and the carrying out of checks on matters such as criminal record, bankruptcy and regulatory disqualification.

These assessments are reviewed on an annual basis. The Fit and Proper Policy outlines the following criteria in assessing the suitability of the candidate:

- Probity, personal integrity and reputation, where the candidate must have personal qualities such as honesty, integrity, diligence, independence of mind, fairness and ethical behaviour.
- Competence and capability, where the candidate must have the skills, experience, ability and commitment to carry out the role.
- Financial integrity, where the candidate must have financial soundness and be able to manage his/her debts or financial affairs prudently.



The Chairman of the BNRC conducts an interaction session with the proposed candidates and assesses the candidates based on their relevant skills and experience, independence (where relevant) and objectivity, track record of success, sound judgement and broad perspective. The Board's expectations on the time commitment and contribution from the Directors will also be clearly communicated to the proposed candidates.

Directors' Appointment and Assessment

(a) Appointment of Directors

The Group sources for new candidates for Board appointments from the industry talent pool and the Group's Independent Directors' network, as overseen by the BNRC.

The BNRC follows a Board-approved nomination framework, which ensures that individuals appointed to relevant senior positions and the Boards within the Group possess the appropriate fitness and propriety to discharge their prudential responsibilities on and during the course of their appointment.

As part of its review of the suitability of candidates and criteria for the appointment process, the BNRC also evaluates the skill sets required, size, structure and composition of the Board. This is to ensure the Board is well-balanced and is supportive of good governance and efficient management, while complying with regulatory requirements and remaining responsive to shifts in the business environment and the entity's business needs.

For the re-appointment of existing Directors, the BNRC refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation exercise in addition to their formal/informal interactions with the Directors. The BNRC also assesses the Directors based on how well they performed their roles and contributed to the Board and Board Committees, their independence of view in respect of decision making (whichever is applicable), adequacy of training and time commitment. Once approved by the Board, the application for the appointment/re-appointment of Directors is submitted to BNM for its consideration.

(b) Board Effectiveness Evaluation

The Group has undertaken the Board Effectiveness Evaluation ("BEE") exercise on the Boards and Board Committees to assess their effectiveness and that of individual Directors. Implemented in 2006, the BEE is designed to detect strengths and weaknesses to improve the Board's overall effectiveness and forms part of the BNRC's evaluation for the re-appointment of Directors.

The BEE is made up of self and peer assessment conducted through a customised questionnaire. Messrs PricewaterhouseCoopers Consulting Services Sdn Bhd ("PwCCS") was engaged to collate and tabulate the results of the evaluation, ensuring integrity and independence of the appraisal process. The BEE also includes in-depth interviews between PwCCS and Directors and Senior Management to evaluate areas which may not be covered by the written assessment. The detailed BEE results are then discussed with the Chairmen of the BNRC and Boards.

The following are the performance indicators on which the Board's effectiveness is evaluated:

Part A: Board Evaluation

1. Board responsibilities
2. Board composition
3. Board administration and process
4. Board conduct
5. Board interaction and communication with Management and stakeholders
6. Overall Board performance
7. Chairman's evaluation
8. Managing Director's evaluation

Part B: Board Committees' Evaluation

1. Structure and processes
2. Accountability and responsibilities

Part C: Directors' Self- and Peer Evaluation

1. Board dynamics and participation
2. Integrity and objectivity
3. Technical competencies
4. Recognition
5. Independent Directors' evaluation

Part D: Committee Members' Self- and Peer Evaluation

1. Participation levels and contribution
2. Technical competencies

Each Director and Board Committee member was required to perform an online self and peer assessment for the year in review. Upon completion, individual results, together with a peer average rating on each area of assessment, were provided to each Director and Board Committee member for their information and further improvement. The latest BEE results were presented to the BNRC in July 2015 and to the Board in August 2015 to identify and address areas for improvement.

STATEMENT ON CORPORATE GOVERNANCE (continued)

MEETINGS AND SUPPLY OF INFORMATION TO THE BOARD

Board meetings are convened monthly and additionally when required to deliberate on any arising issues. At each Board meeting, the Board is, among others, informed of decisions and salient issues by the respective Board Committees' Chairmen/representative. Minutes of the respective Board Committees' meetings are also tabled for the Board's information.

For the financial year ended 31 December 2015, the Board is satisfied with the time commitment given by the Directors towards fulfilling their roles and responsibilities as Directors of RHB Capital. All Directors have complied with the required minimum Board meetings attendance of 75% under the Prudential Framework of Corporate Governance For Insurers issued by BNM and as adopted by the Company.

The Board convened 14 meetings for the financial year ended 31 December 2015. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Mr Ong Seng Pheow	14/14	100
YBhg Datuk Haji Faisal Siraj	14/14	100
Tuan Haji Md Ja'far Abdul Carrim	14/14	100
Encik Abdul Aziz Peru Mohamed	14/14	100
YBhg Dato' Othman Jusoh*	13/14	93
YBhg Tan Sri Dato' Teo Chiang Liang#	7/8	88
Mr Kong Shu Yin	14/14	100

Notes:

* Retired with effect from 31 March 2016.

Retired with effect from 3 August 2015.

An annual meeting schedule for Board and Board Committee meetings and the AGM is circulated to the Directors for the convenience before the beginning of every year. Since 2014, Directors/Board Committee members have also been enabled to use their iPads to gain secure access to a meeting management solution system via an online portal.

This has significantly enhanced mobility, movement of documents, cost and time savings, as well as improved convenience and security while creating a positive impact on the environment. Directors who are unable to attend Board/Board Committee meetings are also encouraged to participate via telephone and video-conferencing using the LYNC application system.

This latest convenience allows any Board meeting's paper to be circulated to the Board members instantly. Currently, Board papers are circulated between 5 and 7 days before each meeting.

In an effort to promote transparency in discharging their duties, Directors are required to notify the Board on changes of their other directorships and shareholdings in RHB Capital as and when such changes arise. This information is used to monitor the number of directorships held by the Directors of RHB Capital, including those on public listed companies, and to notify the Companies Commission of Malaysia accordingly.

The information on the Company's Directors' directorships in public companies is available on pages 6 to 8 of this Annual Report.

Information and Advice

The Board, as a group and individually as Directors, is supported by the Company Secretary who provides advice and assistance to the Board in discharging their duties. The Board members are also encouraged to interact directly with the Management, seek its clarification and advice as well as request for information on matters pertaining to the Company's operations or business concerns. Should the need arise, the Directors are also allowed to seek independent professional advice at the Company's expense, pursuant to the Group's Standard Procedures for Directors to Have Access to Independent Advice.

Dedicated Company Secretary

The Board acknowledges and is satisfied with the performance and support rendered by the Company Secretary. In addition to acting as the custodian of the Company's statutory records, the Company Secretary serves and advises the Board on matters relating to the affairs of the Board and good corporate governance practices, ensure that Board meetings are appropriately convened and maintains an accurate and proper record of the proceedings and minutes of the meetings.

In promoting good corporate governance practices, the Company Secretary assists the Board and Senior Management in meeting regulatory requirements and best practices specifically pertaining to Board governance. This includes making proposals on transparency and mandatory/voluntary disclosure on governance issues which are relevant and materially important to the stakeholders.

The role of the Company Secretary also includes assisting the Chairman and Directors in conducting meetings and discharging their governance obligations and responsibilities as Directors of the Company. Additionally, the Company Secretary facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management, updating the Board on the follow-up or implementation of decisions/recommendations.

In order to play an effective advisory role to the Board, the Company Secretary is kept abreast with the latest regulatory changes, industry developments and best practices in corporate governance through continuous training and regular interactions with regulators and industry peers.

REMUNERATION STRATEGIES

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors with the relevant experience and expertise required to lead the Company and the Group. Remuneration strategies are set by the BNRC (as outlined in its terms of reference).

In an effort to ensure that remuneration levels are commensurate with responsibilities, risks and time commitment of the Boards/ Board Committees, the Group's common reference, which incorporates the Non-Executive Directors' Remuneration Framework, sets out the general principles for the remuneration of NEDs. The remuneration also takes into consideration industry practices and is reviewed at least once every two years.

The remuneration package of the NEDs of the Group comprises the following:

(a) Directors' fees

The NEDs are entitled to annual Directors' fees. The annual Directors' fees are subject to shareholders' approval at the AGM of the Company.

The shareholders of the Company had, at the 35th AGM held on 30 April 2014, approved the new structure of Directors' fees—on the basis of RM150,000 per annum for Non-Executive Chairman and of RM120,000.00 per annum for every NED.

(b) Board Committee allowances

NEDs who sit on Board Committees are entitled to receive Board Committee allowances which shall be paid on an annual basis at the end of each financial year.

(c) Meeting attendance allowance

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings.

(d) Benefits-in-kind

Benefits are accorded to the Chairmen of the Group, consisting, among others, of the provision of a company car, driver and petrol allowance.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Total allowances for Board Committee allowance and Meeting attendance allowance are subject to the number of Board Committee sittings and the number of meetings attended by each Company NED, as illustrated in the table below:

Name Of Company Director	No. Of Meetings Attended				
	Board Meeting	BNRC Meeting	BRC Meeting	BAC Meeting	BTC Meeting
Mr Ong Seng Pheow (INED)	14/14 (Chairman)			18/18 (Chairman)	8/8
YBhg Datuk Haji Faisal Siraj (SINED)	14/14	13/13 (Chairman)		18/18	
Tuan Haji Md Ja'far Abdul Carrim (NINED)	14/14	12/13	17/17		
YBhg Dato' Othman Jusoh (INED)*	13/14			18/18	
Encik Abdul Aziz Peru Mohamed (INED)	14/14				
YBhg Tan Sri Dato' Teo Chiang Liang (INED)#	7/8	11/13			
Mr Kong Shu Yin (MD)	14/14				

Notes:

* Retired with effect from 31 March 2016.

Retired with effect from 3 August 2015.

In addition to the above, the Directors are covered by Directors and Officers (“D&O”) Liability Insurance in respect of any liabilities arising from acts committed in their capacity as D&O of RHB Banking Group. However, the insurance policy does not indemnify a Director or principal officer if he or she is proven to have acted negligently, fraudulently or dishonestly, or in breach of his or her duty of trust. The Directors are required to contribute jointly towards the premium of the said policy.

The MD does not receive a Director’s fee or any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which is approved by the Board upon recommendation by the BNRC, includes among others, salary, bonus and benefits-in-kind, and is derived from the Company.

Key Senior Management are remunerated based on a remuneration framework consisting of a competitive integrated pay and benefit structure, which rewards corporate and individual performance in line with contributions to the organisation. Key Senior Management Officers are made up of the Heads of respective Strategic Business Sectors and Strategic Functional Sectors across the Group who report directly to the GMD and sit in the Group Management Committee.

DIRECTORS' ORIENTATION, CONTINUING EDUCATION AND TRAINING

Continuing education and training of Board Directors are integral to their responsibilities, to ensure they remain updated with the latest developments in the areas related to their duties. Costs for Directors' training are covered by a budget allocated each year by RHB Capital Berhad, with the training needs of each Director assessed annually by the Board as part of the BEE exercise. The training and development of Directors is detailed in the Group's Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group.

In an effort to ensure the Company's and Group's NEDs discharge their duties in line with industry best practices, they are encouraged to participate in local and/or overseas training programmes organised by credible training organisations under the Board's High Performance Programme. This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that engender organisational excellence. The organisation of internal training programmes and Directors' attendance of external programmes are facilitated by the Company Secretary, who also maintain a complete record of the training received and attended by the Directors.

Learning Process for New Director

There were no new NEDs on the Board of the Company for FYE 2015. Newly appointed Company NED are required to attend an induction programme organised by the Management of the Group to provide the NED with in-depth information of the industry as and familiarise them with the Group's business operations. As part of this programme, the NED is briefed by relevant Management personnel on the functions and areas of responsibility of their respective divisions. In addition to allowing the NED to understand the the Group's operations and organisational structure, this exercise also helps them to establish effective channels of communication and interaction with Management.

New NEDs are also provided with a comprehensive Director's induction kit to assist him/her in building a detailed understanding of the Group's operations, its longer-term direction and statutory obligations.

During the year, the Directors of RHB Insurance attended the following training programmes, conferences and seminars:

Name of Director(s)	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> • Mr Ong Seng Pheow 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> • Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	<ul style="list-style-type: none"> • Latest updates on Financial Standards • FRS 139
	3. PNB Investment Institute Sdn Berhad – Predicting Financial Crime-Detection, Prevention & Remediation (1 April 2015)	<ul style="list-style-type: none"> • Financial Crime & Financial Fraud • Consequences of Financial Crime & Financial Fraud • Financial Fraud Red Flags • Detection, Prevention & Remediation • Building A Fraud Proof Culture
	4. FIDE Forum 3rd Board Leadership Series:- Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	<ul style="list-style-type: none"> • Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9

STATEMENT ON CORPORATE GOVERNANCE (continued)

Name of Director(s)	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> Mr Ong Seng Pheow (continued) 	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – “Financial Instruments” For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> Overseas Tax FATCA MFRS 9
	6. Invitation Launch of FIDE FORUM’s Directors’ Remuneration Report 2015 (7 December 2015)	<ul style="list-style-type: none"> NEDs’ Remuneration Practices Corporate Governance Developments
<ul style="list-style-type: none"> Tuan Haji Md Ja’far Abdul Carrim 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy
	2. PNB Investment Institute Sdn Bhd - Predicting Financial Crime-Detection, Prevention & Remediation (1 April 2015)	<ul style="list-style-type: none"> Typology and Consequences of Financial Crime and Financial Fraud Financial Fraud Red Flags Detection, Prevention and Remediation Building a Fraud Proof Culture
	3. The Briefing on Charter Contracts (25 February 2015)	<ul style="list-style-type: none"> Charter and Legal Requirements Main Ingredient of Charter Contracts
	4. FIDE Forum: Invitation to Industry Consultation Session (6 May 2015)	<ul style="list-style-type: none"> Encourage development of world class directors Attract and retain highly qualified directors Promote board diversity Improve board performance
	5. FIDE Forum 3rd Board Leadership Series: Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	<ul style="list-style-type: none"> Reclassification of assets & liabilities Revenue recognition Latest Accounting standard – adoption of IFRS 9
	6. MINDA – Corporate Directors Advance Programme Strategy & Risk – Managing Uncertainty (2-3 September 2015)	<ul style="list-style-type: none"> Equip directors with a solid framework of managing the oversight of strategy and risks effectively Provide directors with a new perspective of “looking outside, looking forward” in the areas of: <ul style="list-style-type: none"> Strategy Development and Monitoring Risk Oversight

