RHB Insurance Berhad

100 years
RHB Banking Group
A Century of Commitment

100 YEARS
1913-2013

annual report **2012**

Inside
this report

Corporate Information
As At 22 March 2013

BOARD OF DIRECTORS

Haji Md Ja'far Abdul Carrim
Independent Non-Executive Chairman

Ong Seng Pheow
Senior Independent Non-Executive Director

Datuk Haji Faisal Siraj
Independent Non-Executive Director

Dato' Othman Jusoh
Independent Non-Executive Director

Dato' Teo Chiang Liang
Independent Non-Executive Director

Abdul Aziz Peru Mohamed
Independent Non-Executive Director

Kong Shu Yin
Managing Director

SECRETARY

Azman Shah Md Yaman

BOARD COMMITTEES

GROUP AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Haji Md Ja'far Abdul Carrim

Dato' Saw Choo Boon

Dato' Mohd Ali Mohd Tahir

GROUP RISK MANAGEMENT COMMITTEE#

Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Dato' Saw Choo Boon

GROUP NOMINATING AND HUMAN RESOURCE COMMITTEE#

Datuk Haji Faisal Siraj
Chairman

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

Choong Tuck Oon

Haji Md Ja'far Abdul Carrim

GROUP IT & TRANSFORMATION STRATEGY COMMITTEE*

Choong Tuck Oon
Chairman

Ong Seng Pheow

Dato' Mohd Ali Mohd Tahir

Kellee Kam Chee Khiong

Johari Abdul Muid

Investment Committee

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Dato' Teo Chiang Liang

Kong Shu Yin

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director, RHB Banking Group

Johari Abdul Muid
Managing Director, RHB Bank Berhad

U Chen Hock
CEO, OSK Investment Bank Berhad

Mike Chan
Director, Corporate Banking &
Officer-in-Charge, RHB Investment Bank Berhad

Kong Shu Yin
Managing Director, RHB Insurance Berhad

Tuan Haji Abdul Rani Lebai Jaafar
Managing Director, RHB Islamic Bank Berhad
(until 14 February 2013)

Prem Kumar
Group Chief Financial Officer

Norazzah Sulaiman
Director, Group Corporate Services

Michael Lim Kheng Boon
Director, Group Transaction Banking
Director, Group Treasury

Vince Au Yoong
Director, Retail Banking

Amy Ooi Swee Lian
Director, Business Banking

Ee Yew Chai
Director, Operations

Yeoh Beng Hooi
Director, Branch Management

Azaharin Abd Latiff
Director (Acting), Human Resource Management

Patrick Ho Kwong Hoong
Director, Group Risk Management

Wong Yih Yin
Chief Internal Auditor

Azman Shah Md Yaman
Group Company Secretary

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

RHB Capital Berhad Group Structure
As At 22 March 2013

RHB CAPITAL BERHAD

Commercial Banking Group

RHB Bank Berhad

- **RHB Islamic Bank Berhad**
- RHB Bank (L) Ltd
  - RHB International Trust (L) Ltd
    - RHB Corporate Services Sdn Bhd
- RHB Leasing Sdn Bhd
- RHB Capital Nominees (Tempatan) Sdn Bhd
  - RHB Capital Nominees (Asing) Sdn Bhd
- RHB Capital Properties Sdn Bhd
- Utama Assets Sdn Bhd
- *RHB Bank Nominees Pte Ltd (Singapore)*
- *Banfora Pte Ltd (Singapore)*
- *RHB Investment Ltd (Singapore)*
- *RHB Trade Services Limited (Hong Kong)*
- Utama Gilang Sdn Bhd[3]
- UMBC Sdn Bhd
- RHB Delta Sdn Bhd[3]

Investment Banking Group

RHB Investment Bank Berhad

- RHB Investment Management Sdn Bhd
  - RHB Islamic Asset Management Sdn Bhd
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
  - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
  - RHB Private Equity Management Ltd
  - *RHB Private Equity Fund Ltd (Cayman Islands)*
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd[4]
- RHB Progressive Sdn Bhd[4]
- RHB Marketing Services Sdn Bhd[3]
- RHB Unit Trust Management Berhad[4]
- *Vietnam Securities Corporation* **(49%)**

OSK Investment Bank Berhad

- *OSK International Investments Pte Ltd*
  - *OSK International Asset Management Pte Ltd*
    - *OSK GC-Millennium Capital Pte Ltd* **(40.00%)**
- *OSK Indochina Bank Limited*
  - *OSK Indochina Securities Limited*
- **93.50%** *OSK Holdings Hong Kong Limited*
  - *OSK Securities Hong Kong Limited* **(100.00%)**
    - *OSK Nominees Hong Kong Limited* **(100.00%)**
  - *OSK Futures Hong Kong Limited*
  - *OSK Finance Hong Kong Limited*
  - *OSK Capital Hong Kong Limited*
  - *OSK Precious Metals Hong Kong Limited*
  - *OSK International Investments Hong Kong Limited*
    - *OSK Fideus Asia and Emerging Markets Value Fund Ltd.* **(51.00%)**
  - *OSK Wealth Management Hong Kong Limited*
  - *OSK (China) Investment Advisory Co Ltd*
- **99.00%** *PT OSK Nusadana Securities Indonesia*
  - *PT OSK Nusadana Asset Management* **(99.62%)**
- **51.00%** *DMG & Partners Securities Pte Ltd*
  - *DMG & Partners Nominees Pte Ltd* **(100.00%)**
  - *Summit Nominees Pte Ltd* **(100.00%)**
  - *DMG & Partners Research Pte Ltd* **(100.00%)**
- **97.41%** *OSK Securities (Thailand) PCL* **2.02%**
- OSK Futures and Options Sdn Bhd
- OSK Research Sdn Bhd
- OSK International Asset Management Sdn Bhd
- OSK Nominees (Tempatan) Sdn Bhd
- OSK Nominees (Asing) Sdn Bhd
- TCL Nominees (Tempatan) Sdn Bhd
- TCL Nominees (Asing) Sdn Bhd
- KE-ZAN Nominees (Tempatan) Sdn Bhd
- KE-ZAN Nominees (Asing) Sdn Bhd
- **80.00%** OSK Trustees Berhad[5] **20.00%**
- **80.00%** Malaysian Trustees Berhad[5] **20.00%**
- **70.00%** OSK-UOB Investment Management Berhad
  - OSK-UOB Islamic Fund Management Berhad **(70.00%)**
- iFast-OSK Sdn Bhd **(38.27%)**
  - iFast Capital Sdn Bhd **(100.00%)**
    - iFast Nominees Sdn Bhd **(100.00%)**
  - FA Corporate And Compliance Consultancy Sdn Bhd **(100.00%)**
- UOB-OSK Asset Management Sdn Bhd **30.00%**
- **40.05%** Finexasia.com Sdn Bhd **59.95%**
  - Stock 188.com Sdn Bhd

OSK Investment Bank (Labuan) Limited

Others

- **RHB Insurance Berhad** ***(94.7%)***
- RHB Equities Sdn Bhd[1]
  - KYB Sdn Bhd[4]
- *RHB Capital (Jersey) Limited*
  - *RHB (Philipines), Inc*[2]
- RHB Hartanah Sdn Bhd
  - Positive Properties Sdn Bhd
  - RHB Property Management Sdn Bhd
- Straits Asset Holdings Sdn Bhd
  - SSSB Services (Melaka) Sdn Bhd[4]
  - SFSB Services (Melaka) Sdn Bhd
- RHBF Sdn Bhd
  - KYF Sdn Bhd[4]
- RHB Venture Capital Sdn Bhd
- RHB Kawal Sdn Bhd

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company | Jointly Controlled Entity | Associate company

[1] With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.

[2] The company has ceased operations from the close of business on 10 December 2001.

[3] The company has commenced members' voluntary winding-up on 16 February 2011.

[4] The company has commenced members' voluntary winding-up on 28 March 2012.

[5] Held by: (i) OSKIB; (ii) OSK Nominees (Tempatan) Sdn. Bhd. (iii) OSK Nominees (Asing) Sdn. Bhd. and (iv) OSK Futures and Options Sdn. Bhd with direct shareholdings of 20.00% each.

Country of incorporation is Malaysia unless otherwise indicated in italics

RHB Insurance Berhad Board of Directors

Standing from left to right:

DATO' TEO CHIANG LIANG
Independent Non-Executive Director

DATO' OTHMAN JUSOH
Independent Non-Executive Director

ABDUL AZIZ PERU MOHAMED
Independent Non-Executive Director

HAJI MD JA'FAR ABDUL CARRIM
Independent Non-Executive Chairman

KONG SHU YIN

Managing Director

ONG SENG PHEOW

Senior Independent Non-Executive Director

DATUK HAJI FAISAL SIRAJ

Independent Non-Executive Director

Haji Md Ja'far Abdul Carrim

(58 years of age – Malaysian)
Independent Non-Executive Chairman

Haji Md Ja'far Abdul Carrim (Haji Ja'far) was appointed as an Independent Non-Executive Director of RHB Insurance on 11 August 2009 and was subsequently appointed as the Chairman of RHB Insurance on 1 January 2012. He also serves as a Member of the Group Audit Committee, Group Risk Management Committee and Group Nominating and Human Resource Committee. He is also the Chairman of the Risk Management Committee of RHB Islamic Bank Berhad.

A civil engineer by training, Haji Ja'far's career of some 32 years includes 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. During the period under review, Haji Ja'far also served on the Curriculum Development Board for Polytechnics at the Ministry of Higher Education, Malaysia. He is also a Council Member for the Chair on Financial Planning for Old Age at University Malaya.

Haji Ja'far's other directorship in a public company includes RHB Islamic Bank Berhad.