Name of Director(s)	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> Tuan Haji Md Ja'far Abdul Carrim (continued) 	7. 5th Distinguished Board Leadership Series: "Beyond Compliance to Growth - Board's Strategy in Cultivating Real Growth within a Conducive Governance Environment" by The Honorable Sheila C. Bair. (28 October 2015)	<ul style="list-style-type: none"> Champion real growth that is a "win-win-win" for regulators, shareholders and the consumers of FI products/services – and what FI Boards can do about it. Infusing regulatory demands into the FI's business culture without compromising business growth – and with the Board providing strategic leadership. FI Boards' collective role in creating a conducive and responsible environment for business growth with respect to their fiduciary responsibilities to depositors/policyholders. FI Boards collaborating with regulators to develop a sustainable marketplace without compromising profits and growth of FIs.
	8. Special Invite: 6th Distinguished Board Leadership Series "Digital Transformation and Its Impact on Financial Services – Role of the Board in Maximising Potential" by Mr Joydeep Sengupta (4 November 2015)	<ul style="list-style-type: none"> What is the role of the board in managing digital transformation? What should the board be concerned about given the digitalisation of business and changes in consumer purchasing habits? What could the board do to lead their organisation in leveraging digital transformation for business growth?
	9. Invitation Launch of FIDE FORUM's Directors' Remuneration Report 2015 (7 December 2015)	<ul style="list-style-type: none"> Objectives and Coverage of the Report Key Findings and Recommendations of the Report
<ul style="list-style-type: none"> YBhg Datuk Haji Faisal Siraj 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	<ul style="list-style-type: none"> Latest updates on Financial Standards FRS 139
	3. FIDE Forum: Invitation to Industry Consultation Session (6 May 2015)	<ul style="list-style-type: none"> Encourage development of world class directors Attract and retain highly qualified directors Promote board diversity Improve board performance
	4. FIDE Forum's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" (21 May 2015)	<ul style="list-style-type: none"> Innovative Products High Risk, High Return Product Compliance Cost

STATEMENT ON CORPORATE GOVERNANCE (continued)

Name of Director(s)	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> YBhg Datuk Haji Faisal Siraj (continued) 	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – “Financial Instruments” For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> Overseas Tax FATCA MFRS 9
<ul style="list-style-type: none"> YBhg Dato’ Othman Jusoh 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy
	2. The Briefing on Charter Contracts (25 February 2015)	<ul style="list-style-type: none"> Charter and Legal Requirements Main Ingredient of Charter Contracts
	3. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – “Financial Instruments” For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> Overseas Tax FATCA MFRS 9
	4. Capital Market Director Programme Module 1 (10 August 2015) Module 2A (11 August 2015) Module 2B (12 August 2015) Module 3 (13 August 2015) Module 4 (14 August 2015)	<ul style="list-style-type: none"> Capital Market in Malaysia Good Corporate Governance Stakeholders’ Management
	5. FIDE Forum 3rd Board Leadership Series:- Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	<ul style="list-style-type: none"> Reclassification of assets & liabilities Revenue recognition Latest Accounting standard – adoption of IFRS 9
<ul style="list-style-type: none"> Encik Abdul Aziz Peru Mohamed 	1. The Briefing on Charter Contracts (25 February 2015)	<ul style="list-style-type: none"> Charter and Legal Requirements Main Ingredient of Charter Contracts
	2. FIDE FORUM: Invitation To Industry Consultation Session (6 May 2015)	<ul style="list-style-type: none"> Encourage development of world class directors Attract and retain highly qualified directors Promote board diversity Improve board performance
	3. Capital Market Director Training Programme (CMDP) Module 1 (27 July 2015) Module 2A (28 July 2015) Module 2B (1 July 2015) Module 3 (30 July 2015) Module 4 (31 July 2015)	<ul style="list-style-type: none"> Capital Market in Malaysia Good Corporate Governance Stakeholders’ Management

Name of Director(s)	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> Encik Abdul Aziz Peru Mohamed (continued) 	4. 4th Distinguished Board Leadership Series – “Board Leading Change: Organisational Transformation Strategy as Key Sustainable Growth In Challenging Times” (18 August 2015)	<ul style="list-style-type: none"> Sustainable Growth Redefined Strategy Transformation
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – ‘Financial Instruments’ For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> Overseas Tax FATCA MFRS 9
	6. Ethics Red Flags For Board of Directors (3 November 2015)	<ul style="list-style-type: none"> Ethics & Governance Conflicts of Interest
<ul style="list-style-type: none"> YBhg Tan Sri Dato’ Teo Chiang Liang (Retired with effective 3 August 2015) 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy
	2. FIDE Forum 3rd Board Leadership Series:- “Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of” (5 June 2015)	<ul style="list-style-type: none"> Reclassification of assets & liabilities Revenue recognition Latest Accounting standard – adoption of IFRS 9
	3. CG Breakfast Series with Directors: “The Board’s Response in Light of Rising Shareholder Engagements” (4 August 2015)	<ul style="list-style-type: none"> Fiduciary Duty Shareholders’ Needs Good Corporate Governance Practices
<ul style="list-style-type: none"> Mr Kong Shu Yin 	1. Goods and Services Tax Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy

STATEMENT ON CORPORATE GOVERNANCE (continued)

BOARD COMMITTEES

Board Committees assist the Board in discharging its roles and responsibilities through the delegation of specific authority to the relevant Board Committees. This delegation of authority is expressly stipulated in the Terms of Reference (“TOR”) of the respective Board Committees. The TOR are also reviewed periodically to ensure effective and efficient decision making in the Group. Additionally, the Board Committees act as oversight committees, evaluating and recommending matters under their purview for the Board to consider and approve.

The Board receives updates from the respective Chairmen/representatives of the Board Audit Committee, Board Risk Committee, Board Nominating & Remuneration Committee and Board Technology Committee on matters that require specific mention that have been deliberated on and considered at the meetings of the Board Committees.

Board Nominating & Remuneration Committee

The key objectives of the Board Nominating & Remuneration Committee (“BNRC”) are, as follows:

- Review and assess the appointment/re-appointments of Directors, Board Committee members, Shariah Committee and key Senior Management officers for recommendation to the Boards.
- Advise the Boards on optimal size and mix of skills of Boards.
- Provide oversight and direction on HR matters and operations, and recommend to the Boards for approval of remuneration and human resource strategies.

The BNRC comprises five NEDs, of whom three are INEDs and two are NINEDs, representing the respective entities within the Group. The BNRC is chaired by YBhg Datuk Haji Faisal Siraj, the SINED of RHB Capital Berhad.

The BNRC met 13 times during the financial year 2015. The composition of the BNRC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (Chairman/Senior INED)	13/13 (100%)
YBhg Tan Sri Azlan Zainol (NINED)*	7/8 (88%)
YBhg Datuk Seri Saw Choo Boon (INED)	13/13 (100%)
YBhg Tan Sri Dato’ Teo Chiang Liang (INED)	11/13 (85%)
Tuan Haji Md Ja’far Abdul Carrim (NINED)	12/13 (92%)
Choong Tuck Oon (INED)^	6/7 (86%)

Notes:

* Appointed with effect from 13 April 2015.

^ Resigned with effect from 1 June 2015.

Board Risk Committee

In ensuring that a robust system of risk management and internal control are in place to ensure good corporate governance and safeguard shareholders' investments as well as the Company's and the Group's assets, the Board Risk Committee ("BRC") provides oversight and governance of risks for the Group.

The BRC is also tasked with overseeing the Senior Management's risk management activities, ensuring that the risk management process in each of the Group's entities is in place and functions in accordance with a risk-return performance management framework. Furthermore, the BRC supports and leads the Senior Management in driving the Risk Culture and Risk Ownership in the Group.

The BRC's other duties and functions, among others, include the following:

- To provide oversight to ensure that the Group's risk management framework, processes, organisation and systems are functioning commensurate with its nature, scale, complexity of activities and risk appetite.

- To deliberate and assess the nature and materiality of risk exposures, potential risks and impact on capital and the Group's sustainability.
- To review and approve proposed changes to Delegated Lending (Financing) Authorities/Discretionary Powers/Powers of Attorney, limits for business and operations.
- To review and approve changes to policies and frameworks (excluding HR-related policies and framework), risk methodologies/models and other significant risk management matters, in line with the approved risk strategy.
- To review and approve new/existing products with material variations in product features.

The BRC comprises six NEDs, of whom five are INEDs and one is a NINED, representing the respective entities within the Group. The BRC met 17 times during the financial year 2015. The composition of the BRC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (INED/Chairman)	16/17 (94%)
Mr Patrick Chin Yoke Chung (INED)	15/17 (88%)
Tuan Haji Md Ja'far Abdul Carrim (NINED)	17/17 (100%)
YBhg Datuk Seri Saw Choo Boon (INED)	17/17 (100%)
Mr Choong Tuck Oon (INED)*	6/9 (67%)
Mr Chin Yoong Kheong (INED)#	8/8 (100%)
YBhg Dato' Sri Haji Syed Zainal Abidin Syed Mohamed Tahir (INED)^	1/1 (100%)

Notes:

* Resigned with effect from 1 June 2015.

Newly appointed with effect from 1 June 2015.

^ Newly appointed with effect from 1 December 2015.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Board Audit Committee

The Board Audit Committee (“BAC”) comprises four INEDs who represent the Group’s major operating subsidiaries. The BAC provides independent oversight of RHB Banking Group’s financial reporting and internal control system, ensuring checks and balances for entities within the Group, excluding RHB Capital. The BAC continuously reinforces the independence of the external auditors and provides a line of communication between the Board and the external auditors.

The BAC also emphasises the internal audit function by increasing the objectivity and independence of the internal auditors and provides a forum for discussion that is, among others, independent of the Management. Additionally, the BAC reviews the quality of the audits

conducted by internal and external auditors as well as the Group’s financial condition and performance. This enhances the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

The composition of the BAC and the attendance of the members together with the TOR and activities of the BAC during the financial year are set out in the BAC Report in this Annual Report.

Board Technology Committee

The Board Technology Committee (“BTC”) comprises three INEDs. The BTC guides the Boards on the Group’s overall technology strategies and policies. The BTC reviews and advises the Boards on strategic and major technology investments and projects above approving authority at Group Management Committee (“GMC”) level.

The BTC met 8 times during the financial year 2015. The composition of the BTC and the attendance of the members at meetings held in 2015 are as follows:

Name of Directors	Attendance at Meetings
Mr Chin Yoong Kheong (INED/Chairman)#	3/3 (100%)
Mr Ong Seng Pheow (INED)	8/8 (100%)
Mr Charles Lew Foon Keong (INED)	6/8 (75%)
Mr Choong Tuck Oon (INED)*	4/4 (100%)
YBhg Dato’ Mohd Ali Mohd Tahir (INED)^	4/5 (80%)
YBhg Dato’ Khairussaleh Ramli (NIED)^	5/5 (100%)
Mr Kellee Kam Chee Khiong (NIED)*	0

Notes:

- * Resigned with effect from 1 June 2015.
- # Newly appointed with effect from 29 June 2015.
- ^ Resigned with effect from 29 June 2015.
- * Resigned with effect from 4 May 2015.

Corporate Website

In February 2015, the Company launched its revamped corporate website (www.rhbgroup.com) to meet the evolving expectations of customers and other stakeholders while reinforcing the Group's brand and image. The corporate section on the Company's website, which provides all relevant information on RHB Insurance is publicly accessible.

UPHOLDING INTEGRITY

Compliance with Financial Reporting Standards

The Annual Audited Financial Statements and quarterly reports affecting the Company provide shareholder with a clear, balanced and meaningful assessment of the Company's financial performance, position and future prospects.

Relationship with Internal and External Auditors

Internal audit

The Group Internal Audit ("GIA"), led by the Group Chief Internal Auditor, reports the results of its audits directly to the BAC. The GIA is guided by the Group Internal Audit Charter and regularly reviews and reports on the adequacy and effectiveness of the Group's risk management, internal control and governance processes. It also undertakes an independent assessment of the Company's and Group's internal control systems to assure that deficiencies or issues are promptly resolved by the Management. This is based on the annual audit plan approved by the BAC.

Any recommendations by the auditors are followed-up and reviewed by the Management via the various Management Audit Committees established within the Group. External auditors also assist the Group internal auditors in resolving any control issues as raised by them to ensure that all issues are duly acted on by the Management. Further details of the activities of the GIA function are set out in the Statement on Risk Management & Internal Control of this Annual Report.

The Group's current Internal Audit Charter is up-to-date and in line with the latest regulatory requirements as well as the International Standards for the Professional Practice of Internal Auditing.

Assessment of external auditors

The BAC undertakes an assessment of the suitability and independence of the external auditors, Messrs PricewaterhouseCoopers, based on qualifying criteria for the appointment of auditors and terms of audit engagements in accordance with BNM's Guidelines – "External Auditor" – dated 29 August 2014. In addition, the performance of the external auditors is assessed through a survey sent to Management requesting feedback and comments on their dealings with Messrs PricewaterhouseCoopers throughout the financial reporting year.

The survey assesses quality of audit work, coordination during planning and execution of audit work, technical accounting and business knowledge, timeliness, relationship management and staff continuity. Having satisfied itself with their performance and fulfilment of criteria as set out in BNM's Guidelines, the BAC will recommend the re-appointment of the external auditors to the Board, upon which the shareholders' approval will be sought at the AGM.

RHB Banking Group has established the Group Policy on Non-Audit Fees Paid/Payable to External Auditors ("Policy"). The BAC review the non-audit services rendered by the external auditors and the related fees prior to the approval of the services. A report on non-audit fees is also presented to the BAC on a quarterly basis. This is to ensure the independence of the external auditors and their compliance with the Policy and terms of all relevant professional and regulatory requirements when rendering their audit and non-audit services. The external auditors are also required to declare/confirm their independence for all non-audit engagements undertaken.

STATEMENT ON CORPORATE GOVERNANCE (continued)

Group Whistle Blower Policy

The Group Whistle Blower Policy, established in 2004 and revised and updated in 2014, serves to strengthen its controls and governance, enabling employees to report suspected fraud, corruption, dishonest practices or other similar circumstances. This policy encourages reporting of such matters in good faith, with the confidentiality of the person making such reports protected from reprisal in the best possible manner.

For the current year under review, three complaints pursuant to the Group Whistle Blower Policy were received, investigated and pursued. All reports or complaints are filed with the Designated Recipient as specified in the Group Whistle Blower Policy. The Group Whistle Blower Policy is available on the Group's internal portal for the reference of the Group's staff.

Code of Ethics

The Board is committed to inculcating a corporate culture which engenders ethical conduct throughout the Company and the Group. The Board has thus adopted a Code of Ethics and Business Conduct for Directors ("Code of Ethics") to enhance the standard of corporate governance, establish uniform ethical standards and promote ethical conduct for Directors in line with governing laws, regulations and guidelines. The Code of Ethics includes principles relating to general standard of conduct, conflict of interest, insider trading, maintaining confidentiality, use of corporate assets, etc.

The Group has also implemented a Group Code of Ethics and Conduct ("Code") for its employees to ensure a high standard of ethical and professional conduct in performing their duties and responsibilities. The said Code establishes the standards that govern the way employees deal with each other, our shareholders, customers, suppliers, competitors and the community. Within this framework, employees are expected to exercise good judgement and be accountable for their actions. Compliance with the Code is part of the terms and conditions of employment for every employee. The Code is currently under revision to incorporate current best practices and to be in line with the industry standard.

Group Gifts & Hospitality Guidelines

The Group had, in November 2014, established Group Gifts & Hospitality Guidelines to promote integrity and transparency. The Guidelines complement the existing Group Code of Ethics and Conduct for Employees and are benchmarked against best practices for giving and receiving gifts as well as transparency and openness about gifting. This is also part of the overall anti-bribery and corruption initiative currently pursued by the Group.

Corporate Responsibility

The foundation of our Corporate Responsibility ("CR") is premised on the four quadrants of Community, Environment, Workplace and Marketplace. The Group's established CR strategic framework has supported and created value for the Group's business, operations and brand, as well as contributed positively to the Group's shareholders, customers, employees and society at large. The framework was introduced with the intention of translating its defined values into a governing policy that addresses the Group's CR and sustainability reporting which incorporates the Economic, Environmental and Social, the Triple Bottom Line (TBL).

The framework will ensure that TBL factors are integrated into the Group's daily business practices to promote its sustainability. Sustainability is defined as conducting business responsibly and ethically by factoring in economic, environmental and social considerations in the decision-making process for long-term business success that, in turn, will contribute to the socioeconomic development of the communities in which the Group operates. As such, the Group embarks on activities that conserve the environment, enrich the lives of communities, and promote a culture of respect and care for its workforce and the public, all of which appropriately implement good governance.

The Board also acknowledges that a sustainable approach to investing is vital to the interests of long-term investors and positively impacts the value of investments. The Board further recognises that the Group's ability to prosper hinges substantially on its ability to make business decisions that uphold economic, social and environmental responsibilities by which the stakeholders and society can hold the Group accountable. In this way, the Company can combine its economic success with environmental protection and social investment. Therefore, TBL factors are of the utmost importance in the Board's decision making to maintain responsible corporate citizenship.

ADDITIONAL COMPLIANCE INFORMATION

Related Party Transactions

The Group has put in place a Policy on Related Party Transaction Review Process since 2004 (revised and updated in 2011, 2012 and 2015, respectively), which guides the review and reporting of all related party transactions. Under this policy, all related party transactions are reviewed by GIA and Group Legal before any submission is made to the BAC for deliberation.

COMPLIANCE STATEMENT

In carrying out its fiduciary duties, the Board of Directors (“Board”) of RHB Insurance is pleased to disclose that the Company for the FYE 31 December 2015 has satisfied the following:

- The Company’s financial statements have been prepared in compliance with the approved accounting standards and disclosure requirements set out in the Companies Act 1965.
- All material aspects of the principles stipulated by Bank Negara Malaysia’s (Central Bank of Malaysia) Guidelines on Corporate Governance for Licensed Institutions and Guidelines on Minimum Standards for Prudential Management For Insurers (Consolidated) have been complied with.

This Corporate Governance Statement and the disclosures in this report have been approved by the Board on 22 April 2016.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL

BOARD'S RESPONSIBILITY

The Board of Directors ("Board") acknowledges its overall responsibility for establishing RHB Insurance Berhad ("RHB Insurance" or the "Company")'s risk management framework and internal control system. RHB Insurance has put in place a risk management framework and internal control system that are designed to manage risks according to the risk appetite approved by the Board rather than total elimination of risks to achieve the Company's goals and objectives. The system can therefore only provide reasonable and not absolute assurance against material financial misstatement, loss or fraud.

The Board's responsibility includes reviewing the adequacy and effectiveness of the risk management and internal control system in safeguarding shareholders' investments and the Company's assets. The Board is assisted by the Board Risk Committee and Board Audit Committee in assessing the adequacy and effectiveness of the Company's risk management and internal control system.

The Board is further assisted by the Management who is responsible for implementing the Company's policies and processes for identifying, evaluating, monitoring and reporting of risks and internal control, taking timely corrective actions as required, and providing assurance to the Board that the processes have been carried out.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

A sound risk management and internal control system is fundamental to good corporate governance. The key elements of the Company's risk management framework and internal control system encompass the following:

Risk Management Framework

The Group's risk management framework governs the management of risks faced by RHB Banking Group, inclusive of the Company by providing a holistic overview of the risk and control environment of the Company and setting out the strategic progression of risk management towards becoming a value creation enterprise.

The Group's risk management framework approved by the Board includes an on-going process for identifying, evaluating, managing and reporting of significant risks faced by the Company that may affect the achievement of the Company's business objectives and

strategies. The main inherent risks in the business and operations include underwriting risk, liquidity risk, operational risk and reputational risk.

The risk management process within the Company seeks to identify, measure, monitor and manage these risks so that the risk exposures are adequately dealt with while the expected returns sufficiently compensate the risks taken. This process is regularly reviewed by the Board through its Board Risk Committee ("BRC") which provides oversight over the risk management activities for the Company to ensure that the Company's risk management process is in place and functional, and appropriate measures are taken to mitigate any identified weaknesses in the control environment.

The BRC assists the Board to review the Company's overall risk management philosophy, frameworks, policies and models. In discharging its overall duties and responsibilities, the BRC is supported by the Group Capital and Risk Committee ("GCRC") and Group Risk & Credit Management function which monitor and evaluate the effectiveness of the Company's risk management system on an ongoing basis.

The GCRC, comprising Senior Management of the Group and is chaired by the Group Managing Director, is responsible for the supervision of the management of enterprise risk and capital matters.

Group Risk & Credit Management function provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Group's assets, and to prevent and mitigate financial and reputational losses to the Group. Its responsibilities include implementation of the Group's risk policy and framework, daily risk measurement and monitoring, provision of timely risk analysis to Management, ensuring compliance to regulatory risk reporting requirements as well as implementing a comprehensive enterprise-wide risk governance framework and a robust risk management infrastructure.

In line with regulatory requirements and industry best practices, the Group subscribes to the principle that risk management is a core responsibility of the respective businesses and operating units. This has been articulated and documented in the risk management framework of the Group.

To support and promote accountability and ownership of risk management, a Risk and Control Self-Assessment ("RCSA") guideline has been implemented in business and functional units

within the Group as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities, as well as to assess the effectiveness thereof to ensure that the risks identified are adequately managed and mitigated. On completion of the RCSA exercise, all business and functional units within the Group are required to submit their respective results to Group Operational Risk Management for review prior to tabling the RCSA results to the GCRC for deliberation and further action when necessary.

An Internal Capital Adequacy Assessment Process (“ICAAP”) has also been implemented to ensure that all material risks are identified, measured and reported, and that adequate capital levels consistent with the risk profiles including capital buffers are maintained to support the Group’s current and projected demand for capital under existing and stressed conditions.

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Asset and Liability Committee, Group Credit Committee, Board Credit Committee and Board Technology Committee.

Control Environment and Control Activities

Organisation Structure

The Group has a clear organisational structure with well-defined accountabilities and responsibilities, and lines of reporting. The organisational structure provides the basic framework to help the Group’s operations proceed smoothly and functionally as well as depicting the span of control in ensuring proper supervision, coordination and a sense of accountability among the employees.

Board Committees

The Board has delegated certain responsibilities to the Board Committees established in the Group, namely the Board Nominating & Remuneration Committee, Board Risk Committee, Board Technology Committee and Board Audit Committee.

These committees have oversight authority to examine and/or consider all matters within their scope of responsibility as defined in their respective formalised terms of references and to report to the Board with their recommendations.

Management Committee

The Management Committee (“MC”) comprises the Managing Director as the Chairman and the key Management of the Company. The MC provides a forum for the Company’s key Management to discuss and deliberate strategic matters that impact the Company’s vision, strategic direction, business synergies and brand value as well as to chart its strategic roadmap. The MC meets regularly and the minutes of meetings are tabled to the Board of the Company.

Internal Policies and Procedures

Policies, procedures and processes governing the Group’s businesses and operations are documented and are made available to employees across the Group through the Group’s intranet portal. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment. Furthermore, reviews of the policies, procedures and processes are also carried out to ensure that appropriate controls are in place to manage risks inherent to the business and operations.

Information Technology (IT) Security

The objectives of the Group’s IT security encompass the protection of programs, data, information stored and facilities of the computerised data processing system from unauthorised access and use, loss or destruction as well as reliability and continuous availability of the computerised data processing systems.

IT security protects information from a wide range of threats as well as safeguards the confidentiality, integrity and availability of information. IT security in the Group is achieved through the implementation of a suitable set of controls which includes policies, standards, procedures, guidelines, organisational structures and software control functions.

It is the policy of the Group that while information assets of various forms and computer equipment should be provided to enable employees of the Group and relevant third parties to satisfactorily complete their duties, these assets should be subjected to adequate controls to protect them from accidental or intentional loss, unauthorised access, unauthorised modification, unauthorised manipulation or unauthorised disclosure. Controls implemented should be appropriate to the value of the asset and its risk exposure.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL (continued)

Authority Limits

There is an approved Group Manual of Authority (“MOA”) which defines the approving authority with its approving limits delegated to the various levels of Management in the Group to ensure accountability and responsibility. The Group MOA is reviewed periodically and updated in line with changes in the organisation structure, business environment or operational needs.

Budgeting Process

A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Company’s budget and business plans as well as strategic initiatives, taking into account the risk appetite, were deliberated at the Board where the budget was presented.

A reporting system on actual performance against the approved budgets is in place and the reasons for significant variances as well as action plans by Management are reported to the Board.

Business Continuity Management

The Group recognises and is fully committed to the need to provide continuous critical services to its customers, ensure the safety of its employees, protect its assets/data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. The Group’s Business Continuity Management (“BCM”) Programme is based on good business continuity practices and guidelines which are in line with the Bank Negara Malaysia and internationally recognised standards.

The Board has an oversight function on the Group’s BCM readiness through the BRC and GCRC. The Group Business Continuity Steering Committee is the management committee established to oversee the Group’s business continuity framework, policies, budget and plans, and reports to GCRC.

The Group has on-going and actively managed BCM programmes, which include effective crisis management to deal with real crisis. The BCP Programmes are subject to regular testing/exercising to ensure their efficacy, reliability and functionality. Simulation exercise and drills are conducted to familiarise and equip staff with the skills and techniques required to identify, assess, respond and cope with a serious situation.

Anti-Money Laundering/Counter Financing of Terrorism (“AML/CFT”)

The AML/CFT Programme is continuously reviewed and updated to meet the regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards in accordance with the AML/CFT Programme and to be continuously vigilant against the Company being exposed or used to launder money or finance illegal activities including terrorist financing.

Human Capital Management

The Group acknowledges that one of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and judgement that people apply to their work. Hence, the Group has in place policies and procedures that govern recruitment, appointment, performance management, compensation and reward as well as policies and procedures that govern discipline, termination and dismissal.

For sustainable growth, the Group also places emphasis on human capital development, talent management and succession planning. To enhance staff competencies, structured and technical training as well as management and leadership skills are provided to staff based on their identified needs during the annual performance assessment. For talent management, initiatives such as Leadership Development Programme, Individual Development Plan and mentoring are implemented to develop identified talents in the Group to facilitate the supply for future leadership demands.

Group Code of Ethics and Conduct

The Group Code of Ethics and Conduct (“the Code”) sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group’s business practices. It is a requirement that all employees of the Group understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Group.

The Group has also established the Gifts and Hospitality Guidelines which set the standards of conduct that are associated with ethical business practice and are designed to help the Group and its employees understand respective parties’ obligations in upholding corporate integrity.

Information and Communication

Performance Review

Regular and comprehensive information is provided by Management to monitor its performance against the strategic business plan approved by the Board. This information covers all key financial and operational indicators as well as key strategic initiatives undertaken by the Company during the year.

The Management Committee and the Board receive and review the Company's monthly financial performance against set targets and measures that are being put in place to meet such targets.

Group Whistle Blower Policy

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All staff are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with confidentially and that the reporter's identity will be protected.

Incident Management Reporting

To complement the Group's system of internal control, a comprehensive incident management reporting system has been implemented to ensure proper escalation and management of incidents. The incident management reporting system also ensures that all incidences with material risk and losses are escalated promptly to Senior Management and the Board with necessary steps taken to mitigate any potential risks that may arise. This enables decision makers to undertake informed decision making and be kept up to date on situations as well as manage risks effectively.

Monitoring

Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. Hence, it is expected that each individual promotes self-regulation and is accountable for his/her own activities as well as maintains ethical principles and behaviour in everything that he/she does.

To manage compliance risk, the compliance lifecycle involves identifying the scope of compliance obligations, determining the compliance risk, conducting gap analysis to determine the state of compliance and proposing recommendations to address the compliance gaps and emplacing monitoring process to ensure compliance including periodically conducting compliance testing on key compliance risk areas.

To enable business and operating units to comply with various laws and regulations, Group Compliance also conducts off-site surveillance and reviews on a regular basis. Weaknesses noted are conveyed to the respective business and operating units so that immediate corrective actions can be taken.

Group Compliance provides monthly Compliance Assurance Report to the Board based on their compliance and gap reviews. In addition, the Board is apprised on a quarterly basis on the extent of the Group's compliance with regulatory requirements and the actions taken to address any shortcomings.

To mitigate non-compliance risk, briefings as well as various awareness and learning initiatives were conducted throughout the year to heighten awareness of compliance and to embed a compliance culture within the Group.

Internal Audit

The Group has an in-house internal audit function which reports to the Group Board Audit Committee ("Group BAC") of RHB Capital Berhad and the BAC of the RHB Banking Group (which undertakes the functions of the Audit Committee of the major operating entities within the Group, such as RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad).

Group Internal Audit ("GIA") performs regular reviews of the Group's operations and systems of internal control and evaluates the adequacy and effectiveness of the controls, risk management and governance processes implemented by Management. GIA adopts a risk-based approach in determining the auditable units and frequency of audits. Annual audit plans are reviewed and approved by the Board Audit Committee.

Management Audit Committee ("MAC") is established at the key operating subsidiaries within the Group to ensure timely rectification of any audit findings and control lapses highlighted by the internal and external auditors, and regulators. The Company's MAC comprising senior level representatives from different business/functional groups is chaired by the Managing Director of the Company. The minutes of meetings of the MAC together with the relevant audit reports are subsequently tabled to the BAC for information, deliberation and direction for further action where required.

STATEMENT ON RISK MANAGEMENT & INTERNAL CONTROL (continued)

The Group BAC and BAC hold scheduled meetings to deliberate on the findings and recommendations for improvement highlighted by both the internal and external auditors as well as the regulatory authorities on the state of the Group's internal control system. The minutes of the meetings of the Group BAC/BAC are then tabled to the Boards with the highlights of these meetings being presented by the Chairman or representative of Group BAC/BAC.

Further details of the activities undertaken by the BAC are set out in the BAC Report.

CONCLUSION

The Board has received assurance from the Company's Managing Director and the Group Chief Financial Officer as well as the Group Chief Risk Officer that the Company's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Company. The Board also receives monthly updates on key risk management and internal control matters through its Board Risk Committee and Board Audit Committee as well as compliance assurance from the Group Compliance function.

Based on the assurance received from Management and updates from its Board Committees, the Board is of the view that the Company's risk management and internal control system is operating adequately and effectively for the financial year under review and up to the date of approval of this statement.

BOARD AUDIT COMMITTEE REPORT

COMPOSITION AND ATTENDANCE

During the financial year ended 31 December 2015 (“year”), a total of eighteen (18) Board Audit Committee (“BAC”) meetings were held. The BAC comprises the following members and the details of attendance of each member at the BAC meetings held during the year are as follows:

Composition of the BAC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	18/18 (100%)
2. YBhg Dato’ Othman Jusoh (Member/Independent Non-Executive Director)	18/18 (100%)
3. YBhg Datuk Seri Saw Choo Boon (Member/Independent Non-Executive Director)	18/18 (100%)
4. YBhg Datuk Haji Faisal Siraj (Member/Independent Non-Executive Director)	18/18 (100%)

SUMMARY OF BAC’S TERMS OF REFERENCE

The BAC’s objectives, authority, duties and responsibilities, reporting, composition, frequency of meetings and secretariat are defined in its Terms of Reference. A summary of the BAC’s Terms of Reference is outlined below:

Authority

The BAC is authorised by the respective Boards to:

1. Investigate any matter within its terms of reference.
2. Have direct communication channels with the external and internal auditors.
3. Obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.
4. Provide a written confirmation to Bank Negara Malaysia (“BNM”) that the banking entities comply with BNM’s requirements on financial reporting.