Ong Seng Pheow

(64 years of age – Malaysian)

Senior Independent Non-Executive Director

Ong Seng Pheow (Mr Ong) was appointed as an Independent Non-Executive Director of RHB Insurance on 1 January 2008. He also serves as the Chairman of the Investment Committee of RHB Insurance and the Group Audit Committee as well as a Member of the Group IT & Transformation Strategy Committee.

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

Mr Ong's other directorships in public companies include RHB Bank Berhad, Daiman Development Berhad, LCTH Corporation Berhad, George Kent (Malaysia) Berhad and HELP International Corporation Berhad.

Datuk Haji Faisal Siraj

(67 years of age – Malaysian)
Independent Non-Executive Director

Datuk Haji Faisal Siraj (Datuk Faisal) was appointed as an Independent Non-Executive Director of RHB Insurance Berhad on 1 January 2008. Datuk Faisal also serves as the Chairman of the Group Nominating and Human Resource Committee. He is also a Member of the Audit Committee of RHB Capital Berhad and Risk Management Committee of RHB Islamic Bank Berhad.

Datuk Faisal was a Fellow of the Institute of Chartered Accountants in England & Wales, a Member of the Malaysian Institute of Accountants and a Member of the Malaysian Institute of Certified Public Accountants.

Datuk Faisal 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 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.

Datuk Faisal's other directorships in public companies include RHB Islamic Bank Berhad and RHB Capital Berhad.

Dato' Othman Jusoh

(64 years of age – Malaysian)

Independent Non-Executive Director

Dato' Othman Jusoh (Dato' Othman) was appointed as an Independent Non-Executive Director of RHB Insurance on 1 April 2010. He also serves as a Member of the Group Audit Committee and Investment Committee of RHB Insurance as well as the Investment Committee of RHB Investment Management Sdn Bhd.

Dato' Othman holds a Bachelor of Economics (Honours) in Analytical Economics from the University of Malaya and a Masters in Business Administration from the University of Oregon, USA.

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.

Dato' Teo Chiang Liang

(62 years of age – Malaysian)
Independent Non-Executive Director

Dato' Teo Chiang Liang (Dato' Teo) was appointed as an Independent Non-Executive Director of RHB Insurance on 4 August 2010. He also serves as a Member of the Group Nominating and Human Resource Committee and Audit Committee of RHB Capital Berhad. He is also a Member of Investment Committee of RHB Insurance.

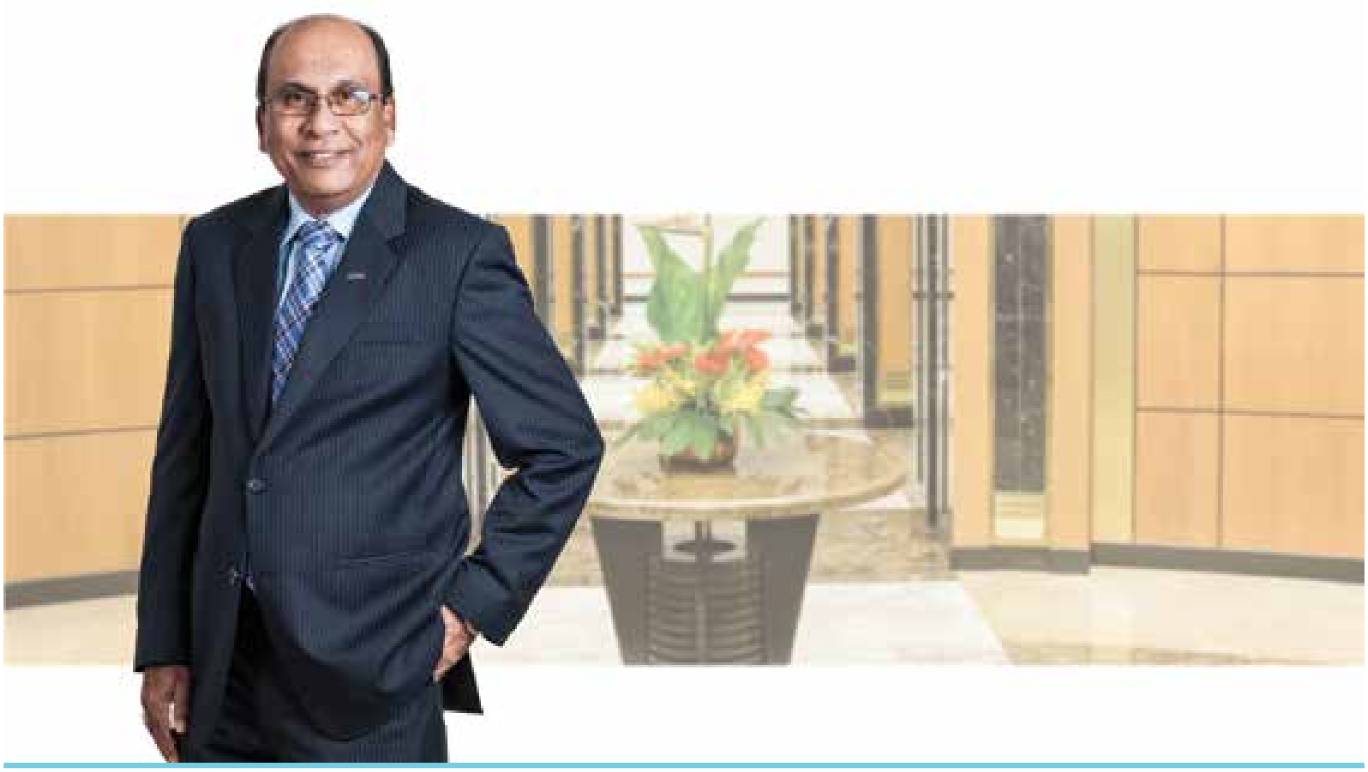
Dato' Teo holds a Bachelor of Arts (Honours) degree in Business Studies awarded by the Council for National Academic Awards, United Kingdom and Bachelor of Science in Management Studies from University of Bradford, United Kingdom. He was appointed as a Visiting Professor of Nottingham Trent University, United Kingdom in 1998 and conferred with an Honorary Degree of Doctor of Business Administration in 2001.

Dato' Teo joined and served the See Hoy Chan Holdings Group, a well-diversified group of companies, in different levels of management since 1975. He was the Secretary General of the Malaysian Association of Private Colleges & Universities from 1997 to March 2003 and is currently its Vice President. Dato' Teo was appointed as a member of the MSC Education Advisory Panel in 1998 and a Life Member of the Malaysian Red Crescent Society since 1983. He was elected as an Executive Council Member of Malaysia Crime Prevention Foundation from 2006 to 2012.

Dato' Teo's other directorships in public companies include RHB Capital Berhad and Ajinomoto (Malaysia) Berhad.

Abdul Aziz Peru Mohamed

(64 years of age – Malaysian)
Independent Non-Executive Director



Abdul Aziz Peru Mohamed (Encik Aziz Peru) was appointed as an Independent Non-Executive Director of RHB Insurance on 2 March 2012. He also serves as a Member of the Group Credit Committee of RHB Bank Berhad.

Encik Aziz Peru is currently the Chief Executive Officer/Director of as-Salihin Trustee Berhad, a trust company specialised in Islamic estate planning. He held various Senior Management positions in the banking industry with almost 30 years 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 the Chairman of Rules Committee of Association of Banks of Malaysia and has held several other key positions including a Board Member of Mayban Property Trust and Maybank Trustees Berhad.

Encik Aziz Peru attended various training programmes at the Harvard Business School and Pacific Bankers Rim programmes in the United States.

Encik Aziz Peru's other directorships in public companies include RHB Bank Berhad, RHB Investment Bank Berhad and as-Salihin Trustee Berhad.

Kong Shu Yin

(52 years of age – Malaysian)
Managing Director

Kong Shu Yin (Mr Kong) was appointed as the Managing Director (MD) of RHB Insurance on 13 March 2011. He also serves as a Member of the Investment Committee of RHB Insurance.

Mr Kong has 27 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 capacities including CEO. He also has experience with the Thailand and Indonesian insurance markets.

Mr Kong is a graduate from the University of Malaya in Civil Engineering and is a Fellow of the Chartered Insurance Institute and Fellow of the Malaysian Insurance Institute.

Mr Kong 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 Deputy Chairman of Persatuan Insurans Am Malaysia, and the Chairman of the Malaysian Motor Insurance Pool.

Financial Statements

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 2012.

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	59,484
Retained earnings brought forward	124,588
Profits available for appropriation	184,072
Dividend paid during the financial year	(18,750)
Retained earnings carried forward	165,322

DIVIDENDS

The dividends paid by the Company since 31 December 2011 are as follows:

	RM'000
A final dividend of 25% less tax at 25% for the financial year ended 31 December 2011, paid on 23 April 2012.	18,750

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 25% on 100,000,000 ordinary shares, less 25% tax, amounting to RM18,750,000, will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in shareholders' equity as an appropriation of retained profit in financial year ending 31 December 2013 when approved by shareholders.

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 issuance of shares in the Company during the current financial year.

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.

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.

CORPORATE GOVERNANCE

Introduction

The Board of the Company recognises that good corporate governance is and has been fundamental to the success of the Company's business. Therefore, the Board of the Company continuously strives to ensure that highest standards of corporate governance are adopted in establishing accountability and integrity of the Board and the Management in promoting the interest of the stakeholders and enhance shareholders' value. The corporate governance structure of the Company which is aligned with that of the RHB Banking Group (Group) is principally based on the Guidelines on Prudential Framework of Corporate Governance for Insurers and the Minimum Standards for Prudential Management of Insurers issued by Bank Negara Malaysia (BNM).

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board (Charter). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Company's shareholders and stakeholders.

The Board has adopted a Code of Ethics and Business Conduct for Directors (Code of Ethics). The Code of Ethics was formulated to enhance the standard of corporate governance and promote ethical conduct of Directors with a view to achieving the following objectives:-

- to establish a uniform ethical standard for Directors emphasising conduct free from conflicts of interest; and
- to uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines.