Composition

1. The membership of the BAC including the position of Chairman shall be approved by the respective Boards and shall comprise at least three (3) members and there should be a fair representation on the BAC from each entity within the Group. All BAC members should be non-executive directors with majority of whom are independent directors.

2. The Chairman of the BAC shall be an independent non-executive director.
3. No alternate director shall be appointed as a member of the BAC.
4. All members of the BAC shall be financially literate and at least one member shall be a member of an accounting association or body.

Duties and Responsibilities

The key duties and responsibilities of the BAC are summarised as follows:

1. To review the adequacy of the scope, functions and resources of the internal audit function, Internal Audit Charter and that it has the necessary authority to carry out its work.
2. To review and approve the internal audit plan and the results of the internal audit programme or investigation undertaken and whether appropriate action is taken by Management on the recommendations of the internal auditors.
3. To ensure that all findings and recommendations are resolved effectively and in a timely manner.
4. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of Management, where necessary.

BOARD AUDIT COMMITTEE REPORT (continued)

5. To recommend to the Board on the appointment and the annual reappointment of the external auditors and their audit fees, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit as well as the resignation of auditors.
6. To review the quarterly results and year-end financial statements of the respective entities before recommending to the respective Boards for approval, focusing particularly on changes in or implementation of new accounting policies and practices, significant and unusual events and compliance with applicable financial reporting standards and other legal and regulatory requirements.
7. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
8. To review the minutes of meetings of other audit committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other audit committees.
9. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.

Meetings

1. Meetings shall be held at least once a month or when necessary with a minimum quorum of three (3) members and the majority of members present shall be independent non-executive directors.
2. The head of internal audit and the Group Chief Financial Officer shall be in attendance at the BAC meetings. The BAC may invite the external auditors, the Managing Director/Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, any other directors or members of the Management and employees of the Group to be in attendance during meetings to assist in its deliberations.
3. At least twice a year, the BAC shall meet with the external auditors without the presence of the Management or any executive board members, and upon the request of the external auditors, the Chairman of the BAC shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

SUMMARY OF BAC'S ACTIVITIES

The main activities undertaken by the BAC during the year are summarised as follows:

Financial Reporting

1. Reviewed the quarterly unaudited financial results and the annual audited financial statements of the Company before recommending them for approval by the Board. The review process encompassed the following:
 - a. Reviewed on any changes in accounting policy or treatment and adoption of new accounting standards, and its impact to the financial statements.
 - b. Reviewed the highlights on the performance of various business sectors contributing to the financial performance of the Company and the main factors impacting the Company's operating expenses and costs.
 - c. Reviewed the financial statements for any material changes between the current and preceding or corresponding quarter/year as well as any items that may appear uncorrelated.

Internal Audit

2. Reviewed and approved the annual internal audit plan for 2016 in November 2015 to ensure adequacy of scope and coverage of the auditable areas identified from the audit universe based on Group Internal Audit's risk assessment methodology.
3. Reviewed the staffing needs of Group Internal Audit including the skill-sets and core competencies of the internal auditors required to support the internal audit function.
4. Reviewed the audit activities for the year covering the planned audit assignments, ad-hoc audit projects such as requests from regulators and Management, and investigations, review of policy, process and procedures, and IT project participation.
5. Reviewed and deliberated on the internal audit reports, audit recommendations and Management's responses to these recommendations as well as the timely actions taken by Management to improve the system of internal controls and its processes on the areas highlighted.
6. Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken by Management in respect of any findings to satisfy itself that all matters highlighted in these reports had been adequately and promptly addressed by Management.
7. Reviewed the effectiveness of the internal audit function and assessed the performance of Group Internal Audit.

External Audit

8. Reviewed the audit plan of the external auditors, the audit strategy, risk assessment and areas of audit emphasis for the year.
9. Reviewed with the external auditors, the results of their annual audit and the Audit Committee Report together with the Management's response to their findings and recommendations.
10. Met twice with the external auditors without the presence of Management to discuss issues of concern to the auditors arising from their annual statutory audit.
11. Reviewed on a quarterly basis, the non-audit services rendered by the external auditors and the related fees taking into consideration the fees threshold established under the Group policy to ensure that the external auditors' independence and objectivity are not compromised.
12. Evaluated the performance of the external auditors based on the results of assessment of their work by the relevant staff in the Group covering the categories of people, meeting objectives, responsiveness, knowledge of business, adding value and communications before making recommendations in relation to their appointment to the Board for consideration.

Related Party Transactions

13. Reviewed the reports of related party transactions on a quarterly basis covering the nature and amount of the transactions including any conflict of interest situation in ensuring proper reporting and disclosures in accordance with the regulatory requirements.

TRAINING

During the year, the BAC members have attended the following training programmes, conferences and seminars to enhance their knowledge in order to efficiently discharge their duties as directors and members of the BAC:

Name of Director	Training Programmes Attended	Training Scope & Description
• Ong Seng Pheow	1. GST Training (5 February 2015)	<ul style="list-style-type: none"> • Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	<ul style="list-style-type: none"> • Latest updates on Financial Standards • FRS 139
	3. PNB Investment Institute Sdn Bhd – Predicting Financial Crime: Detection, Prevention & Remediation (1 April 2015)	<ul style="list-style-type: none"> • Financial Crime & Financial Fraud • Consequences of Financial Crime & Financial Fraud • Financial Fraud Red Flags • Detection, Prevention & Remediation • Building A Fraud Proof Culture
	4. FIDE Forum 3rd Board Leadership Series – Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	<ul style="list-style-type: none"> • Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – “Financial Instruments” For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> • Overseas Tax • FATCA • MFRS 9

BOARD AUDIT COMMITTEE REPORT (continued)

Name of Director	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> • Dato' Othman Jusoh 	1. GST Training (5 February 2015)	<ul style="list-style-type: none"> • Understanding Goods and Services Tax in Malaysia • Opportunity and challenges in tax strategy
	2. Briefing on Charter Contracts (25 February 2015)	<ul style="list-style-type: none"> • Charter and Legal Requirements • Main Ingredients of Charter Contracts
	3. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – “Financial Instruments” For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> • Overseas Tax • FATCA • MFRS 9
	4. Capital Market Director Programme – Module 1 (10 August 2015) – Module 2A (11 August 2015) – Module 2B (12 August 2015) – Module 3 (13 August 2015) – Module 4 (14 August 2015)	<ul style="list-style-type: none"> • Capital Market in Malaysia • Good Corporate Governance • Stakeholders' Management
	5. FIDE Forum 3rd Board Leadership Series: Impact of the New Accounting Standard on Banks & What Directors Should Be Aware of (5 June 2015)	<ul style="list-style-type: none"> • Reclassification of assets & liabilities • Revenue recognition • Latest Accounting standard – adoption of IFRS 9
<ul style="list-style-type: none"> • Datuk Seri Saw Choo Boon 	1. Briefing by Finance Department on Financial Statements (16 March 2015)	<ul style="list-style-type: none"> • Latest updates on Financial Standards • FRS 139
	2. Invitation from Bursa Malaysia Berhad – Risk Management & Internal Control: Workshops For Audit Committee Members (8 June 2015)	<ul style="list-style-type: none"> • Audit Committee • Relationship with Internal Audit • Good Risk Management & Internal Control
	3. CG Breakfast Series With Directors: “The Board’s Response In Light Of Rising Shareholder Engagements” (4 August 2015)	<ul style="list-style-type: none"> • Fiduciary Duty • Shareholders' Needs • Good Corporate Governance Practices
	4. Directors CG Series: “Building Effective Finance Function – From Reporting to Analytic to Strategic Input” (10 August 2015)	<ul style="list-style-type: none"> • Financial Reporting Requirements • Opportunity and challenges in green investment strategy
	5. Cooking the Books – The Malaysian Recipe on Financial Fraud (10 September 2015)	<ul style="list-style-type: none"> • Ingredients for fraud • Types of financial fraud • Red flags on fraud
	6. Capital Market Director’s Training Programme (CMDP): Module 1 – 7 September 2015 Module 2A – 6 October 2015 Module 3 – 8 October 2015 Module 4 – 2 October 2015	<ul style="list-style-type: none"> • Capital Market in Malaysia • Good Corporate Governance
	7. Ethics Red Flags For Board of Directors (3 November 2015)	<ul style="list-style-type: none"> • Ethics & Governance • Conflicts of interest

Name of Director	Training Programmes Attended	Training Scope & Description
<ul style="list-style-type: none"> Datuk Haji Faisal Siraj 	1. GST Training (5 February 2015)	<ul style="list-style-type: none"> Understanding Goods and Services Tax in Malaysia Opportunity and challenges in tax strategy
	2. Briefing by Finance Department on Financial Statements (16 March 2015)	<ul style="list-style-type: none"> Latest updates on Financial Standards FRS 139
	3. FIDE Forum: Invitation to Industry Consultation Session (Directors' Remuneration Study) (6 May 2015)	<ul style="list-style-type: none"> Encourage development of world class directors Attract and retain highly qualified directors Promote board diversity Improve board performance
	4. FIDE Forum's Special Invite to "Board's Strategic Leadership: Innovation & Growth in Uncertain Times" (21 May 2015)	<ul style="list-style-type: none"> Innovative Products High Risk, High Return Product Compliance Cost
	5. Briefings on Overseas Tax and Malaysian Financial Reporting Standard 9 – 'Financial Instruments' For RHB Banking Group Directors (1 October 2015)	<ul style="list-style-type: none"> Overseas Tax FATCA MFRS 9

INTERNAL AUDIT FUNCTION

The Group has an in-house group internal audit function ("Group Internal Audit") which is guided by the Group Internal Audit Charter and the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. Group Internal Audit reports to the Group BAC of the RHB Capital Berhad and the BAC of RHB Banking Group, and its main function is to provide the Board with independent assurance that the Group's risk management, internal control and governance processes are operating adequately and effectively.

The annual audit plan of RHB Banking Group is approved by the BAC for each financial year. Group Internal Audit continues to adopt a risk-based approach towards the planning and conduct of audits in ensuring that the audit resources are prioritised in line with the Group's key risks and areas of focus which are identified based on Group Internal Audit's risk assessment methodology.

Upon completion of the audits, all audit reports on the results of work undertaken together with the recommended action plans and their implementation status are then presented to the respective Management Audit Committees and the Board Audit Committee. Group Internal Audit closely monitors the implementation progress of its audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by Management.

Group Internal Audit also works closely with the external auditors to resolve any control issues raised by them to ensure that all reported issues are duly acted upon by Management via the respective Management Audit Committees of RHB Banking Group.

In addition to the planned audits, Group Internal Audit also performs investigations and special reviews as well as participate in system development activities to provide recommendations upfront on relevant system-built controls.

To ensure effectiveness of the internal audit function, the Group Chief Internal Auditor ("Group CIA") has developed and maintained a quality assurance and improvement programme that covers all aspects of the internal audit activities. The quality assurance programme assesses the effectiveness of processes within the internal audit function and identifies opportunities for improvement through both internal and external assessments.

The internal assessment is performed according to the approved Quality Assurance Review ("QAR") plan by an independent QAR team within Group Internal Audit and reports directly to the Group CIA while the external quality assessment is conducted by a qualified independent reviewer once every five years. The results of both internal and external assessment are tabled to the Board Audit Committee for deliberation and information.

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Company, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

It is the responsibility of the Directors to ensure that the financial reporting of the Company present a true and fair view of the state of affairs of the Company as at 31 December 2015 and of the financial results and cash flows of the Company for the financial year ended 31 December 2015.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, appropriate accounting policies are applied on a consistent basis and accounting estimates made are reasonable and fair so as to enable the preparation of the financial statements of the Company with reasonable accuracy.

The Directors have also taken the necessary steps to ensure that appropriate systems are in place for the assets of the Company to be properly safeguarded for the prevention and detection of fraud and other irregularities. The systems, by their nature, can only provide reasonable and not absolute assurance against material misstatements, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 (15) of the Companies Act, 1965 is set out in page 103 of the financial statements.

FINANCIAL

STATEMENTS

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DIRECTORS' REPORT

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITY

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

FINANCIAL RESULTS

	RM'000
Profit for the financial year	75,239
Retained earnings brought forward	273,356
Profits available for appropriation	348,595
Dividend paid during the financial year	(25,000)
Retained earnings carried forward	323,595

DIVIDENDS

The dividends paid by the Company since 31 December 2014 are as follows:

	RM'000
In respect of the financial year ended 31 December 2014	
– Single-tier interim dividend of 25% paid on 8 April 2015	25,000

The Directors declared a single-tier interim dividend of 25% amounting to RM25,000,000 in respect of the financial year ended 31 December 2015. The interim dividend was approved by the Board of Directors on 22 January 2016.

The financial statements for the current financial year do not reflect this proposed interim dividend. Upon declaration, this dividend payment will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2016.

The Directors do not propose any final dividend for the financial year ended 31 December 2015.

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

There were no issuances of shares in the Company during the current financial year.

DIRECTORS' REPORT (continued)

INSURANCE LIABILITIES

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

IMPAIRED DEBTS

Before the financial statements 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 impaired debts and the making of allowance for impairment, and satisfied themselves that all known impaired debts had been written off and that adequate allowance had been made for impaired debts.

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may 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.

DIRECTORS' REPORT (continued)

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS

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

Ong Seng Pheow

Datuk Haji Faisal Siraj

Tuan Haji Md Ja'far Abdul Carrim

Dato' Othman Jusoh

Tan Sri Dato' Teo Chiang Liang

(Retired w.e.f 3 August 2015)

Abdul Aziz Peru Mohamed

Kong Shu Yin

In accordance with Section 129 of the Companies Act 1965, Datuk Haji Faisal Siraj shall retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

In accordance with Article 74 of the Company's Articles of Association, Encik Abdul Aziz Peru Mohamed shall retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

DIRECTORS INTERESTS

None of the other Directors holding office at the end of the financial year had any interest in the securities of the Company or its related corporations during the financial year.

DIRECTORS' REPORT (continued)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind as disclosed in Note 23 to the financial statements) by reason of a contract made by the Company or a related company with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, except that certain Directors received remuneration from the Company's holding company and other related corporations.

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

HOLDING COMPANY

The Company's immediate and ultimate holding company is RHB Capital Berhad, a company incorporated in Malaysia.

AUDITORS

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

Signed on behalf of the Board in accordance with a resolution of the Board of Directors.

ONG SENG PHEOW
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
26 February 2016

STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
ASSETS			
Property, plant and equipment	5	10,716	8,146
Intangible assets – computer software	6	4,198	2,434
Investments	7	836,558	740,857
– Held-to-maturity		15,399	15,400
– Fair value through profit or loss		131,047	112,475
– Available-for-sale		621,549	518,886
– Loans and receivables		68,563	94,096
Reinsurance assets	9	371,238	332,113
Insurance receivables	10	114,269	72,060
Other receivables	11	86,085	70,209
Deferred tax assets	16	3,466	2,378
Tax recoverable		2,931	–
Cash and cash equivalents	12	4,104	13,885
Total assets		1,433,565	1,242,082
LIABILITIES			
Insurance contract liabilities	13	870,884	775,699
Insurance payables	14	91,119	50,296
Other payables	15	49,027	36,874
Current tax liabilities		–	6,652
Total liabilities		1,011,030	869,521
SHAREHOLDERS' FUND			
Share capital	17	100,000	100,000
Retained earnings	18	323,595	273,356
Available-for-sale reserve		(1,060)	(795)
		422,535	372,561
Total liabilities and shareholders' fund		1,433,565	1,242,082

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

INCOME STATEMENT

for the financial year ended 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
Gross earned premiums	19	622,072	554,192
Premiums ceded to reinsurers	19	(218,850)	(194,110)
Net earned premiums	19	403,222	360,082
Investment income	20	30,945	26,518
Realised (losses)/gains	21	(1,329)	10,714
Fair value losses	22	(1,184)	(17,284)
Reinsurance commission income		42,825	43,732
Other operating income		1,958	1,910
Other income		73,215	65,590
Gross claims paid	13(a)	(278,934)	(235,978)
Claims ceded to reinsurers	13(a)	111,324	80,462
Gross change to claims liabilities	13(a)	(57,980)	(85,939)
Change in claims liabilities ceded to reinsurers	13(a)	33,377	59,972
Net claims		(192,213)	(181,483)
Commission expense		(82,247)	(78,597)
Management expenses	23	(108,779)	(75,139)
Other operating expenses		-	(14)
Other expenses		(191,026)	(153,750)
Profit before taxation		93,198	90,439
Taxation	25	(17,959)	(16,005)
Profit for the financial year		75,239	74,434
Basic earnings per share (sen)	26	75.24	74.43

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

STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2015

	Note	31.12.2015 RM'000	31.12.2014 RM'000
Profit for the financial year		75,239	74,434
Other comprehensive income/(loss):			
<u>Items that may be subsequently reclassified to the income statements</u>			
Available-for-sale reserve			
– Net loss arising during the financial year	7(e)	(352)	(85)
– Income tax relating to components of other comprehensive income		87	21
		(265)	(64)
Total comprehensive income for the financial year		74,974	74,370

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

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2015

	Issued and fully paid ordinary shares RM1 each		Distributable	Non- distributable	Total RM'000
	No. of shares '000 units	Nominal value RM'000	Retained earnings RM'000	Available-for- sale reserve RM'000	
31.12.2015					
At 1 January 2015	100,000	100,000	273,356	(795)	372,561
Total comprehensive income/(loss) for the financial year	-	-	75,239	(265)	74,974
Dividends paid during the financial year (Note 26)	-	-	(25,000)	-	(25,000)
At 31 December 2015	100,000	100,000	323,595	(1,060)	422,535
31.12.2014					
At 1 January 2014	100,000	100,000	217,672	(731)	316,941
Total comprehensive income for the financial year	-	-	74,434	(64)	74,370
Dividends paid during the financial year (Note 26)	-	-	(18,750)	-	(18,750)
At 31 December 2014	100,000	100,000	273,356	(795)	372,561

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

STATEMENT OF CASH FLOW

for the financial year ended 31 December 2015

	31.12.2015 RM'000	31.12.2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	75,239	74,434
Adjustment for:		
Realised gains/(losses)	1,330	(10,714)
Fair value gains	1,184	17,284
Allowance/(write back) for impairment on insurance receivables	1,158	(506)
Bad debts written off/(recoverable)	30	(263)
Amortisation of premiums	1	1
Depreciation of property, plant and equipment	3,337	2,210
Amortisation of intangible assets – computer software	–	390
Investment income	(30,946)	(26,520)
Unrealised (gains)/losses on foreign exchange	(152)	8
Taxation expense	17,959	16,005
Operating profit before changes in operating assets and liabilities	69,140	72,329
Purchase of fair value through profit or loss investments	(154,945)	(108,392)
Proceeds from sale of fair value through profit or loss investments	133,782	110,222
Decrease/(increase) in loans and receivables	25,528	(11,587)
Purchase of available-for-sale investments	(103,015)	(64,088)
Recovery of fully impaired available-for-sale investments	13	21
Interest received	3,900	3,992
Dividend received	26,994	22,476
Increase in insurance receivables	(43,399)	(5,077)
Increase in other receivables	(15,819)	(11,633)
Increase in insurance contract liabilities	95,185	117,175
Increase in reinsurance assets	(39,125)	(70,949)
Increase/(decrease) in insurance payables	40,823	(13,089)
Increase in other payables	12,154	3,996
Cash generated from operations	51,216	45,396
Income taxes paid	(28,543)	(15,784)
Net cash generated from operating activities	22,673	29,612

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

STATEMENT OF CASH FLOW (continued)

for the financial year ended 31 December 2015

Note	31.12.2015 RM'000	31.12.2014 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(4,983)	(4,534)
Purchase of intangible assets – computer software	(2,688)	(1,802)
Proceeds from sale of property, plant and equipment	64	122
Net cash used in investing activities	(7,607)	(6,214)
CASH FLOW FROM FINANCING ACTIVITIES		
Dividends paid	(25,000)	(18,750)
Net cash used in financing activities	(25,000)	(18,750)
Effect on exchange rate changes on cash and cash equivalents	153	6
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(9,781)	4,654
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR	13,885	9,231
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	4,104	13,885

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 31 December 2015

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company, a public limited liability company, incorporated and domiciled in Malaysia, is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the financial year.

The Company's immediate and ultimate holding company is RHB Capital Berhad, a company incorporated in Malaysia.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and comply with the requirements of the Companies Act, 1965 in Malaysia.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity are disclosed in Note 4 to the financial statements.

(a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company and are effective.

The relevant new accounting standards, amendments and improvements to published standards and interpretations to existing accounting standards that are effective and applicable for the Company's financial year beginning on or after 1 January 2015 are as follows:

Annual Improvements to MFRS 2012 – 2014 Cycle

The adoption of the Annual Improvement to MFRS 2012-2014 Cycle does not give rise to any material financial impact to the Company.

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

- MFRS 15 'Revenue from Contracts with Customers' (effective from 1 January 2017) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replace MFRS 118 'Revenue' and MFRS 111 'Construction Contracts' and related interpretations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective. (Continued)

- MFRS 9 'Financial Instruments' (effective from 1 January 2018) replaces the parts of MFRS 139 'Financial Instruments: Recognition and Measurement'. The complete version of MFRS 9 was issued in November 2014.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ('OCI'). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Company is in the process of reviewing the requirements MFRS 9, to identify critical issues and to design robust methodologies arising from the adoption of this standard. The Company expects this process to be completed prior to the effective date on 1 January 2018.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets 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. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on the straight line method to write off the cost of the property, plant and equipment to their residual values over their estimated useful lives as follows:

Leasehold land	range from 80 to 95 years
Buildings	50 years
Motor vehicles	5 years
Furniture, fixtures and fittings, office equipment	3 – 5 years

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Property, plant and equipment (Continued)

The assets residual values and useful lives are reviewed and adjusted if appropriate, at end of each reporting period. There are no material adjustments arising from the review that would render disclosure in the financial statement.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

At the end of the reporting period, the Company assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down to the recoverable amount is made if the carrying amount exceeds the recoverable amount. See Note 3(g) to the financial statements on the impairment of non-financial assets.

(b) Intangible assets – computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 5 years.

(c) Investments and other financial assets

The Company classifies its investments into financial assets at fair value through profit or loss, held-to-maturity, loans and receivables or available-for-sale. The classification of the financial assets is determined at initial recognition.

(i) Fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Financial assets held-for trading are measured at fair value and any gain or loss arising from a change in the fair value is recognised in the income statement.

(ii) Held-to-maturity

Financial assets held-to-maturity are investments with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired.

An allowance of impairment for financial asset held-to-maturity is established when there is objective evidence of impairment that the Company will not be able to collect the amounts due according to the original terms (see Note 3(e) to the financial statements for the accounting policy on impairment of financial assets).

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Investments and other financial assets (Continued)

(iii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective yield method, less provision for impairment. Gains and losses are recognised in profit or loss when the financial assets are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale

Financial assets at available-for-sale are investment that are not classified as fair value through profit or loss, held-to-maturity or loans and receivables and measured at fair value. Any gain or loss arising from a change in fair value, net of income tax, is recognised directly in equity, except for impairment losses and foreign exchange gains and losses. Until the financial assets at available-for-sale are derecognised or impaired, at which time the cumulative gains or losses previously recognised in equity shall be transferred to the income statement.

(d) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to receive the cash flows from the financial asset expire or the financial asset has been transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the income statement.

A financial liability or part of it is derecognised when, and only when the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

(e) Impairment of financial assets

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

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on held-to-maturity 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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 by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of financial assets (Continued)

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on securities carried at cost (e.g. equity instruments or which there is no active market or whose fair value cannot be reliably measured) 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 discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

(iii) Financial assets carried at fair value

In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired. If any such evidence exists for financial asset held at available-for-sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Impairment losses previously recognised in the income statement on equity instruments are not reversed through the income statement.

(iv) Insurance receivables

Insurance receivables are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the assets. Losses expected as a result of future events, no matter how likely, are not recognised. An objective evidence of impairment is deemed to exist where the principal or interest or both for insurance receivables is past due for more than 90 days or 3 months, as prescribed in the Guidelines on Financial Reporting for Insurers issued by BNM.

An impairment loss in respect of insurance receivables is recognised in income statement and is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in subsequent period, the fair value of insurance receivables increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed, to the extent that the insurance receivables' carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement.

(f) Investment income

Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Investment income (Continued)

Other interest income, including amortisation of premiums or accretion of discounts, is recognised on a time proportion basis that takes into account the effective yield of the asset.

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

(g) Impairment of non-financial assets

The carrying values of assets that are subject to amortisation are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. The recoverable amount is the higher of the fair value less cost to sell and the value in use, which is measured by reference to discounted cash flows. Recoverable amounts are estimated for individual assets, or, if it is not possible, for the cash-generating unit. Non-financial assets that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss is charged to the income statement immediately.

A subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(h) 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.

(i) General insurance underwriting results

Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

Premium income

Premium income is recognised on the date of assumption of risk. Premiums in respect of risks incepted for which policies have not been raised as of the date of statement of financial position, are accrued at the date.

Premiums, claims and other transactions of inward treaty business are accounted for in the income statement as and when the statements of account are received.

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (Continued)

Premium liabilities

Premium liabilities refer to the higher of:

- (i) the aggregate of the unearned premium reserves,
or
- (ii) the best estimate value of the insurer's unexpired risk reserves at the valuation date and the Provision of Risk Margin for Adverse Deviation ("PRAD") calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and also includes allowance for the insurer's expense including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and shall allow for expected future premium refunds.

Unearned premium reserves ("UPR") represent the portion of premium income not yet earned at the date of statement of financial position. UPR is computed with reference to the month of accounting for the premium on the following bases:

- (i) 25% method for marine and aviation cargo, and transit business;
- (ii) 1/24th method for all other classes of general business except for non-annual policies in respect of Malaysian policies, reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM; and
- (iii) time apportionment method for non-annual policies (including long term inwards treaty business) reduced by the percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claim liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance. The amount of claims liabilities is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligations at the date of statement of financial position. These include provision for claims reported, claims incurred but not reported, claims incurred but not enough reserved and direct and indirect claims-related expenses such as investigation fees, loss adjustment fees, legal fees, sue and labour charges and the expected internal costs that the insurer expects to incur when settling these claims.

Acquisition costs

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

Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (Continued)

Reinsurance (Continued)

Reinsurance assets are reviewed 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 recorded in income statement.

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

The Company also assumes reinsurance risk in the normal course of business for general 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 liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire 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.

Insurance contract liabilities

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

These liabilities comprise claims liabilities and premium liabilities.

Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the date of statement of financial position, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these claims cannot be known with certainty at the date of statement of financial position. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled. The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

At each reporting date, the Company reviews its unexpired risks and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows (taking into consideration current loss ratios) after taking account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums less related deferred acquisition costs is inadequate, the deficiency is recognised in profit or loss by setting up a provision for liability adequacy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Foreign currencies

(i) Functional and presentation currency

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

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

(k) Income taxes

Current income tax is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise mainly from depreciation of property, plant and equipment, accretion of discounts/amortisation of premiums, general allowance for doubtful debts, unearned premium reserves, provision for gratuities and allowance for diminution in value of investments.

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

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

(l) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

The Company contributes to the Employees' Provident Fund, the national defined contribution plan. The Company's contributions to the defined contribution plan are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further legal or constructive obligations.

(m) Operating lease

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Contingent liabilities and contingent assets

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

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

(o) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purposes.

(p) Dividends

Dividends on ordinary shares are recognised as liabilities when the obligation to pay is established.

(q) Fair value of financial instruments

The basis of estimation of fair values for financial instruments is as follows:

- (i) The fair values of Malaysian Government Securities and BNM Notes are based on the indicative middle prices obtained from BNM.
- (ii) The fair values of corporate debt securities are based on quotations from Bondweb.
- (iii) The fair values of quoted shares, warrants, loan stocks and Real Estate Investment Trusts (“REITs”) are based on the quoted market price.
- (iv) The fair values of loans are based on the discounted cash flows by using the interest rates at valuation date for similar loans.
- (v) The fair value of wholesale unit trust fund is based on the fair value of the underlying assets in the fund.
- (vi) The carrying amounts of other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

(r) Equity instruments

All equity instruments are stated at cost on initial recognition and are not re-measured subsequently.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

The estimation of claims liabilities or equivalently, the ultimate claims liability arising from claims made under insurance contract, is the Company's most critical accounting estimate.

The value of claim liabilities consists of the best estimate value of the claim liabilities and PRAD calculated at the overall Company level. The PRAD is the component of the value of the insurance liabilities that relates to the uncertainty inherent in the best estimate. PRAD is an additional component of the liability value aimed at ensuring that the value of the insurance liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. For the purpose of this valuation basis and in compliance with the RBC Framework, the level of confidence shall be at 75% on an overall Company level.