The Group has in place a Group Code of Ethics and Conduct that is applicable to all its employees to ensure a high standard of ethical and professional conduct is upheld by all its employees in the performance of their duties and responsibilities.

CORPORATE GOVERNANCE (CONTINUED)

BOARD OF DIRECTORS

Composition of the Board

The Board currently comprises an Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors (INEDs) and a Managing Director, details of which are as follows:-

Name of Director

Tuan Haji Md Ja'far Abdul Carrim *(INED/Chairman)*
Ong Seng Pheow *(Senior INED)*
Datuk Haji Faisal Siraj *(INED)*
Dato' Othman Jusoh *(INED)*
Dato' Teo Chiang Liang *(INED)*
Abdul Aziz Peru Mohamed *(INED)*
Kong Shu Yin *(Managing Director)*

Abdul Aziz Peru Mohamed was appointed as an INED on 2 March 2012.

Tuan Haji Md Jaafar Abdul Carrim was appointed Chairman of the Company in place of Tuan Haji Khairuddin who has resigned as INED/Chairman of the Company with effect from 1 January 2012.

Duties and Responsibilities of the Board

The Board is responsible for governing the administration of the Company and for exercising all such power pursuant to the Articles of Association of the Company. In general, the Board is responsible for:

- providing strategic leadership to the Company;
- reviewing, approving and monitoring the implementation of the Company's strategic business plans and policies;
- ensuring the Company maintains an effective system of internal controls and is able to identify and manage principal risks resulting in efficiency in operations and a stable financial environment;
- acting as a guardian of the Company's corporate values and ethical principles in parallel with the goal to enhance shareholders' value;
- monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ensuring the formulation of a succession plan for the Company for the long-term business continuity.

The day-to-day management of the Company is delegated to the Managing Director (MD) who is responsible in managing the business and operations of the Company in ensuring the successful implementation of the policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman/other Non-Executive Directors ensure the balance of power and authority towards the establishment of a fully effective Board.

CORPORATE GOVERNANCE (CONTINUED)

Board Meetings and Access of Information

The Board meets on a monthly basis. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Board is provided with meeting papers in advance of the meeting dates to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinion on matters to be deliberated at the meetings. In line with best practices, Board materials/papers are circulated to Members of the Board at least seven (7) days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the respective Chairmen/representatives of the Group Audit Committee and Group Risk Management Committee on matters relating to the Company that have been deliberated at both committees, as well as on matters that require appropriate attention. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives.

Each Member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Company's Articles of Association.

The Board is able to seek clarification and advice as well as request for information on matters pertaining to the Company and the Group from the Senior Management and the Company Secretaries. Should the need arise, the Directors may also seek independent professional advice, at the Company's expense, when deemed necessary for the proper discharge of their duties.

The Board had adopted an internal guideline on the Standard Procedures for Directors to Have Access to Independent Advice which lays down the procedures for Directors seeking internal and/or external professional independent advice. The objectives of this guideline among others are as follows:

- to ensure consistency throughout the Group on the procedures for Directors of the Group to have access to independent professional advice; and
- to enable Directors to have an enhanced perception of issues within the Group by allowing them to obtain independent opinion/advice/consultation from leading professionals in the relevant areas.

The Board convened thirteen (13) meetings for the financial year ended 31 December 2012. The attendance of each Director at Board meetings held during the financial year is set out below:

Name of Directors	Total meetings attended	Percentage of attendance (%)
Tuan Haji Md Ja'far Abdul Carrim	13/13	100
Ong Seng Pheow	12/13	92
Datuk Haji Faisal Siraj	13/13	100
Dato' Othman Jusoh	12/13	92
Dato' Teo Chiang Liang	12/13	92
Abdul Aziz Peru Mohamed[1]	11/11*	100
Kong Shu Yin	13/13	100

Notes:

1 Appointed on 2 March 2012.

* Based on the number of Board meetings held since his appointment in 2012.

CORPORATE GOVERNANCE (CONTINUED)

Pursuant to BNM's Guidelines (Minimum Standards for Prudential Management of Insurers (Consolidated) and Prudential Framework of Corporate Governance for Insurers) and Insurance Regulations 1996, individual directors must attend at least 75% of the board meetings held in each year. For the year under review, all Directors in office at the end of the financial year had complied with the attendance requirement as stipulated by BNM.

Appointments and Re-Election to the Board

The Company is governed by BNM's Guidelines on the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM.

The Group Nominating and Human Resource Committee (Group NHRC) reviews and assesses the appointments/re-appointments of Directors. During such assessment, the Group NHRC also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation (BEE). The recommendation of the Group NHRC will thereafter be presented to the Board. Upon approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

The Board has also adopted an internal guideline on the "Tenure of Appointment and Re-appointment of Independent Directors" with the main objective of preserving the independence of Independent Directors. Independent Directors over seventy (70) years of age will not be eligible for appointment or re-appointment on the Board of any of the companies within the Group and shall retire at the next Annual General Meeting of the company concerned.

Article 74 of the Company's Articles of Association provides that one-third of the directors for the time being, or, if their number is not three or a multiple of three, the number nearest one-third, shall retire from office at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are eligible for re-election by shareholders at the next Annual General Meeting held following their appointments.

Training

The Directors continuously participate in various seminars, conferences and training programmes and in-house workshops to keep themselves abreast of the relevant regulatory framework, financial sector issues as well as current and future market developments.

The Group has also adopted a guideline on the Standard Procedures on Directors' In-House Orientation and Continuing Education Programme for the Group, the objectives of which are as follows:

- to ensure consistency throughout the Group in developing an in-house orientation and continuing education programme for its Directors to familiarise themselves with the industry and the company/Group; and
- to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

Board Performance Evaluation

The Board has since 2006 undertaken the BEE exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual Directors. The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the BEE are presented to the Group NHRC as well as the Board of the Company for consideration.

CORPORATE GOVERNANCE (CONTINUED)

Group Board Committee

Following the Group-wide transformation exercise undertaken in late 2007, the various Board Committees within the Group were consolidated to form Group Board Committees residing either at the Company's holding company, RHB Capital Berhad or at its sister company, RHB Bank Berhad's level. The objective is to promote better efficiency and effectiveness in implementing holistic strategies for the benefit of the Group as a whole. The Group Board Committees currently residing at RHB Bank Berhad and RHB Capital Berhad which are shared by the Company are as follows:

- Group Audit Committee
- Group Nominating and Human Resource Committee
- Group Risk Management Committee
- Group IT & Transformation Strategy Committee

The functions and terms of reference of the Group Board Committees are clearly defined and comply with the relevant governing laws, regulations and guidelines. The members of the Group Board Committees comprise the Directors of the Company and that of the operating entities within the Group to ensure a fair representation across the entities in pursuing the interests of the entities concerned.

The relevant minutes/extract of minutes of meetings of all Group Board Committees are tabled to the respective Boards for notation.

Group Audit Committee

The Group Audit Committee (Group AC) comprises five (5) INEDs of whom one (1) is the Chairman. A total of twenty (20) meetings were held during the financial year ended 2012 and the details of attendance of each member at the Group AC Meetings are as follows:

Members of Group AC	Total meetings attended	Percentage of attendance (%)
Ong Seng Pheow *(Chairman/INED)*	20/20	100
Dato' Othman Jusoh *(Member/INED)*	20/20	100
Tuan Haji Md Ja'far Abdul Carrim *(Member/INED)*	20/20	100
Dato' Saw Choo Boon *(Member/INED)*	19/20	95
Dato' Mohd Ali Bin Mohd Tahir *(Member/INED)*	19/20	95

CORPORATE GOVERNANCE (CONTINUED)

The main objectives of the Group AC are as follows:

(i) to provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within the Group;

(ii) to review the financial condition and performance of the Group;

(iii) to assist the Boards of the respective entities in the discharge of their responsibilities by reviewing the effectiveness, adequacy and integrity of the Group's internal control systems and management information systems, including systems for risk management, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines;

(iv) to reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities;

(v) to provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors;

(vi) to provide emphasis on the internal audit function by ensuring the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the management;

(vii) to review the quality of the audits conducted by the internal and external auditors; and

(viii) to enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Group Nominating and Human Resource Committee

The Group Nominating and Human Resource Committee (Group NHRC) comprises of six (6) INEDs. The Group NHRC was a consolidated committee of the Group NC and the Group RHRC which come into effect on 30 August 2012. During the financial year ended 2012, a total of four (4), seven (7) and eight (8) meetings were held for the Group HRC, Group NC and Group RHRC respectively and the details of the attendance of each member are as follows:

(i) Members of Group NHRC	Total meetings attended	Percentage of attendance (%)
Datuk Haji Faisal Siraj (Chairman/INED)	4/4	100
Dato' Mohamed Khadar Merican (Member/INED)	4/4	100
Dato' Saw Choo Boon (Member/INED)	3/4	75
Dato' Teo Chiang Liang (Member/INED)	3/4	75
Choong Tuck Oon (Member/INED)	4/4	100
Tuan Haji Md Ja'far Abdul Carrim (Member/INED)	4/4	100

CORPORATE GOVERNANCE (CONTINUED)

Group Nominating and Human Resource Committee (continued)

(ii) Members of Group NC	Total meetings attended	Percentage of attendance (%)
Datuk Haji Faisal Siraj (Chairman/INED)	7/7	100
Dato' Mohamed Khadar Merican (Member/INED)	6/7	86
Dato' Saw Choo Boon (Member/INED)	7/7	100
Dato' Teo Chiang Liang (Member/INED)	6/7	86
Choong Tuck Oon (Member/INED)	6/7	86
Tuan Haji Md Ja'far Abdul Carrim (Member/INED)	7/7	100

(iii) Members of Group RHRC	Total meetings attended	Percentage of attendance (%)
Datuk Haji Faisal Siraj (Chairman/INED)	8/8	100
Dato' Mohamed Khadar Merican (Member/INED)	7/8	88
Dato' Saw Choo Boon (Member/INED)	8/8	100
Dato' Teo Chiang Liang (Member/INED)	7/8	88
Choong Tuck Oon (Member/INED)	7/8	88
Tuan Haji Md Ja'far Abdul Carrim (Member/INED)	8/8	100

The main objectives of the Group NHRC are to support the Boards in the selection and assessment, and in recommending to the Boards for approval, the appointment of directors, board committee members, Group Shariah Committee (GSC) and key senior management officers (which entails Group Managing Director (Group MD), Chief Executive Officer (CEO)/Managing Director (MD), and Direct Reports of the Group MD and CEO/MD in major entities (save for Chief Internal Auditor) and any persons as may be decided by the Committee).