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

(b) Critical judgement in applying the entity's accounting policies

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

5 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Furniture, fixtures and fittings, office equipment RM'000	Assets work in progress RM'000	Total RM'000
31.12.2015						
Net book value						
At beginning of financial year	592	309	682	5,312	1,251	8,146
Additions at cost	-	-	-	686	4,297	4,983
Depreciation charge	(8)	(7)	(204)	(2,193)	-	(2,413)
At end of financial year	584	302	478	3,804	5,548	10,716
31.12.2014						
Net book value						
At beginning of financial year	600	316	708	4,197	-	5,821
Additions at cost	-	-	141	3,143	1,251	4,535
Depreciation charge	(8)	(7)	(167)	(2,028)	-	(2,210)
At end of financial year	592	309	682	5,312	1,251	8,146
31.12.2015						
Cost	730	423	998	20,448	5,548	28,147
Accumulated depreciation	(146)	(122)	(521)	(16,643)	-	(17,431)
Net book value	584	302	478	3,804	5,548	10,716
31.12.2014						
Cost	730	422	1,404	19,761	1,251	23,568
Accumulated depreciation	(138)	(113)	(722)	(14,449)	-	(15,422)
Net book value	592	309	682	5,312	1,251	8,146

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	31.12.2015 RM'000	31.12.2014 RM'000
Cost		
At beginning of financial year	5,187	3,385
Additions	2,688	1,802
At end of financial year	7,875	5,187
Accumulated amortisation		
At beginning of financial year	2,753	2,363
Amortisation for the financial year	924	390
At end of financial year	3,677	2,753
Net book value		
At end of financial year	4,198	2,434

7 INVESTMENT

	31.12.2015 RM'000	31.12.2014 RM'000
Debt securities	15,399	15,400
Equities securities	129,137	112,475
Wholesale unit trust funds	621,549	518,886
Property trust funds	1,910	–
Staff loans	12	68
Fixed and call deposits	68,551	94,028
	836,558	740,857

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

	31.12.2015 RM'000	31.12.2014 RM'000
Held-to-maturity	15,399	15,400
Fair value through profit or loss	131,047	112,475
Available-for-sale	621,549	518,886
Loans and receivables	68,563	94,096
	836,558	740,857

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 INVESTMENT (CONTINUED)

The following investments mature after 12 months:

	31.12.2015 RM'000	31.12.2014 RM'000
Held-to-maturity	15,399	15,400
Loans and receivables	–	24
	15,399	15,424
(a) Held-to-maturity (“HTM”)		
<u>At amortised cost</u>		
Unquoted in Malaysia:		
– Debt securities	15,399	15,400
	15,399	15,400
(b) Fair value through profit or loss (“FVTPL”)		
<u>At fair value</u>		
Quoted in Malaysia:		
Held-for-trading (“HFT”)		
– Equities securities	129,137	112,475
– Property trust funds	1,910	–
	131,047	112,475
(c) Available-for-sale (“AFS”)		
<u>At fair value</u>		
Unquoted in Malaysia:		
– Wholesale unit trust funds	621,549	518,886
	621,549	518,886
(d) Loans and receivables (“LAR”)		
<u>At amortised cost</u>		
– Loans	12	68
– Fixed and call deposits	68,551	94,028
	68,563	94,096

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 INVESTMENT (CONTINUED)

(e) Carrying value of financial instruments

	Fair value through profit or loss RM'000	Held-to-maturity RM'000	Loans and receivables RM'000	Available-for-sale RM'000	Total RM'000
At 1 January 2015	112,475	15,400	94,096	518,886	740,857
Purchases	154,945	-	28,000	103,015	285,960
Maturities	-	-	(53,533)	-	(53,533)
Disposals	(135,176)	-	-	-	(135,176)
Recovery of fully impaired unsecured corporate debts during the financial year	-	-	-	(13)	(13)
Fair value losses recorded in Income Statement	(1,197)	-	-	-	(1,197)
Fair value losses recorded in Other Comprehensive Income	-	-	-	(352)	(352)
Movement in impairment allowance	-	-	-	13	13
Amortisation charge	-	(1)	-	-	(1)
At 31 December 2015	131,047	15,399	68,563	621,549	836,558
At 1 January 2014	121,017	15,400	82,505	454,883	673,805
Purchases	108,392	-	26,745	64,088	199,225
Maturities	-	-	(15,158)	-	(15,158)
Disposals	(99,629)	-	-	-	(99,629)
Recovery of fully impaired unsecured corporate debts during the financial year	-	-	-	(21)	(21)
Fair value losses recorded in Income Statement	(17,305)	-	-	-	(17,305)
Fair value losses recorded in Other Comprehensive Income	-	-	-	(85)	(85)
Movement in impairment allowance	-	-	-	21	21
Amortisation charge	-	(1)	-	-	(1)
Movement in accrued interest	-	1	4	-	5
At 31 December 2014	112,475	15,400	94,096	518,886	740,857

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 INVESTMENT (CONTINUED)

(f) Fair value investments

	Fair value through profit or loss RM'000	Available- for-sale RM'000	Total RM'000
31.12.2015			
Level 1 – Quoted market price	131,047	–	131,047
Level 2 – Valuation techniques – market observable inputs	–	621,549	621,549
	131,047	621,549	752,596
31.12.2014			
Level 1 – Quoted market price	112,475	–	112,475
Level 2 – Valuation techniques – market observable inputs	–	518,886	518,886
	112,475	518,886	631,361

(g) Fair value measurements

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- (i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- (iii) Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs) (Level 3).

	Level 1 RM'000	Level 2 RM'000	Total RM'000
31.12.2015			
Fair value through profit and loss			
– Quoted equities securities	131,047	–	131,047
Available-for-sale			
– Wholesale unit trust funds	–	621,549	621,549
	131,047	621,549	752,596

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

7 INVESTMENT (CONTINUED)

(g) Fair value measurements (Continued)

(iii)	Level 1 RM'000	Level 2 RM'000	Total RM'000
31.12.2014			
Fair value through profit and loss			
– Quoted equities securities	112,475	–	112,475
Available-for-sale			
– Wholesale unit trust funds	–	518,886	518,886
	112,475	518,886	631,361

There were no transfers between levels 1 and 2 during the year.

(i) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the last quoted bid prices at the end of the reporting period. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily Bursa Malaysia equity investments classified as trading securities.

(ii) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

8 STRUCTURED ENTITIES

The Company has determined that its investment in wholesale unit trust funds (“investee funds”) as investment in unconsolidated structured entities. The Company invests in the investee funds whose objectives range from achieving medium to long-term capital growth and whose investment strategy does not include the use of leverage. The investee funds are managed by AmInvestment Management Sdn Bhd and RHB Asset Management Sdn Bhd and apply various investment strategies to accomplish their respective investment objectives. The investee funds finance their operations through the creation of investee fund units which entitles the holder to variable returns and fair values in the respective investee fund’s net assets.

The Company holds 100% of units in each of its investee fund and has control over these investee funds. The Company is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

These investee funds are classified as available-for-sale investments and the change in fair value of each investee fund is included in the statement of other comprehensive income.

Although the Company has control over these investee funds which are considered wholly owned structured entities, these structured entities are not consolidated by applying the exemption under MFRS 127 Consolidated and Separate Financial Statements whereby the Company’s ultimate holding company, which is incorporated in Malaysia, RHB Capital Berhad, is presenting a set of consolidated financial statements at group level.

The Company’s exposure to investments in the investee funds is disclosed below.

	31.12.2015 RM’000	31.12.2014 RM’000
Number of wholesale unit trust funds	3	3
Average net asset value per unit of wholesale unit trust funds:		
RHB Income Plus Fund 2	1.0127	1.0130
RHB Income Plus Fund 9	1.0000	1.0000
AmIncome Value	0.9943	0.9949
Fair value of underlying assets:		
Debt securities	462,885	384,190
Call deposits	143,522	130,209
Receivables	5	7
Cash equivalents	15,137	4,480
	621,549	518,886
Total loss incurred	(1,413)	(1,061)

The Company’s maximum exposure to loss from its interests in the investee funds is equal to the total fair value of its investments in the investee funds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

9 REINSURANCE ASSETS

	31.12.2015 RM'000	31.12.2014 RM'000
Claims liabilities (Note 13)	275,023	241,647
Premium liabilities (Note 13)	96,215	90,466
	371,238	332,113

The carrying amounts disclosed above in respect of the reinsurance of insurance contracts approximate fair value at the date of the statement of financial position.

10 INSURANCE RECEIVABLES

	31.12.2015 RM'000	31.12.2014 RM'000
Due premiums including agents, brokers and co-insurers balances	117,577	71,135
Due from reinsurers and cedants	3,911	6,986
	121,488	78,121
Allowance for impairment	(7,219)	(6,061)
	114,269	72,060

	Gross amounts of recognised financial assets RM'000	Gross amounts of recognised financial liabilities set off in the statement of financial position (Note 14) RM'000	Net amounts of financial assets presented in the statement of financial position RM'000
31.12.2015			
Insurance receivables	116,460	(2,191)	114,269
31.12.2014			
Insurance receivables	73,151	(1,091)	72,060

There are no financial assets subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2015 (2014: Nil).

The carrying amounts disclosed above approximate the fair value as at the date of the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

11 OTHER RECEIVABLES

	31.12.2015 RM'000	31.12.2014 RM'000
Other receivables, deposits and prepayments	11,246	3,219
Amount due from Malaysian Motor Insurance Pool ("MMIP")		
– Cash call	34,359	27,348
– Assets held in MMIP	38,664	38,645
Amount due from stock brokers	872	111
Dividend income receivable	944	886
	86,085	70,209

MMIP amount as at 31 December 2015 is a net payable of RM6,675,531 (2014: RM7,378,283) after setting off the amounts receivable from MMIP against the Company's share of MMIP's claims and premium liabilities included in Note 13 to the financial statements.

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank balances and deposits held at call with financial institutions with original maturities of three months or less. It excludes deposits which are held for investment purposes.

13 INSURANCE CONTRACT LIABILITIES

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2015			
Claims reported	416,353	(205,126)	211,227
Incurred but not reported claims ("IBNR")	156,587	(69,897)	86,690
Claims liabilities (Note (a))	572,940	(275,023)	297,917
Premium liabilities (Note (b))	297,944	(96,215)	201,729
	870,884	(371,238)	499,646
31.12.2014			
Claims reported	365,757	(173,795)	191,962
Incurred but not reported claims ("IBNR")	149,203	(67,852)	81,351
Claims liabilities (Note (a))	514,960	(241,647)	273,313
Premium liabilities (Note (b))	260,739	(90,466)	170,273
	775,699	(332,113)	443,586

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2015			
At 1 January 2015			
	514,960	(241,647)	273,313
Claims incurred for current accident year			
– Paid	98,984	(25,918)	73,066
– Case reserves	170,515	(90,909)	79,606
– IBNR	106,690	(46,932)	59,758
Claims incurred for prior accident year			
– Paid	179,950	(85,406)	94,544
– Case reserves	(398,853)	170,902	(227,951)
– IBNR	(99,306)	44,887	(54,419)
At 31 December 2015	572,940	(275,023)	297,917
31.12.2014			
At 1 January 2014	429,021	(181,673)	247,348
Claims incurred for current accident year			
– Paid	91,538	(25,607)	65,931
– Case reserves	157,602	(87,922)	69,680
– IBNR	114,355	(52,516)	61,839
Claims incurred for prior accident year			
– Paid	144,440	(54,855)	89,585
– Case reserves	(343,047)	132,074	(210,973)
– IBNR	(78,949)	28,852	(50,097)
At 31 December 2014	514,960	(241,647)	273,313

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Premium liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2015			
At 1 January 2015	260,739	(90,467)	170,272
Premiums written for the financial year (Note 19)	659,277	(224,598)	434,679
Premiums earned during the financial year (Note 19)	(622,072)	218,850	(403,222)
At 31 December 2015	297,944	(96,214)	201,730
31.12.2014			
At 1 January 2014	229,502	(79,491)	150,011
Premiums written for the financial year (Note 19)	585,429	(205,086)	380,343
Premiums earned during the financial year (Note 19)	(554,192)	194,110	(360,082)
At 31 December 2014	260,739	(90,467)	170,272

14 INSURANCE PAYABLES

	31.12.2015 RM'000	31.12.2014 RM'000
Due to agents and intermediaries	26,179	31,883
Due to reinsurers and cedants	64,940	18,413
	91,119	50,296

	Gross amounts of recognised financial liabilities RM'000	Gross amounts of recognised financial assets set off in the statement of financial position (Note 10) RM'000	Net amounts of financial liabilities presented in the statement of financial position RM'000
31.12.2015			
Insurance payables	93,310	(2,191)	91,119
31.12.2014			
Insurance payables	51,387	(1,091)	50,296

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

14 INSURANCE PAYABLES (CONTINUED)

There are no financial liabilities subject to enforceable master netting arrangement or similar agreements and financial instruments received as collateral, nor any cash collateral pledged or received as at 31 December 2015 (2014: Nil).

The carrying amounts disclose above approximate the fair value as at the date of the statement of financial position.

15 OTHER PAYABLES

	31.12.2015 RM'000	31.12.2014 RM'000
Other payables	13,440	13,260
Other accrued expenses	18,377	10,580
Provision for staff bonus	8,308	7,142
Provision for advertising and marketing expenses	1,352	2,172
Provision for agents' profit commission	2,000	1,600
Provision for training expenses	4,990	1,512
Cash collaterals held on behalf of insureds	107	608
Amount due to fund managers	455	–
	49,027	36,874

16 DEFERRED TAX ASSETS/(LIABILITIES)

	31.12.2015 RM'000	31.12.2014 RM'000
At beginning of financial year	2,378	(1,196)
Transferred to Income Statement (Note 24)	1,001	3,553
Transferred to Other Comprehensive Income	87	21
At end of financial year	3,466	2,378

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

16 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

The movements in deferred tax assets/(liabilities) during the financial year comprise the tax effects of the following:

	At beginning of financial year RM'000	(Debited)/ credited to Income Statement RM'000	Credited to Other Comprehensive Income RM'000	At end of financial year RM'000
31.12.2015				
Excess of capital allowances over depreciation	(1,097)	340	-	(757)
Amortisation of premiums/(accretion of discounts) – net	1	-	-	1
Impairment loss on insurance receivables	1,299	301	-	1,600
Premium liabilities	56	63	-	119
Fair value change on FVTPL financial assets	(291)	300	-	9
Impairment loss on AFS financial assets	2,144	(3)	-	2,141
Fair value changes on AFS financial assets	266	-	87	353
Total	2,378	1,001	87	3,466
31.12.2014				
Excess of capital allowances over depreciation	(641)	(456)	-	(1,097)
Amortisation of premiums/(accretion of discounts) – net	1	-	-	1
Impairment gain on insurance receivables	1,538	(239)	-	1,299
Premium liabilities	130	(74)	-	56
Fair value change on FVTPL financial assets	(4,617)	4,327	-	(290)
Impairment loss on AFS financial assets	2,149	(5)	-	2,144
Fair value changes on AFS financial assets	244	-	21	265
Total	(1,196)	3,553	21	2,378
			31.12.2015 RM'000	31.12.2014 RM'000
Utilised/(reversed) within 12 months			3,466	2,378
Utilised/(reversed) after 12 months			-	-
			3,466	2,378

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

17 SHARE CAPITAL

	31.12.2015 RM'000	31.12.2014 RM'000
Ordinary shares of RM1 each:		
Authorised:		
At beginning and end of financial year	100,000	100,000
Issued and fully paid:		
At beginning and end of financial year	100,000	100,000

18 RETAINED EARNINGS

The Company may distribute single tier exempt dividend to its shareholders out of its retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend with effect from financial year beginning 1 January 2015.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

19 NET EARNED PREMIUMS

	31.12.2015 RM'000	31.12.2014 RM'000
(a) Gross earned premiums		
Gross premiums	659,277	585,429
Change in premium liabilities	(37,205)	(31,237)
Gross earned premiums	622,072	554,192
(b) Premiums ceded		
Reinsurance	(224,598)	(205,086)
Change in premium liabilities	5,748	10,976
Premiums ceded	(218,850)	(194,110)
Net earned premiums	403,222	360,082

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

20 INVESTMENT INCOME

	31.12.2015 RM'000	31.12.2014 RM'000
Dividend income from FVTPL investments	3,049	3,322
Interest income from HTM investments	1,161	1,161
Interest income from loans and receivables	2,733	2,836
Dividend income from AFS investments	24,002	19,199
	30,945	26,518

21 REALISED GAINS AND LOSSES

	31.12.2015 RM'000	31.12.2014 RM'000
Property, plant and equipment	65	121
FVTPL investments		
– Equities securities	(1,394)	10,593
	(1,329)	10,714

22 FAIR VALUE GAINS AND LOSSES – NET

	31.12.2015 RM'000	31.12.2014 RM'000
Fair value losses from FVTPL investments	(1,197)	(17,305)
Recovery of fully impaired AFS investments	13	21
	(1,184)	(17,284)

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

23 MANAGEMENT EXPENSES

	31.12.2015 RM'000	31.12.2014 RM'000
<u>Personnel costs</u>		
Staff salary and bonus	39,920	34,276
Defined contribution plan	6,195	5,332
Career Transition Scheme	3,226	–
Other staff benefits	2,335	1,772
	51,676	41,380
<u>Establishment costs</u>		
Rental of offices	3,158	2,405
Depreciation of property, plant and equipment	2,414	2,458
Amortisation of intangible assets – computer software	923	141
Others	928	599
	7,423	5,603
<u>Marketing costs</u>		
Electronic printing	11,083	2,049
Advertising and marketing expenses	10,199	6,245
Others	12,616	7,395
	33,898	15,689
<u>Administrative and general expenses</u>		
Auditors' remuneration		
Statutory audit	197	190
Other audit related	11	8
Allowance for/(write back of) impairment on insurance receivables	1,158	(506)
Bad debts written off/(recovered)	30	(263)
Bank charges	2,982	2,611
Other expenses	11,404	10,427
	15,782	12,467
	108,779	75,139

Included in the personnel costs is the Chief Executive Officer's remuneration (excluding estimated monetary value of benefits-in-kind) totalling RM1,487,771 (2014: RM1,136,868) as disclosed in Note 24 to the financial statements.

Included in the administration and general expenses are other Directors' remuneration (excluding estimated monetary value of benefits-in-kind) totalling RM1,063,347 (2014: RM1,415,462) as disclosed in Note 24 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

24 DIRECTORS' REMUNERATION

The total remuneration (including benefits-in-kind) of the Chief Executive Officer and Directors are as follows:

	Salary and other remuneration, including meeting allowance RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Bonus RM'000	Total RM'000
2015				
<u>Chief Executive Officer/Executive Director</u>				
Kong Shu Yin	916	7	572	1,495
2014				
<u>Chief Executive Officer/Executive Director</u>				
Kong Shu Yin	687	7	450	1,144
	Fees RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Others* RM'000	Total RM'000
2015				
<u>Non-executive Directors</u>				
Ong Seng Pheow	150	31	93	273
Datuk Haji Faisal Siraj	120	-	69	189
Tuan Haji Md Ja'far Abdul Carrim	120	-	73	193
Dato' Othman Jusoh	120	-	74	194
Tan Sri Dato' Teo Chiang Liang (retired 3 August 2015)	70	-	34	105
Abdul Aziz Peru Mohamed	120	-	21	141
	700	31	363	1,094
2014				
<u>Non-executive Directors</u>				
Ong Seng Pheow	150	31	150	331
Datuk Haji Faisal Siraj	120	-	121	241
Tuan Haji Md Ja'far Abdul Carrim	120	-	121	241
Dato' Othman Jusoh	120	-	111	231
Tan Sri Dato' Teo Chiang Liang	120	-	103	223
Abdul Aziz Peru Mohamed	120	-	59	179
	750	31	665	1,446

* Others comprise of Directors' committee allowance and meeting allowance.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

25 TAXATION

	31.12.2015 RM'000	31.12.2014 RM'000
Malaysian taxation:		
Current taxation	18,960	19,558
Deferred taxation (Note 16)	(1,001)	(3,553)
	17,959	16,005
<u>Current taxation</u>		
Current financial year	16,959	19,558
Under provision in respect of prior financial years	2,001	–
	18,960	19,558
<u>Deferred taxation</u>		
Origination and reversal of temporary differences	(1,001)	(3,553)
	17,959	16,005

The tax on the Company's profit before taxation differs from the theoretical amount that would arise using the statutory income tax rate of Malaysia as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
Profit before taxation	93,198	90,439
Tax calculated at a tax rate of 25%	23,300	22,610
Tax deduction of cash contribution to MMIP during the financial year*	(1,753)	(2,340)
Expenses not deductible for tax purposes	1,263	1,414
Income exempted for tax purposes	(6,801)	(5,630)
Income subject to different tax rate	(51)	(49)
Under provision in respect of prior financial years	2,001	–
Tax expense	17,959	16,005

* The tax deduction of cash contribution to MMIP during the financial year of RM1,752,894 (2014: RM2,339,692) relates to the double tax deduction allowed on MMIP contributions made, pursuant to the Gazette Order issued by the Attorney General Chambers of Malaysia on 28 November 2012.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

26 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM75,238,624 (2014: RM74,434,492) divided by the number of ordinary shares in issue of 100,000,000 (2014: 100,000,000) during the financial year.

27 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2015 are as follows:

	31.12.2015		31.12.2014	
	Net dividend per share Sen	Amount of dividend net of tax RM'000	Net dividend per share Sen	Amount of dividend net of tax RM'000
Proposed interim dividend	25.00	25,000	25.00	25,000

The Directors declared a single-tier interim dividend of 25% amounting to RM25,000,000 in respect of the financial year ended 31 December 2015. The interim dividend was approved by the Board of Directors on 22 January 2016.

The financial statements for the current financial year do not reflect this proposed interim dividend. Upon payment, this dividend will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2016.

The Directors do not propose any final dividend for the financial year ended 31 December 2015.

28 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

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

Related parties	Relationship
RHB Capital Berhad	Immediate and ultimate holding company
Subsidiaries and associate of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the immediate and ultimate holding company
Key management personnel	Key management personnel of the Company consists of: <ul style="list-style-type: none"> – All Directors of the Company; and – Member of the Group Management Committee ('GMC')
Related parties of key management personnel (deemed as related to the Company)	Close family members and dependents of key management personnel

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

28 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

In line with the Group's re-alignment of the Group's structure, the authority and responsibility for planning, directing and controlling the activities of the Company is now under the purview of the GMC. Hence, the Company now considers the members of GMC of the Company as key management personnel.

The following are the significant related party transactions and balances in respect of transactions entered into during the current financial year. The related party transactions described below were on terms and conditions agreed between the Company and its related parties.

		31.12.2015 RM'000	31.12.2014 RM'000
<u>Related party transactions</u>	<u>Nature of transaction</u>		
With subsidiaries of immediate and ultimate holding company	Interest income	2,096	2,152
	Insurance premium earned	26,214	12,172
	Commission paid and payable	(11,235)	(8,761)
	Rental expense	599	522
With key management personnel	Insurance premium earned	195	33
	Claims incurred	20	37
<u>Related party balances</u>	<u>Types of balances</u>		
With subsidiaries of immediate and ultimate holding company	Bank balances	2,215	11,472
	Fixed and call deposits	33,392	32,796
	Insurance premium	9,348	4,352
	Investment in corporate debts securities	5,014	5,014
	Others	(728)	(544)
<u>Key management personnel</u>			
The remuneration of key management personnel is as follows:			
Short-term employee benefits			
– Salary and other remuneration		1,384	1,144

29 CAPITAL COMMITMENTS

	31.12.2015 RM'000	31.12.2014 RM'000
Authorised and contracted for	5,408	657
Authorised but not contracted for	33,507	1,384
	38,915	2,041

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

30 RISK MANAGEMENT FRAMEWORK

(a) Risk Management Framework

The Company operates within clearly defined set of principles and guidelines based on best practices that have been approved by the Board.

Risk is inherent in the Company's activities and is managed through a process of on-going identification, measurement and monitoring, subject to limits and other controls. Besides insurance risk, the Company also exposed to a range of other risk types such as credit, market, liquidity, operational and legal, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to drive sustainable growth and shareholder value, while sustaining competitive advantage, and is thus a central part of the proactive risk management of the Company.

The Group Risk Management Framework governs the management of risks in the RHB Banking Group inclusive of the Company, as follows:-

1. It provides a holistic overview of the risk and control environment of the Group, with risk management aimed towards loss minimisation and mitigation against losses which may occur through, principally, the failure of effective checks and controls in the organisation.
2. It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is realised through building up capabilities and infrastructure in risk management sophistication, and enhanced risk quantification to optimise risk-adjusted returns.

The Risk Management Framework contains five fundamental principles that drive the philosophy of risk management in the Group. They are:-

1. Risk Governance from the Boards of Directors of Various Operating Entities within the Group.
The ultimate responsibility of the Boards of Directors in the Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board's oversight responsibilities.

The Board Risk Committee (BRC) is the principal Board Committee that provides oversight over risk management for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models.

The responsibility for the supervision of the day to day management of enterprise risk and capital matters is delegated to the Group Capital and Risk Committee (GCRC) comprising Senior Management of the Group and which reports to the BRC and the Group Management Committee (GMC). The Company's Investment Committee manages interest rate risk, market risk, credit risk and liquidity risk associated with Company's investments.

2. Clear Understanding of Risk Management Ownership
Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Strategic Business Units (SBUs) and Strategic Functional Units (SFUs) of the respective operating entities in the Group are collectively responsible for identifying, managing and reporting risks. The business units manage certain defined risks supported by the services provided by the functional units, including the risk management function.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

30 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(a) Risk Management Framework (Continued)

3. Institutionalisation of a Risk-focused Organisation
In addition to risk ownership, a risk-focused culture is promoted throughout the Group through strengthening of the central risk management functions and continuous reinforcement of a risk and control environment within the Group.
4. Alignment of Risk Management to Business Strategies
The Group Risk Management Framework serves to align the Group's business strategy to risk strategy, and vice-versa. This is articulated through the risk appetite setting and the Group's annual business and financial budgetary plan, which is facilitated by the integration of risk measures in capital management.

Risk appetite is set by the Board and reported through various metrics that enable the Company and the Group to manage capital constraints and shareholders' expectations. The risk appetite is a key component of the management of risks and describes the types and level of risk that the Company and the Group are prepared to accept in delivering its strategy.
5. Optimisation of Risk-adjusted Return
One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses.

(b) Capital Management Policy

Capital Management Policy ("CMP") has been written to set out recommendation on the action plans to be taken by the Board and management of the Company in the event of Capital Adequacy Ratio ("CAR") falling below the internal target and the minimum supervisory requirement. The CMP will require the Board and management of the Company to undertake remedial actions so as to improve the Company's capital position. The policy is aligned to the Company's vision and mission. It is intended that through the guidance of Internal Capital Adequacy Assessment Paper Process ("ICAAP") coupled with the CMP, strong alignment will be forged between risk and capital. Capital adequacy shall be assessed in relation to the Company's risk profiles, and strategies will be put in place to maintain appropriate capital levels. Through ICAAP, material risks are identified, measured and reported and adequate capital levels consistent with the risk profiles including capital buffers are maintained to support the Company's current and projected demand for capital under existing and stressed conditions.

With reference to the Guidelines of Stress Testing for Insurers (BNM/RH/GL/003-23), the impact of the adverse scenarios on the capital position of the company is studied on the CAR. This is consistent with our practice to review and study the Internal CAR every half-year which is consistent to the stress test guidelines where it focuses on short to medium term views.

CMP has been implemented for the Company to monitor and manage the CAR such that actions can be undertaken accordingly to prevent it from falling below the internal CAR target level.

31 INSURANCE RISK

Insurance risk includes the risk of incurring higher claims costs than expected owing to the random nature of claims and their frequency and severity and the risk of change in legal or economic conditions or behavioural patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer having either received too little premium for the risks it has agreed to underwrite and hence has not enough funds to invest and pay claims, or that claims are in excess of those expected.

The Company has instituted documented underwriting guidelines, underwriting authorities, risk management engineering and risk accumulation limits. Reinsurance is placed to minimise certain insurance risks within approved limits and security. Claims approval and settlement authorities are clearly defined for prudent control on financial exposure. Annual internal audit reviews are performed to ensure compliance with the Company's guidelines and standards.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

31 INSURANCE RISK (CONTINUED)

(a) Key assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern 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 judgements 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. Judgement 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.

(b) Sensitivity analysis

The 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 analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on Gross and Net liabilities, Profit before Tax and Equity. 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.

	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
31.12.2015					
Average claim cost	+10%	49,487	23,032	(23,032)	(17,274)
Average number of claims	+10%	40,797	22,203	(22,203)	(16,652)
Average claim settlement period	Increased by 6 months	9,323	4,939	(4,939)	(3,704)
31.12.2014					
Average claim cost	+10%	51,572	21,175	(21,175)	(15,881)
Average number of claims	+10%	43,014	20,278	(20,278)	(15,209)
Average claim settlement period	Increased by 6 months	6,530	3,059	(3,059)	(2,294)

(c) 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 date of statement of financial position, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

31 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Gross insurance claims liabilities for 2015:

Accident year	Before 2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		190,481	171,164	197,050	234,640	303,820	363,486	376,174	
One year later		175,385	155,885	188,105	219,458	276,429	339,386		
Two years later		157,675	146,173	183,227	210,419	257,101			
Three years later		148,901	142,690	173,787	202,835				
Four years later		147,369	140,021	172,041					
Five years later		137,617	137,618						
Six years later		136,706							
Seven years later									
Current estimate of cumulative claims incurred		136,706	137,618	172,041	202,835	257,101	339,386	376,174	
At end of accident year		(52,238)	(51,789)	(57,313)	(66,947)	(75,616)	(91,529)	(98,970)	
One year later		(103,373)	(108,154)	(129,615)	(54,519)	(166,887)	(222,518)		
Two years later		(115,918)	(123,092)	(149,304)	(182,102)	(190,071)			
Three years later		(129,157)	(127,702)	(160,502)	(189,908)				
Four years later		(126,050)	(130,325)	(164,000)					
Five years later		(126,575)	(131,179)						
Six years later		(126,794)							
Seven years later									
Cumulative payments to-date		(126,794)	(131,179)	(164,000)	(189,908)	(190,071)	(222,518)	(98,970)	
Gross insurance claims liabilities per Statement of Financial Position (note13(a))	74,518	9,912	6,439	8,041	12,928	67,030	116,867	277,205	572,940

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

31 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Net insurance claims liabilities for 2015:

Accident year	Before 2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	2015 RM'000	Total RM'000
At end of accident year		119,648	126,677	136,749	154,367	173,678	197,440	212,416	
One year later		109,416	114,798	126,585	146,227	157,247	177,134		
Two years later		107,372	110,199	121,799	137,404	146,257			
Three years later		103,662	107,963	118,122	132,504				
Four years later		102,240	105,538	117,208					
Five years later		99,135	104,693						
Six years later		98,520							
Seven years later									
Current estimate of cumulative claims incurred		98,520	104,693	117,028	132,504	146,257	177,134	212,416	
At end of accident year		(46,140)	(45,331)	(47,677)	(49,146)	(55,721)	(65,922)	(73,052)	
One year later		(81,903)	(86,633)	(95,770)	(105,577)	(112,324)	(124,363)		
Two years later		(89,792)	(96,331)	(106,108)	(119,912)	(127,485)			
Three years later		(95,612)	(99,645)	(112,076)	(125,322)				
Four years later		(96,150)	(101,142)	(113,829)					
Five years later		(96,367)	(101,459)						
Six years later		(96,541)							
Seven years later									
Cumulative payments to-date		(96,541)	(101,459)	(113,829)	(125,322)	(127,485)	(124,363)	(73,052)	
Gross insurance claims liabilities per Statement of Financial Position (note13(a))	71,416	1,979	3,234	3,199	7,182	18,772	52,771	139,364	297,917