The Group NHRC will also advise the Boards on the optimal size and mix of skills of Boards.

Group Risk Management Committee

The Group Risk Management Committee (Group RMC) comprises of five (5) INEDs. During the financial year ended 2012, a total of eighteen (18) meetings were held and the details of the attendance of each member are as follows:

Members of Group RMC	Total meetings attended	Percentage of attendance (%)
Tuan Haji Khairuddin Ahmad (Chairman/INED)	18/18	100
Patrick Chin Yoke Chung (Member/INED)	16/18	89
Tuan Haji Md Ja'far Abdul Carrim (Member/INED)	18/18	100
Choong Tuck Oon (Member/INED)	15/18	83
Dato' Saw Choo Boon (Member/INED)	15/18	83

CORPORATE GOVERNANCE (CONTINUED)

The main objectives of the Group RMC are as follows:-

(i) to provide oversight and governance of risks at the Group;

(ii) to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning;

(iii) to promote the management of the Group's risk in accordance with a risk-return performance management framework;

(iv) to provide guidance and make recommendations to the Board of Directors of each relevant entity within the Group in respect of risk management matters of the respective entities.

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee (GI&TSC) comprises three (3) INEDs, the Group Managing Director (Group MD) and the Managing Director (MD) of RHB Bank Berhad. During the financial year ended 2012, a total of eleven (11) meetings were held and the details of the attendance of each member are as follows:-

Members of GI&TSC	Total meetings attended	Percentage of attendance (%)
Choong Tuck Oon (Chairman/INED)	11/11	100
Ong Seng Pheow (Member/INED)	11/11	100
Dato' Mohd Ali Bin Mohd Tahir (Member/INED)	11/11	100
Kellee Kam Chee Khiong (Member/Group MD)	7/11	64
Johari Abdul Muid (Member/MD of RHB Bank Berhad)	8/11	73

The principal responsibility of the GI&TSC is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the ambit of information technology and strategic transformation management.

Management Accountability

The Company has a well-documented and updated organisational structure showing all reporting lines as well as clearly documented job descriptions for all management and executive employees. Management obtains a quarterly declaration from staff on adherence to the insurance industry's Code of Ethics.

Policies and procedures are documented in the operating manuals for all the core functions of the Company such as underwriting, claims, reinsurance and finance. Monthly meetings are scheduled for Senior Management and various working committees i.e. Technical, Marketing, Information Technology Review and Credit Control to communicate on the affairs and operations of the Company. In addition, regular departmental/branch meetings are also held to discuss each operating unit's affairs and to communicate relevant information to staff.

CORPORATE GOVERNANCE (CONTINUED)

Corporate Independence

The related party transactions are on terms and conditions no more favourable than those available on similar transactions to the Company's other customers. All material related party transactions have been disclosed in the financial statements.

Internal Controls and Operational Risk Management

The Directors acknowledge their responsibility for the system of internal controls maintained by the Company and for reviewing its effectiveness. The system of internal controls covers not only financial controls but also operational and compliance controls as well as risk management. The system, by its nature, can only provide reasonable but not absolute assurance against misstatement, loss or fraud.

The Board maintains a control-conscious culture across all areas of operations in the Company. There is an on-going process for identifying, evaluating and managing all significant risks faced by the Company which will be regularly reviewed by the Board.

The Group's internal audit regularly reports on compliance with the system of internal controls and procedures to the Management, Audit Committee and the Board. There are also procedures for external auditors to report conclusions and recommendations to the Management, Audit Committee and the Board.

The Group's internal audit will ensure that recommendations to improve controls are followed through by the Management on a timely manner.

Public Accountability

The Company upholds the principles of fairness and professionalism in the conduct of its business. The requirement of a written disclosure in insurance policies pertaining to the existence of the Insurance Mediation Bureau (IMB) and BNM's Customer Service Bureau (CSB) is effected on all new and renewal policies issued. The notice will inform the policyholders on the procedures for complaints to the IMB and CSB of any unfair market practices.

Financial Reporting

The Management ensures that proper records are maintained to support all financial transactions and the financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) compliant framework, Malaysian Financial Reporting Standards (MFRS) and the requirements of the Companies Act, 1965 in Malaysia. In accordance with Section 95(1) of the Insurance Act 1996, on a yearly basis, the statutory financial statements are published in two local newspapers within fourteen days of the Annual General Meeting.

The Board and Senior Management receive regular financial and management reports to enable them to effectively monitor the financial performance and condition of the Company in relation to the corporate objectives and responsibilities.

The Management ensures that the monthly and annual returns are submitted to BNM on a timely basis.

DIRECTORS AND THEIR INTERESTS IN SECURITIES

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

Tuan Haji Md Ja'far Abdul Carrim
Ong Seng Pheow
Datuk Haji Faisal Siraj
Dato' Othman Jusoh
Dato' Teo Chiang Liang
Abdul Aziz Peru Mohamed *(Appointed on 2 March 2012)*
Kong Shu Yin

In accordance with Article 74 of the Company's Articles of Association, Dato' Othman Jusoh and Dato' Teo Chiang Liang shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

According to the register of directors' shareholdings, the interests of the Directors in office at the end of the financial year in the securities of the Company and its related corporations were as follows:

	Number of ordinary shares of RM1 each			
	As at 1.1.2012	**Bought**	**Sold**	**As at 31.12.2012**
Holding company RHB Capital Berhad				
Dato' Teo Chiang Liang – Indirect[1]	5,046	158	–	**5,204**

Note:

[1] Deemed interest pursuant to Section 6A of the Companies Act, 1965, by virtue of his substantial shareholdings in Intereal Corporation Berhad.

Other than the above, 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' 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 dated 4 February 2013.

TUAN HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
28 February 2013

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
ASSETS				
Property, plant and equipment	5	**6,741**	4,195	2,412
Intangible assets - computer software	6	**385**	279	279
Investments	7	**569,234**	505,573	423,974
– Held-to-maturity		**15,107**	15,109	15,110
– Fair value through profit or loss		**75,388**	71,432	70,955
– Available-for-sale		**344,217**	278,883	168,495
– Loans and receivables		**134,522**	140,149	169,414
Deferred tax assets	8	**–**	1,188	572
Tax recoverable		**–**	1,374	–
Reinsurance assets	9	**191,147**	162,375	146,119
Insurance receivables	10	**58,200**	45,186	54,566
Other receivables	11	**28,025**	19,550	14,565
Cash and cash equivalents	12	**1,091**	401	4,282
Total assets		**854,823**	740,121	646,769
LIABILITIES				
Insurance contract liabilities	13	**517,285**	433,933	369,975
Insurance payables	14	**35,798**	51,180	49,102
Other payables	15	**31,300**	30,056	21,306
Deferred tax liabilities	8	**103**	–	–
Current tax liabilities		**4,459**	–	2,122
Total liabilities		**588,945**	515,169	442,505
SHAREHOLDERS' FUND				
Share capital	16	**100,000**	100,000	100,000
Retained earnings	17	**165,322**	124,588	103,576
Available-for-sale reserve		**556**	364	688
		265,878	224,952	204,264
Total liabilities and shareholders' fund		**854,823**	740,121	646,769

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

Income Statement
For The Financial Year Ended 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Operating revenue	18	**487,262**	402,469
Gross earned premiums	19	**430,123**	352,237
Premiums ceded to reinsurers	19	**(140,376)**	(115,247)
Net earned premiums	19	**289,747**	236,990
Investment income	20	**20,201**	19,472
Realised gains	21	**4,545**	3,619
Fair value gains/(losses)	22	**3,348**	(2,505)
Reinsurance commission income		**32,360**	26,272
Other operating income		**974**	500
Other income		**61,428**	47,358
Gross claims paid	13(a)	**(178,114)**	(138,853)
Claims ceded to reinsurers	13(a)	**56,358**	31,201
Gross change to claims liabilities	13(a)	**(46,414)**	(33,198)
Change in claims liabilities ceded to reinsurers	13(a)	**12,628**	5,660
Net claims		**(155,542)**	(135,190)
Commission expense		**(61,185)**	(51,082)
Management expenses	23	**(58,011)**	(47,598)
Other operating expenses		**–**	(21)
Other expenses		**(119,196)**	(98,701)
Profit before taxation		**76,437**	50,457
Taxation	24	**(16,953)**	(10,695)
Profit for the financial year		**59,484**	39,762
Basic earnings per share (sen)	25	**59.48**	39.76

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

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Profit for the financial year		**59,484**	39,762
Other comprehensive income/(loss):			
Available-for-sale reserve			
– Net gain/(loss) arising during the financial year	7(e)	**256**	(433)
Income tax relating to components of other comprehensive income/(loss)		**(64)**	109
		192	(324)
Total comprehensive income for the financial year		**59,676**	39,438

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

Statement of Changes In Equity

For The Financial Year Ended 31 December 2012

	Issued and fully paid ordinary shares			Non-distributable	
	No. of Shares '000 units	RM1 each Nominal value RM'000	Distributable Retained earnings RM'000	Available-for-sale reserve RM'000	Total RM'000
31.12.2012					
At 1 January 2012	**100,000**	**100,000**	**124,588**	**364**	**224,952**
Total comprehensive income for the financial year	**–**	**–**	**59,484**	**192**	**59,676**
Dividends paid during the financial year	**–**	**–**	**(18,750)**	**–**	**(18,750)**
At 31 December 2012	**100,000**	**100,000**	**165,322**	**556**	**265,878**
31.12.2011					
At 1 January 2011	100,000	100,000	103,576	688	204,264
Total comprehensive income for the financial year	–	–	39,762	(324)	39,438
Dividends paid during the financial year	–	–	(18,750)	–	(18,750)
At 31 December 2011	100,000	100,000	124,588	364	224,952

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

	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the financial year	**59,484**	39,762
Adjustment for:		
Realised gains	**(4,545)**	(3,619)
Fair value (gains)/losses	**(3,348)**	2,505
(Write back of)/allowance for impairment on insurance receivables	**(855)**	1,230
Bad debts written off	**16**	–
Amortisation of premiums	**2**	1
Depreciation of property, plant and equipment	**1,698**	844
Amortisation of intangible assets - computer software	**110**	122
Investment income	**(20,203)**	(19,473)
Unrealised gain on foreign exchange	**(196)**	(10)
Taxation expense	**16,953**	10,695
Operating profit before changes in operating assets and liabilities	**49,116**	32,057
Purchase of fair value through profit or loss investments	**(39,936)**	(49,913)
Proceeds from sale of fair value through profit or loss investments	**43,868**	49,954
Decrease in loans and receivables	**5,627**	29,265
Purchase of available-for-sale investments	**(65,078)**	(110,821)
Recovery of fully impaired available-for-sale investments	**5**	628
Interest received	**5,071**	7,340
Dividend received	**14,949**	14,041
(Increase)/decrease in insurance receivables	**(11,979)**	8,157
Increase in other receivables	**(8,292)**	(6,893)
Increase in insurance contract liabilities	**83,352**	63,958
Increase in reinsurance assets	**(28,772)**	(16,256)
(Decrease)/increase in insurance payables	**(15,382)**	2,078
Increase in other payables	**1,244**	8,750
Cash generated from operations	**33,792**	32,345
Income taxes paid	**(9,893)**	(14,698)
Net cash generated from operating activities	**23,900**	17,647

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

	Note	31.12.2012 RM'000	31.12.2011 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4,244)**	(2,764)
Purchase of intangible assets - computer software		**(216)**	(122)
Proceeds from sale of property, plant and equipment		**–**	105
Net cash used in investing activities		**(4,460)**	(2,781)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		**(18,750)**	(18,750)
Net cash used in financing activities		**(18,750)**	(18,750)
Effect on exchange rate changes on cash and cash equivalents		**–**	3
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**690**	(3,881)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		**401**	4,282
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	12	**1,091**	401

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

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 Malaysian Accounting Standards Board (MASB) has announced on 19 November 2011 that Malaysian reporting entities are required to comply with new International Financial Reporting Standards (IFRS) compliant framework, Malaysian Financial Reporting Standards (MFRS) for financial year commencing on or after 1 January 2012.

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

The company has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2011 (transition date) and throughout all financial year presented, all of these policies had always been in effect. The transition to MFRS does not have significant change on the Company's existing accounting policies. Nevertheless, as required under MFRS1, the Company has presented three statements of financial position, two statements of comprehensive income, two statements of cash flows, two statements of changes in equity and related notes including comparatives.

The financial statements have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies.

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 period. 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.

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.

The following are new accounting standards, amendments to published accounting standards and interpretations to existing accounting standards which are applicable to the Company and effective from 1 January 2012:

- MFRS 1 'First-time Adoption of MFRS'
- MFRS 139 'Financial Instruments: Recognition and Measurement'
- Revised MFRS 124 'Related Party Disclosures'
- Amendment to MFRS 112 'Income Taxes'
- IC Interpretation 19 'Extinguishing Financial Liabilities with Equity Instruments'
- Amendment to MFRS 1 'First Time Adoption on Fixed Dates and Hyperinflation'
- Amendment to MFRS 7 'Financial Instruments: Disclosures on Transfers of Financial Assets'
- Amendment to MFRS 101 'Presentation of Items of Other Comprehensive Income'

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

The adoption of the above accounting standards, amendments to published accounting standards and interpretations to existing accounting standards does not give rise to any material financial effects to the Company.

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

(a) Financial year beginning on or after 1 January 2013

MFRS 12 'Disclosures of interests in other entities' (effective from 1 January 2013) sets out the required disclosures for entities reporting under the two new standards, MFRS 10 and MFRS 11, and replaces the disclosure requirements currently found in MFRS 128 'Investments in associates'. It requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

MFRS 13 'Fair value measurement' (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 'Financial instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial ones.

Amendment to MFRS 101 'Presentation of items of other comprehensive income' (effective from 1 July 2012) requires entities to separate items presented in 'other comprehensive income' (OCI) in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

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

(b) Financial year beginning on or after 1 January 2014

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

MFRS 9 'Financial instruments - classification and measurement of financial assets and financial liabilities' (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (FVTPL). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in OCI. There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

(b) Financial year beginning on or after 1 January 2014 (continued)

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

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

The adoption of the new standards, amendments to published standards are not expected to have a material impact on the financial results and the Company except that the Company is in the process of reviewing the requirements of MFRS 9 and expects this process to be completed prior to the effective date on 1 January 2015.

All other new amendments to published standards and interpretations to existing standards issue by MASB effective for financial period subsequent to 1 January 2013 are not relevant to the Company.

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

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) on the impairment of non-financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 financial assets, loans and receivables or available-for-sale financial assets. 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. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

(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(f) for the accounting policy on impairment).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Impairment of financial assets (continued)

(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 Bank Negara Malaysia.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 and deferred acquisition costs (DAC)

The gross 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.

Those costs are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future premiums. Amortisation is recognised in income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (continued)

Acquisition costs and deferred acquisition costs (DAC) (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in these assets are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in income statement. DAC is also considered in the liability adequacy test for each accounting period.

DAC is derecognised when the related contracts are either settled or disposed of.

For presentation purposes, DAC is net-off against premium liabilities in the financial statements.

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) General insurance underwriting results (continued)

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.

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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) Post-employment benefits – 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.

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 and bank balances, excluding fixed and call deposits.

(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 remeasured subsequently.

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.

Claims liabilities

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.

5 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land RM'000	Buildings RM'000	Motor Vehicles RM'000	Furniture, fixtures and fittings, office equipment RM'000	Total RM'000
31.12.2012					
Net book value					
At beginning of financial year	**616**	**333**	**736**	**2,510**	**4,195**
Additions	**–**	**–**	**–**	**4,244**	**4,244**
Depreciation charge	**(8)**	**(9)**	**(204)**	**(1,477)**	**(1,698)**
At end of financial year	**608**	**324**	**532**	**5,277**	**6,741**
31.12.2011					
Net book value					
At beginning of financial year	624	341	533	914	2,412
Additions	–	–	430	2,334	2,764
Disposals	–	–	(137)	–	(137)
Depreciation charge	(8)	(8)	(90)	(738)	(844)
At end of financial year	616	333	736	2,510	4,195
1.1.2011					
Net book value					
At beginning of financial year	632	350	703	827	2,512
Additions	–	–	–	752	752
Disposals	–	–	(35)	–	(35)
Depreciation charge	(8)	(9)	(135)	(665)	(817)
At end of financial year	624	341	533	914	2,412

5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold Land RM'000	Buildings RM'000	Motor Vehicles RM'000	Furniture, fixtures and fittings, office equipment RM'000	Total RM'000
31.12.2012					
Cost	**730**	**422**	**1,531**	**16,196**	**18,879**
Accumulated depreciation	**(122)**	**(98)**	**(999)**	**(10,919)**	**(12,138)**
Net book value	**608**	**324**	**532**	**5,277**	**6,741**
31.12.2011					
Cost	730	423	1,532	15,210	17,895
Accumulated depreciation	(114)	(90)	(796)	(12,700)	(13,700)
Net book value	616	333	736	2,510	4,195
1.1.2011					
Cost	730	423	1,491	12,877	15,521
Accumulated depreciation	(106)	(82)	(958)	(11,963)	(13,109)
Net book value	624	341	533	914	2,412

6 INTANGIBLE ASSETS – COMPUTER SOFTWARE

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cost			
At beginning of financial year	**2,357**	2,235	2,149
Additions	**216**	122	86
At end of financial year	**2,573**	2,357	2,235
Accumulated amortisation			
At beginning of financial year	**2,078**	1,956	1,818
Amortisation for the financial year	**110**	122	138
At end of financial year	**2,188**	2,078	1,956
Net book value			
At end of financial year	**385**	279	279

7 INVESTMENT

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Debt securities	**15,107**	15,109	15,110
Equities securities	**71,278**	67,981	69,896
Wholesale unit trust funds and property trust funds	**348,327**	282,334	169,554
Staff loans	**284**	522	760
Fixed and call deposits	**134,238**	139,627	168,654
	569,234	505,573	423,974

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Held-to-maturity	**15,107**	15,109	15,110
Fair value through profit or loss	**75,388**	71,432	70,955
Available-for-sale	**344,217**	278,883	168,495
Loans and receivables	**134,522**	140,149	169,414
	569,234	505,573	423,974

The following investments mature after 12 months:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Held-to-maturity	**15,107**	15,109	15,110
Loans and receivables	**284**	492	510
	15,391	15,601	15,620