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

31 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Gross insurance claims liabilities for 2014:

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		160,843	190,481	171,164	197,050	234,640	303,820	363,486	
One year later		132,088	175,385	155,885	188,105	219,458	276,429		
Two years later		128,109	157,675	146,173	183,227	210,419			
Three years later		125,790	148,901	142,690	173,787				
Four years later		123,848	147,369	140,021					
Five years later		122,831	137,617						
Six years later		121,515							
Seven years later									
Current estimate of cumulative claims incurred		121,515	137,617	140,021	173,787	210,419	276,429	363,486	
At end of accident year		(41,250)	(52,238)	(51,789)	(57,313)	(66,947)	(75,616)	(91,529)	
One year later		(99,020)	(103,373)	(108,154)	(129,615)	(154,519)	(166,887)		
Two years later		(110,166)	(115,918)	(123,092)	(149,304)	(182,102)			
Three years later		(116,211)	(129,157)	(127,702)	(160,502)				
Four years later		(118,385)	(126,050)	(130,325)					
Five years later		(119,199)	(126,575)						
Six years later		(119,451)							
Seven years later									
Cumulative payments to-date		(119,451)	(126,575)	(130,325)	(160,502)	(182,102)	(166,887)	(91,529)	
Gross insurance claims liabilities per									
Statement of Financial Position (note13(a))	69,058	2,064	11,042	9,696	13,284	28,317	109,542	271,957	514,960

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

31 INSURANCE RISK (CONTINUED)

(c) Claims development table (Continued)

Net insurance claims liabilities for 2014:

Accident year	Before 2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	2013 RM'000	2014 RM'000	Total RM'000
At end of accident year		103,966	119,648	126,677	136,749	154,367	173,678	197,440	
One year later		87,186	109,416	114,798	126,585	146,227	157,247		
Two years later		84,719	107,372	110,199	121,799	137,404			
Three years later		83,589	103,662	107,963	118,122				
Four years later		82,206	102,240	105,538					
Five years later		81,683	99,135						
Six years later		80,659							
Seven years later									
Current estimate of cumulative claims incurred		80,659	99,135	105,538	118,122	137,404	157,247	197,440	
At end of accident year		(28,615)	(46,140)	(45,331)	(47,677)	(49,146)	(55,721)	(65,922)	
One year later		(63,782)	(81,903)	(86,633)	(95,770)	(105,577)	(112,324)		
Two years later		(71,894)	(89,792)	(96,331)	(106,108)	(119,912)			
Three years later		(76,787)	(95,612)	(99,645)	(112,076)				
Four years later		(78,516)	(96,150)	(101,142)					
Five years later		(79,246)	(96,367)						
Six years later		(79,461)							
Seven years later									
Cumulative payments to-date		(79,461)	(96,367)	(101,142)	(112,076)	(119,912)	(112,324)	(65,922)	
Net insurance claims liabilities per									
Statement of Financial Position (note13(a))	64,972	1,197	2,768	4,396	6,047	17,492	44,924	131,518	273,314

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS

(a) Credit risk

Credit risk is the risk of loss arising from customers' or counterparties' failure to fulfil their financial and contractual obligations in accordance with the agreed terms.

The Investment Committee manages the credit risk associated with investments by setting guidelines on minimum credit ratings and prevents risk concentrations by setting maximum credit exposure for each class of investment and for any one borrower or group of borrowers.

A credit control committee has been established to manage the credit risk of receivables.

Credit exposure

The following table shows maximum exposure to credit risk for the components on the statement of financial position and items such as future commitments.

	31.12.2015 RM'000	31.12.2014 RM'000
Investments held-to-maturity		
Unquoted corporate debt securities	15,399	15,400
Loans and receivables		
Loans	12	68
Fixed and call deposits	68,551	94,028
Reinsurance assets – claims liabilities	275,023	241,647
Insurance receivables	114,269	72,060
Other receivables*	85,751	69,480
Cash and cash equivalents**	4,098	13,878
	563,103	506,561

* excluding prepayments which is not subject to credit risk

** excluding petty cash which is not subject to credit risk

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

Credit exposure by credit rating

	Neither past-due nor impaired				Total RM'000
	Rated: satisfactory RM'000	Rated: unsatisfactory RM'000	Not rated RM'000	Past-due but not impaired RM'000	
31.12.2015					
Investments held-to-maturity					
Unquoted corporate debt securities	115,399	-	-	-	15,399
Loans and receivables					
Loans	-	-	12	-	12
Fixed and call deposits	68,551	-	-	-	68,551
Reinsurance assets					
- claims liabilities	235,178	1,209	38,636	-	275,023
Insurance receivables	-	-	-	114,269	114,269
Other receivables	-	-	85,751	-	85,751
Cash and cash equivalents	4,098	-	-	-	4,098
	323,226	1,209	124,399	114,269	563,103
31.12.2014					
Investments held-to-maturity					
Unquoted corporate debt securities	115,400	-	-	-	15,400
Loans and receivables					
Loans	-	-	68	-	68
Fixed and call deposits	94,028	-	-	-	94,028
Reinsurance assets					
- claims liabilities	212,337	1,873	27,437	-	241,647
Insurance receivables	-	-	-	72,060	72,060
Other receivables	-	-	69,480	-	69,480
Cash and cash equivalents	13,878	-	-	-	13,878
	335,643	1,873	96,985	72,060	506,561

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

Credit exposure by credit rating (Continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the reputable rating agencies' credit ratings of counterparties. AAA is the highest possible rating.

	AAA RM'000	AA RM'000	A RM'000	BBB RM'000	Not rated RM'000	Total RM'000
31.12.2015						
Investments held-to-maturity						
Unquoted corporate debt securities	-	5,231	10,168	-	-	15,399
Loans and receivables						
Loans	-	-	-	-	12	12
Fixed and call deposits	-	66,099	2,452	-	-	68,551
Reinsurance assets						
- claims liabilities	-	18,325	216,852	1,209	38,637	275,023
Insurance receivables	-	-	-	-	114,269	114,269
Other receivables	-	-	-	-	85,751	85,751
Cash and cash equivalents	2,465	1,633	-	-	-	4,098
	2,465	91,288	229,472	1,209	238,668	563,103
31.12.2014						
Investments held-to-maturity						
Unquoted corporate debt securities	-	5,234	10,166	-	-	15,400
Loans and receivables						
Loans	-	-	-	-	68	68
Fixed and call deposits	-	81,757	12,271	-	-	94,028
Reinsurance assets						
- claims liabilities	-	1,248	211,090	1,873	27,436	241,647
Insurance receivables	-	-	269	-	71,791	72,060
Other receivables	-	-	-	-	69,480	69,480
Cash and cash equivalents	2,420	11,458	-	-	-	13,878
	2,420	99,697	233,796	1,873	168,775	506,561

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

Age analysis of financial assets past due but not impaired

	Less than 3 months RM'000	3 to 6 months RM'000	More than 6 months RM'000	Total RM'000
31.12.2015				
Insurance receivables	63,438	37,597	13,234	114,269
31.12.2014				
Insurance receivables	49,387	13,917	8,756	72,060

Impaired financial assets

A receivable is considered as individually impaired if the counterparty is in the process of liquidation or legal actions have been taken to recover the outstanding. For receivables to be considered as “past due and impaired”, contractual payment must be in arrears for more than three (3) months. The Company also provides for allowance for impairment for potential defaults of credit terms and irrecoverability via collective assessment. As at 31 December 2015, based on collective assessment of receivables, there are impaired insurance receivables of RM6,061,223 (2014: RM6,567,218). No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate “allowance for impairment” accounts. A reconciliation of the allowance for impairment losses for insurance receivables is as follows:

	31.12.2015 RM'000	31.12.2014 RM'000
At 1 January	6,061	6,567
Charge for the financial year	3,451	2,482
Write back	(2,293)	(2,988)
At 31 December	7,219	6,061

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (Continued)

An investment in debt security is considered as individually impaired when the management is of opinion that the counterparty is unable to meet the payment obligation as scheduled. As at 31 December 2015, there are impaired financial assets available for sale of RM6,406 (2014: RM18,934). A reconciliation of the allowance for impairment losses for investment in debt securities is as follows:

Available-for-sale investments

	31.12.2015 RM'000	31.12.2014 RM'000
At 1 January	19	40
Recovery of fully impaired investment	(13)	(21)
At 31 December	6	19

(b) Liquidity risk

Liquidity risk is the risk of the Group being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost.

This is managed by monitoring the daily and monthly projected and actual cash flows, and ensuring that a reasonable quantum of financial assets is maintained in liquid instruments at all times.

Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest/profit payable and receivable.

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

Premium liabilities and the reinsurers' share of premium liabilities have been excluded from the analysis as they do not contain any contractual obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk (Continued)

Maturity profiles (Continued)

	Carrying value RM'000	1 year or less RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
31.12.2015						
Investments held-to-maturity						
Unquoted corporate debt securities	15,399	1,163	2,325	2,325	41,250	47,063
Loans and receivables						
– Loans	12	12	–	–	–	12
– Fixed and call deposits	68,551	68,977	–	–	–	68,977
Reinsurance assets						
– claims liabilities	275,023	50,589	197,016	22,296	5,122	275,023
Insurance receivables	114,269	114,269	–	–	–	114,269
Other receivables	86,085	86,085	–	–	–	86,085
Cash and cash equivalents	4,104	4,104	–	–	–	4,104
Total financial assets	563,443	325,199	199,341	24,621	46,372	595,533
Insurance contract liabilities						
– claims liabilities	572,940	183,711	338,428	43,523	7,277	572,940
Insurance payables	91,119	91,119	–	–	–	91,119
Other payables	49,028	49,028	–	–	–	49,028
Total financial liabilities	713,087	323,858	338,428	43,523	7,277	713,087
31.12.2014						
Investments held-to-maturity						
Unquoted corporate debt securities	15,400	1,163	2,325	2,325	41,250	47,063
Loans and receivables						
– Loans	68	68	–	–	–	68
– Fixed and call deposits	94,028	94,444	–	–	–	94,444
Reinsurance assets						
– claims liabilities	241,647	50,883	156,262	31,645	2,857	241,647
Insurance receivables	72,060	72,060	–	–	–	72,060
Other receivables	70,209	70,209	–	–	–	70,209
Cash and cash equivalents	13,885	13,885	–	–	–	13,885
Total financial assets	507,297	302,712	158,587	33,970	44,107	539,376
Insurance contract liabilities						
– claims liabilities	514,960	172,788	283,781	55,334	3,057	514,960
Insurance payables	50,296	50,296	–	–	–	50,296
Other payables	36,874	36,874	–	–	–	36,874
Total financial liabilities	602,130	259,958	283,781	55,334	3,057	602,130

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(c) Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices. Market risk comprises three (3) types of risk: foreign exchange rates (currency risk), market interest rates/profit yields (interest rate/profit yield risk) and market prices (price risk).

The Company's investments in equities, REITs and fixed income securities are outsourced to professional fund managers. To deal with this risk, the Investment Committee oversees the formulation of investment policies and strategies and meetings were held during the financial year to review and monitor the performance of the fund managers.

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's primary transactions are carried out in Ringgit Malaysia ("RM") and its exposure to foreign exchange risk arises principally with respect to Singapore Dollar ("SGD").

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 Financial Services Act, 2014, and hence, primarily denominated in the same currency (the local RM) as its insurance contract liabilities. The Company's exposure to currency risk is confined to a current account maintained with a bank in Singapore and certain expenses denominated in foreign currency. The current account was opened to facilitate the collection of premiums from reinsurers in Singapore and the amount involved is minimal.

The Company does not engage in derivative transactions for speculative purposes. Where deemed necessary 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 the 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.

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. Fixed rate/yield instruments expose the Company to fair value interest/profit risk.

Investment Committee has set up a guideline to manage the maturities of interest/profit-bearing financial assets and liabilities.

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

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (that reflects re-valuing fixed rate/yield available-for-sale 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.

		31.12.2015 Impact on equity* RM'000	31.12.2014 Impact on equity* RM'000
	Change in variables		
Interest rate	+100 basis points	(11,982)	(10,108)
Interest rate	-100 basis points	12,472	10,780

* impact on Equity reflects adjustments for tax, where applicable.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

32 FINANCIAL RISKS (CONTINUED)

(c) Market risk (Continued)

Price risk

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

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments and limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

The analysis below is performed for reasonably possible movements in key variables 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 Income Statement) and Equity (that reflects adjustments to profit before tax). 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.

	31.12.2015			31.12.2014	
	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
Bursa Malaysia	+15%	17,230	12,923	19,998	14,998
Bursa Malaysia	-15%	(17,230)	(12,923)	(19,998)	(14,998)

* impact on Equity reflects adjustments for tax, where applicable.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT and legal but excludes strategic and reputation risk. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

NOTES TO THE FINANCIAL STATEMENTS (continued)

for the financial year ended 31 December 2015

33 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2015, as prescribed under the RBC Framework is provided below:

	Note	31.12.2015 RM'000	31.12.2014 RM'000
<u>Eligible Tier 1 Capital</u>			
Share capital (paid-up)	17	100,000	100,000
Retained earnings		323,595	273,356
		423,595	373,356
<u>Tier 2 Capital</u>			
Available-for-sale reserve		(1,060)	(795)
Amount deducted from Capital		3,466	2,378
Total Capital Available		419,069	370,183

34 APPROVAL OF FINANCIAL STATEMENTS

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

STATEMENT BY DIRECTORS

pursuant to Section 169 (15) of the Companies Act, 1965

We, Ong Seng Pheow and Kong Shu Yin, two of the Directors of RHB Insurance Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 50 to 102 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2015 and of its results and cash flows for the financial year ended 31 December 2015 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors.

ONG SENG PHEOW
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
26 February 2016

STATUTORY DECLARATION

pursuant to Section 169 (16) of the Companies Act, 1965

I, Chong Sook Yin, being the Officer primarily responsible for the financial management of RHB Insurance Berhad, do solemnly and sincerely declare that the financial statements set out on pages 50 to 102 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly)
declared at Kuala Lumpur)
on 26 February 2016)
)
Before me,) **CHONG SOOK YIN**

COMMISSIONER FOR OATHS

Kuala Lumpur

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RHB INSURANCE BERHAD

(Incorporated in Malaysia) (Company No. 38000 U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Insurance Berhad, which comprise the statement of financial position as at 31 December 2015 of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 50 to 102.

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 Director of the Company are also responsible for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015 and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS

(No. AF-1146)
Chartered Accountants

Kuala Lumpur
26 February 2016

SOO HOO KHOON YEAN

(No. 2682/10/17 (J))
Chartered Accountant

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