7 INVESTMENT (CONTINUED)

		31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
(a)	**Held-to-maturity (HTM)**			
	At amortised cost			
	Unquoted in Malaysia:			
	– Debt securities	**15,107**	15,109	15,110
		15,107	15,109	15,110
(b)	**Fair value through profit or loss (FVTPL)**			
	At fair value			
	Quoted in Malaysia:			
	Held-for-trading (HFT)			
	– Equities securities	**71,278**	67,981	69,896
	– Property trust funds	**4,110**	3,451	1,059
		75,388	71,432	70,955
(c)	**Available-for-sale (AFS)**			
	At fair value			
	Unquoted in Malaysia:			
	– Wholesale unit trust funds	**344,217**	278,883	168,495
		344,217	278,883	168,495
(d)	**Loans and receivables (LAR)**			
	At amortised cost			
	– Loans	**284**	522	760
	– Fixed and call deposits	**134,238**	139,627	168,654
		134,522	140,149	169,414

The underlying net assets for the wholesale unit trust funds are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Malaysian Government Securities	**1,532**	12,401	15,097
Debt securities	**290,327**	173,311	142,570
Call deposits	**49,113**	93,395	10,967
Cash equivalents	**3**	123	112
Receivables/(payables)	**3,242**	(347)	(251)
	344,217	278,883	168,495

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 2011	70,955	15,110	169,414	168,495	423,974
Purchases	49,913	–	101,147	110,821	261,881
Maturities	–	–	(130,412)	–	(130,412)
Disposals	(46,303)	–	–	–	(46,303)
Recovery of fully impaired unsecured corporate debts during the financial year	–	–	–	(628)	(628)
Fair value losses recorded in Income Statement	(3,133)	–	–	–	(3,133)
Fair value losses recorded in Other Comprehensive Income	–	–	–	(433)	(433)
Movement in impairment allowance	–	–	–	628	628
Amortisation charge	–	(1)	–	–	(1)
At 31 December 2011	**71,432**	**15,109**	**140,149**	**278,883**	**505,573**
Purchases	**39,936**	**–**	**55,820**	**65,078**	**160,834**
Maturities	**–**	**–**	**(61,447)**	**–**	**(61,447)**
Disposals	**(39,323)**	**–**	**–**	**–**	**(39,323)**
Recovery of fully impaired unsecured corporate debts during the financial year	**–**	**–**	**–**	**(5)**	**(5)**
Fair value gains recorded in Income Statement	**3,343**	**–**	**–**	**–**	**3,343**
Fair value gains recorded in Other Comprehensive Income	**–**	**–**	**–**	**256**	**256**
Movement in impairment allowance	**–**	**–**	**–**	**5**	**5**
Amortisation charge	**–**	**(2)**	**–**	**–**	**(2)**
At 31 December 2012	**75,388**	**15,107**	**134,522**	**344,217**	**569,234**

7 INVESTMENT (CONTINUED)

(f) Fair value investments

	Fair value through profit or loss RM'000	Available-for-sale RM'000	Total RM'000
31.12.2012			
Quoted market price	**75,388**	**–**	**75,388**
Valuation techniques – market observable inputs	**–**	**344,217**	**344,217**
	75,388	**344,217**	**419,605**
31.12.2011			
Quoted market price	71,432	–	71,432
Valuation techniques – market observable inputs	–	278,883	278,883
	71,432	278,883	350,315
1.1.2011			
Quoted market price	70,955	–	70,955
Valuation techniques – market observable inputs	–	168,495	168,495
	70,955	168,495	239,450

(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 (ie as prices) or indirectly (ie derived from prices) (Level 2); and
(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2012				
Fair value through profit or loss				
– Quoted equities securities	**71,278**	**–**	**–**	**71,278**
– Quoted property trust funds	**4,110**	**–**	**–**	**4,110**
Available-for-sale				
– Wholesale unit trust funds	**–**	**344,217**	**–**	**344,217**
	75,388	**344,217**	**–**	**419,605**

7 INVESTMENT (CONTINUED)

(g) Fair value measurements (continued)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
31.12.2011				
Fair value through profit or loss				
– Quoted equities securities	67,981	–	–	67,981
– Quoted property trust funds	3,451	–	–	3,451
Available-for-sale				
– Wholesale unit trust fund	–	278,883	–	278,883
	71,432	278,883	–	350,315
1.1.2011				
Fair value through profit or loss				
– Quoted equities securities	69,896	–	–	69,896
– Quoted property trust funds	1,059	–	–	1,059
Available-for-sale				
– Wholesale unit trust fund	–	168,495	–	168,495
	70,955	168,495	–	239,450

8 DEFERRED TAX ASSETS/(LIABILITIES)

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At beginning of financial year	**1,188**	572	3,114
Transferred to Income Statement (Note 24)	**(1,227)**	507	(2,431)
Transferred to Other Comprehensive Income	**(64)**	109	(111)
At end of financial year	**(103)**	1,188	572

8 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
31.12.2012				
Excess of capital allowances over depreciation	**(593)**	**(77)**	**–**	**(670)**
(Accretion of discounts)/ amortisation of premiums – net	**(157)**	**1**	**–**	**(156)**
Impairment loss on insurance receivables	**1,585**	**(214)**	**–**	**1,371**
Premium liabilities	**205**	**(100)**	**–**	**105**
Fair value change on FVTPL financial assets	**(1,883)**	**(836)**	**–**	**(2,719)**
Impairment loss on AFS financial assets	**2,152**	**(1)**	**–**	**2,151**
Fair value changes on AFS financial assets	**(121)**	**–**	**(64)**	**(185)**
Total	**1,188**	**(1,227)**	**(64)**	**(103)**
31.12.2011				
Excess of capital allowances over depreciation	(198)	(395)	–	(593)
(Accretion of discounts)/ amortisation of premiums – net	(212)	55	–	(157)
Impairment loss on insurance receivables	1,278	307	–	1,585
Premium liabilities	291	(86)	–	205
Fair value change on FVTPL financial assets	(2,666)	783	–	(1,883)
Impairment loss on AFS financial assets	2,309	(157)	–	2,152
Fair value changes on AFS financial assets	(230)	–	109	(121)
Total	572	507	109	1,188

9 REINSURANCE ASSETS

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Claims liabilities (Note 13)	**123,888**	111,260	105,600
Premium liabilities (Note 13)	**67,259**	51,115	40,519
	191,147	162,375	146,119

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due premiums including agents, brokers and co-insurers balances	**53,665**	41,987	46,366
Due from reinsurers and cedants	**10,293**	9,812	13,583
	63,958	51,799	59,949
Allowance for impairment	**(5,758)**	(6,613)	(5,383)
	58,200	45,186	54,566

11 OTHER RECEIVABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Other receivables, deposits and prepayments	**5,931**	5,808	4,577
Amount due from Malaysian Motor Insurance Pool	**19,002**	12,419	6,791
Amount due from stock brokers	**1,709**	123	89
Interest income due and accrued	**910**	826	2,804
Dividend income receivable	**473**	374	304
	28,025	19,550	14,565

12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

13 INSURANCE CONTRACT LIABILITIES

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2012			
Claims reported	**234,273**	**(91,357)**	**142,916**
Incurred but not reported claims (IBNR)	**93,889**	**(32,531)**	**61,358**
Claims liabilities (note (a))	**328,162**	**(123,888)**	**204,274**
Premium liabilities (note (b))	**189,123**	**(67,259)**	**121,864**
	517,285	**(191,147)**	**326,138**

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2011			
Claims reported	205,379	(89,524)	115,855
Incurred but not reported claims (IBNR)	76,369	(21,736)	54,633
Claims liabilities (note (a))	281,748	(111,260)	170,488
Premium liabilities (note (b))	152,185	(51,115)	101,070
	433,933	(162,375)	271,558
1.1.2011			
Claims reported	187,974	(87,625)	100,349
Incurred but not reported claims (IBNR)	60,576	(17,975)	42,601
Claims liabilities (note (a))	248,550	(105,600)	142,950
Premium liabilities (note (b))	121,425	(40,519)	80,906
	369,975	(146,119)	223,856

(a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2012			
At 1 January 2012	281,748	(111,260)	170,488
Claims incurred in current accident year			
– Paid	66,947	(17,801)	49,146
– Case reserves	102,474	(39,668)	62,806
– IBNR	65,219	(22,804)	42,415
Claims incurred in prior accident year			
– Paid	111,167	(38,557)	72,610
– Case reserves	(251,694)	94,193	(157,501)
– IBNR	(47,699)	12,009	(35,690)
At 31 December 2012	328,162	(123,888)	204,274

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(a) Claims liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2011			
At 1 January 2011	248,550	(105,600)	142,950
Claims incurred in current accident year			
– Paid	57,313	(9,636)	47,677
– Case reserves	91,015	(37,386)	53,629
– IBNR	48,722	(13,279)	35,443
Claims incurred in prior accident year			
– Paid	81,540	(21,565)	59,975
– Case reserves	(212,463)	66,689	(145,774)
– IBNR	(32,929)	9,517	(23,412)
At 31 December 2011	281,748	(111,260)	170,488

	Gross RM'000	Reinsurance RM'000	Net RM'000
1.1.2011			
At 1 January 2010	225,654	(99,119)	126,535
Claims incurred in current accident year			
– Paid	51,789	(6,458)	45,331
– Case reserves	80,862	(29,175)	51,687
– IBNR	38,512	(8,853)	29,659
Claims incurred in prior accident year			
– Paid	71,195	(19,973)	51,222
– Case reserves	(196,132)	59,992	(136,140)
– IBNR	(23,330)	(2,014)	(25,344)
At 31 December 2010 / 1 January 2011	248,550	(105,600)	142,950

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Premium liabilities

	Gross RM'000	Reinsurance RM'000	Net RM'000
31.12.2012			
At 1 January 2012	**152,185**	**(51,115)**	**101,070**
Premiums written for the financial year (Note 19)	**467,061**	**(156,520)**	**310,541**
Premiums earned during the financial year (Note 19)	**(430,123)**	**140,376**	**(289,747)**
At 31 December 2012	**189,123**	**(67,259)**	**121,864**
31.12.2011			
At 1 January 2011	121,425	(40,519)	80,906
Premiums written for the financial year (Note 19)	382,997	(125,843)	257,154
Premiums earned during the financial year (Note 19)	(352,237)	115,247	(236,990)
At 31 December 2011	152,185	(51,115)	101,070
1.1.2011			
At 1 January 2010	109,191	(34,557)	74,634
Premiums written for the financial year	305,370	(90,162)	215,208
Premiums earned during the financial year	(293,136)	84,200	(208,936)
At 31 December 2010 / 1 January 2011	121,425	(40,519)	80,906

14 INSURANCE PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Due to agents and intermediaries	**21,669**	16,278	18,124
Due to reinsurers and cedants	**14,129**	34,902	30,978
	35,798	51,180	49,102

15 OTHER PAYABLES

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Other payables	**11,671**	13,371	9,922
Amount due to fund managers	**–**	495	–
Cash collaterals held on behalf of insureds	**569**	551	536
Accrued liabilities	**19,060**	15,639	10,848
Total	**31,300**	30,056	21,306

16 SHARE CAPITAL

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Ordinary shares of RM1 each:			
Authorised:			
At beginning and end of financial year	**100,000**	100,000	100,000
Issued and fully paid:			
At beginning and end of financial year	**100,000**	100,000	100,000

17 RETAINED EARNINGS

Under the single-tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders. Companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2007.

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income accounts to pay dividends out of its entire retained earnings as at 31 December 2012.

18 OPERATING REVENUE

	31.12.2012 RM'000	31.12.2011 RM'000
Gross premiums (Note 19(a))	**467,061**	382,997
Investment income (Note 20)	**20,201**	19,472
	487,262	402,469

19 NET EARNED PREMIUMS

	31.12.2012 RM'000	31.12.2011 RM'000
(a) Gross earned premiums		
Gross premiums	**467,061**	382,997
Change in premium liabilities	**(36,938)**	(30,760)
Gross earned premiums	**430,123**	352,237
(b) Premiums ceded		
Reinsurance	**(156,520)**	(125,843)
Change in premium liabilities	**16,144**	10,596
Premiums ceded	**(140,376)**	(115,247)
Net earned premiums	**289,747**	236,990

20 INVESTMENT INCOME

	31.12.2012 RM'000	31.12.2011 RM'000
Dividend income from FVTPL investments	**2,985**	3,575
Interest income from HTM investments	**1,165**	1,162
Interest income from loans and receivables	**3,986**	4,199
Dividend income from AFS investments	**12,063**	10,536
Interest income from AFS investments	**2**	–
	20,201	19,472

21 REALISED GAINS AND LOSSES

	31.12.2012 RM'000	31.12.2011 RM'000
Property, plant and equipment	–	(32)
FVTPL investments		
– Equities securities	**4,166**	3,641
– Property trust funds	**379**	10
	4,545	3,619

22 FAIR VALUE GAINS AND LOSSES – NET

	31.12.2012 RM'000	31.12.2011 RM'000
Fair value gains/(losses) from FVTPL investments	**3,343**	(3,133)
Recovery of fully impaired AFS investments	**5**	628
	3,348	(2,505)

23 MANAGEMENT EXPENSES

	31.12.2012 RM'000	31.12.2011 RM'000
Personnel costs	**30,378**	26,406
Establishment costs	**5,568**	3,431
Marketing costs	**11,310**	8,093
Administrative and general expenses	**10,755**	9,668
	58,011	47,598

23 MANAGEMENT EXPENSES (CONTINUED)

	31.12.2012 RM'000	31.12.2011 RM'000
The above expenditure is further analysed as follows:		
Staff salary and bonus	**24,155**	20,540
Defined contribution plan	**3,849**	3,268
Other staff benefits	**1,560**	1,389
Staff costs	**29,564**	25,197
Executive Director's remuneration:		
Staff salary and bonus	**704**	1,036
Defined contribution plan	**110**	173
	814	1,209
Non-Executive Directors' remuneration:		
Fee	**480**	500
Other emoluments	**333**	345
	813	845
Auditors' remuneration	**149**	133
Rental of offices	**2,963**	2,031
Depreciation of property, plant and equipment	**1,698**	844
Amortisation of intangible assets – computer software	**110**	122
Perbadanan Insurans Deposit Malaysia	**773**	643
(Write back)/allowance for impairment on insurance receivables	**(855)**	1,230
Bad debts written off	**16**	–
Bank charges	**3,167**	2,043
Advertising and marketing expenses	**5,029**	4,159
Other expenses	**13,770**	9,142
	58,011	47,598

The estimated monetary value of benefits provided to certain Directors during the financial year by way of usage of the Company's assets amounted to RM7,200 (2011: RM31,150).

The remuneration, including benefit-in-kinds, attributable to the Chief Executive Officer of the Company who is also the Executive Director of the Company during the financial year amounted to RM821,200 (2011: RM1,214,783).

24 TAXATION

	31.12.2012 RM'000	31.12.2011 RM'000
Malaysian taxation:		
Current taxation	**15,726**	11,202
Deferred taxation (Note 8)	**1,227**	(507)
	16,953	10,695
<u>Current taxation</u>		
Current financial year	**15,045**	10,505
Under accrual in respect of prior financial years	**681**	697
	15,726	11,202
<u>Deferred taxation</u>		
Origination and reversal of temporary differences	**1,227**	(507)
	16,953	10,695

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:

	31.12.2012 RM'000	31.12.2011 RM'000
Profit before taxation	**76,437**	50,457
Tax calculated at a tax rate of 25%	**19,109**	12,614
Expenses not deductible for tax purposes	**816**	648
Income exempted for tax purposes	**(3,614)**	(3,239)
Income subject to different tax rate	**(39)**	(25)
Under accrual in respect of prior financial years	**681**	697
Tax expense	**16,953**	10,695

25 EARNINGS PER SHARE

The earnings per ordinary share has been calculated based on the net profit for the financial year amounting to RM59,484,028 (2011: RM39,761,939) divided by the number of ordinary shares in issue of 100,000,000 (2011: 100,000,000) during the financial year.

26 DIVIDENDS

Dividends declared or proposed in respect of the financial year ended 31 December 2012 are as follows:

	31.12.2012		31.12.2011	
	Gross dividend per share Sen	Amount of dividend net of tax RM'000	Gross dividend per share Sen	Amount of dividend net of tax RM'000
Proposed final dividend	**25.00**	**18,750**	25.00	18,750

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 25% on 100,000,000 ordinary shares, less 25% tax, amounting to RM18,750,000, will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in shareholders equity as an appropriation of retained profit in financial year ending 31 December 2013 when approved by shareholders.

27 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 are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel of the Company include all the Directors of the Company and certain members of senior management of the Company

27 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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 no more favourable than those available on similar transactions to the Company's other customers.

		Note	31.12.2012 RM'000	31.12.2011 RM'000
Related party transactions	**Nature of transaction**			
With subsidiaries of immediate and ultimate holding company	Interest income		**2,968**	3,260
	Insurance premium earned		**24,959**	21,302
	Commission paid and payable		**(7,581)**	(7,474)
	Rental expense		**(757)**	(1,700)
With key management personnel	Insurance premium earned		**41**	14
	Claims incurred		**–**	–
Related party balances	**Types of balances**			
With subsidiaries of immediate and ultimate holding company	Bank balances		**(1,435)**	32
	Fixed and call deposits	7	**83,202**	95,395
	Insurance premium	10	**3,006**	3,750
	Investment in corporate debts securities	7	**5,014**	5,012
	Others		**(313)**	(3,453)
With key management personnel	Claims liabilities		**(304)**	–

Key management personnel

The remuneration of key management personnel is as follows:

	31.12.2012 RM'000	31.12.2011 RM'000
Short-term employee benefits		
– Fees	**480**	500
– Salary and other remuneration	**4,264**	1,554
– Benefits-in-kind	**7**	37

28 CAPITAL COMMITMENTS

	31.12.2012 RM'000	31.12.2011 RM'000
Authorised and contracted for	**1,520**	1,244
Authorised but not contracted for	**918**	1,046
	2,438	2,290

29 RISK MANAGEMENT FRAMEWORK

(a) Risk Management framework

In compliance with best practices under the Malaysian Code of Corporate Governance, the Board of Directors (Board) through the Group Risk Management function (GRM function) and Group Risk Management Committee (GRMC), is responsible for identifying principal risks and ensuring that there is an ongoing process to continuously manage the Company's risks actively.

The GRMC provides oversight and management of all risks in an integrated way. The GRM function is independent and reports to this Committee. The GRM function assists the GRMC and Board in formulating risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The GRMC comprises non-executive directors with at least five (5) members. Members of the GRMC are directors who are exclusively non-executive in all of their directorships in the RHB Capital Berhad group (Group).

The main objectives of the GRMC are as follows:

(i) to provide oversight and governance of risks at the Group;

(ii) to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning;

(iii) to promote the management of the Group's risk in accordance with a risk-return performance management framework; and

(iv) to deliberate and make recommendations to the Boards of each relevant entity within the Group in respect of risk management matters of the respective entities.

In addition to GRMC, Company's Investment Committee manages interest rate risk, market risk, credit risk and liquidity risk associated with Company's investments. Investment Committee comprises of three (3) non-executive directors and an executive director.

Primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits. Additionally, the management of risks associated with financial instruments is continuously carried out in the organisation. The Board has set up policies and procedures to manage the risks that may arise in connection with the use of financial instruments.

29 RISK MANAGEMENT FRAMEWORK (CONTINUED)

(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. In general, this policy should be in line with 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 will be 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.

30 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.

(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.

30 INSURANCE RISK (CONTINUED)

(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
31.12.2012					
Average claim cost	**+10%**	**28,943**	**16,982**	**(16,982)**	**(12,737)**
Average number of claims	**+10%**	**25,442**	**15,997**	**(15,997)**	**(11,998)**
Average claim settlement period	**Increased by 6 months**	**5,007**	**2,879**	**(2,879)**	**(2,159)**
31.12.2011					
Average claim cost	+10%	25,965	15,362	(15,362)	(11,522)
Average number of claims	+10%	20,920	14,607	(14,607)	(10,955)
Average claim settlement period	Increased by 6 months	4,284	2,994	(2,994)	(2,246)

(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.

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Gross insurance claims liabilities for 2012:

Accident year	Before 2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		143,091	124,057	160,843	190,481	171,164	197,050	**234,640**	
One year later		111,492	102,763	132,088	175,385	155,885	188,105		
Two years later		108,277	97,480	128,109	157,675	146,173			
Three years later		107,222	94,450	125,790	148,901				
Four years later		106,370	92,690	123,848					
Five years later		105,061	92,364						
Six years later		103,598							
Seven years later									
Current estimate of cumulative claims incurred		103,598	92,364	123,848	148,901	146,173	188,105	**234,640**	
At end of accident year		(46,243)	(33,236)	(41,250)	(52,222)	(51,789)	(57,313)	**(66,947)**	
One year later		(86,632)	(72,877)	(99,020)	(103,357)	(108,154)	(129,615)		
Two years later		(91,361)	(80,909)	(110,166)	(115,918)	(123,092)			
Three years later		(94,444)	(84,589)	(116,211)	(129,157)				
Four years later		(96,241)	(86,829)	(118,386)					
Five years later		(97,332)	(87,722)						
Six years later		(97,954)							
Seven years later									
Cumulative payments to-date		(97,954)	(87,722)	(118,386)	(129,157)	(123,092)	(129,615)	**(66,947)**	
Gross insurance claims liabilities per Statement of Financial Position (Note 13 (a))	43,406	5,644	4,642	5,463	19,744	23,081	58,489	**167,693**	328,162
Current estimate of surplus/(deficiency)		17,898	7,702	7,903	(17,779)	(15,146)	(20,247)	**(66,238)**	
% surplus/(deficiency) of initial gross reserve		14.7%	7.7%	6.0%	(13.6%)	(11.6%)	(12.1%)	**(39.3%)**	

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Net insurance claims liabilities for 2012:

Accident year	Before 2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	2012 RM'000	Total RM'000
At end of accident year		83,644	92,190	103,966	119,648	126,677	136,749	**154,367**	
One year later		70,073	77,818	87,186	109,416	114,798	126,585		
Two years later		67,609	75,892	84,719	107,956	110,199			
Three years later		66,885	74,167	83,589	104,246				
Four years later		65,844	73,029	82,206					
Five years later		65,145	72,741						
Six years later		64,553							
Seven years later									
Current estimate of cumulative claims incurred		64,553	72,741	82,206	104,246	110,199	126,585	**154,367**	
At end of accident year		(30,002)	(28,516)	(28,615)	(46,141)	(45,331)	(47,677)	**(49,146)**	
One year later		(56,260)	(58,706)	(63,782)	(81,903)	(86,633)	(95,770)		
Two years later		(59,659)	(64,840)	(71,894)	(90,376)	(96,331)			
Three years later		(61,026)	(67,895)	(76,787)	(96,196)				
Four years later		(62,583)	(69,549)	(78,516)					
Five years later		(63,326)	(70,208)						
Six years later		(63,610)							
Seven years later									
Cumulative payments to-date		(63,610)	(70,208)	(78,516)	(96,196)	(96,331)	(95,770)	**(49,146)**	
Net insurance claims liabilities per Statement of Financial Position (Note 13 (a))	39,155	943	2,532	3,690	8,050	13,868	30,815	**105,221**	204,274
Current estimate of surplus/(deficiency)		13,732	(1,061)	(5,790)	(14,963)	(14,578)	(5,997)	**(42,016)**	
% surplus/(deficiency) of initial gross reserve		17.5%	(1.5%)	(7.6%)	(16.8%)	(15.2%)	(5.0%)	**(37.4%)**	

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Gross insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year		99,357	143,091	124,057	160,843	190,481	171,164	197,050	
One year later		79,314	111,492	102,763	132,088	175,385	155,885		
Two years later		75,503	108,277	97,480	128,109	157,675			
Three years later		72,177	107,222	94,450	125,790				
Four years later		70,518	106,370	92,690					
Five years later		69,874	105,061						
Six years later		70,019							
Seven years later									
Current estimate of cumulative claims incurred		70,019	105,061	92,690	125,790	157,675	155,885	197,050	
At end of accident year		(23,377)	(46,243)	(33,236)	(41,250)	(52,222)	(51,789)	(57,313)	
One year later		(53,887)	(86,632)	(72,877)	(99,020)	(103,357)	(108,154)		
Two years later		(58,305)	(91,361)	(80,909)	(110,166)	(115,918)			
Three years later		(60,519)	(94,444)	(84,589)	(116,211)				
Four years later		(63,292)	(96,241)	(86,829)					
Five years later		(64,334)	(97,332)						
Six years later		(66,167)							
Seven years later									
Cumulative payments to-date		(66,167)	(97,332)	(86,829)	(116,211)	(115,918)	(108,154)	(57,313)	
Gross insurance claims liabilities per Statement of Financial Position (Note 13 (a))	25,502	3,852	7,729	5,861	9,579	41,757	47,731	139,737	281,748
Current estimate of surplus/(deficiency)		18,645	16,400	7,318	5,521	(27,499)	(27,354)	(57,086)	
% surplus/(deficiency) of initial gross reserve		21.0%	13.5%	7.3%	4.2%	(21.1%)	(21.3%)	(40.8%)	

30 INSURANCE RISK (CONTINUED)

(c) Claims development table (continued)

Net insurance claims liabilities for 2011:

Accident year	Before 2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
At end of accident year		67,492	83,644	92,190	103,966	119,648	126,677	136,749	
One year later		56,040	70,073	77,818	87,186	109,416	114,798		
Two years later		52,909	67,609	75,892	84,719	107,956			
Three years later		51,345	66,885	74,167	83,589				
Four years later		50,801	65,844	73,029					
Five years later		50,378	65,145						
Six years later		50,467							
Seven years later									
Current estimate of cumulative claims incurred		50,467	65,145	73,029	83,589	107,956	114,798	136,749	
At end of accident year		(19,546)	(30,002)	(28,516)	(28,615)	(46,141)	(45,331)	(47,677)	
One year later		(41,115)	(56,260)	(58,706)	(63,782)	(81,903)	(86,633)		
Two years later		(43,746)	(59,659)	(64,840)	(71,894)	(90,376)			
Three years later		(45,471)	(61,026)	(67,895)	(76,787)				
Four years later		(46,967)	(62,583)	(69,549)					
Five years later		(47,706)	(63,326)						
Six years later		(48,931)							
Seven years later									
Cumulative payments to-date		(48,931)	(63,326)	(69,549)	(76,787)	(90,376)	(86,633)	(47,677)	
Net insurance claims liabilities per Statement of Financial Position (Note 13 (a))	22,034	1,536	1,819	3,480	6,802	17,580	28,165	89,072	170,488
Current estimate of surplus/(deficiency)		11,342	13,108	(1,398)	(7,568)	(19,504)	(21,255)	(32,094)	
% surplus/(deficiency) of initial gross reserve		18.4%	16.8%	(2.0%)	(10.0%)	(22.1%)	(22.7%)	(30.7%)	

31 FINANCIAL RISKS

(a) Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counter-party to meet payment obligations as well as the loss of value of assets due to deterioration on credit quality.

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.

	31.12.2012 RM'000	31.12.2011 RM'000
Investments held-to-maturity		
Unquoted corporate debt securities	**15,107**	15,109
Loans and receivables		
Loans	**284**	522
Fixed and call deposits	**134,238**	139,627
Reinsurance assets – claims liabilities	**123,888**	111,260
Insurance receivables	**58,200**	45,186
Other receivables	**24,197**	14,916
Cash equivalents	**1,085**	397
	356,999	327,017

31 FINANCIAL RISKS (CONTINUED)

(a) Credit risk (continued)

Credit exposure by credit rating

	Neither past-due nor impaired				
	Rated: satisfactory RM'000	Rated: unsatisfactory RM'000	Not rated RM'000	Past-due but not impaired RM'000	Total RM'000
31.12.2012					
Investments held-to-maturity					
Unquoted corporate debt securities	**15,107**	**–**	**–**	**–**	**15,107**
Loans and receivables					
Loans	**–**	**–**	**284**	**–**	**284**
Fixed and call deposits	**134,238**	**–**	**–**	**–**	**134,238**
Reinsurance assets – claims liabilities	**100,480**	**6**	**23,402**	**–**	**123,888**
Insurance receivables	**–**	**–**	**–**	**58,200**	**58,200**
Other receivables	**–**	**–**	**24,197**	**–**	**24,197**
Cash and cash equivalents	**1,085**	**–**	**–**	**–**	**1,085**
	250,910	**6**	**47,883**	**58,200**	**356,999**
31.12.2011					
Investments held-to-maturity					
Unquoted corporate debt securities	15,109	–	–	–	15,109
Loans and receivables					
Loans	–	–	522	–	522
Fixed and call deposits	139,627	–	–	–	139,627
Reinsurance assets – claims liabilities	68,975	34	42,251	–	111,260
Insurance receivables	–	–	–	45,186	45,186
Other receivables	–	–	14,916	–	14,916
Cash and cash equivalents	397	–	–	–	397
	224,108	34	57,689	45,186	327,017

31 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
31.12.2012						
Investments held-to-maturity						
Unquoted corporate debt securities	**–**	**5,107**	**10,000**	**–**	**–**	**15,107**
Loans and receivables						
Loans	**–**	**–**	**–**	**–**	**284**	**284**
Fixed and call deposits	**16,563**	**111,538**	**6,137**	**–**	**–**	**134,238**
Reinsurance assets – claims liabilities	**3,099**	**3,719**	**93,662**	**6**	**23,402**	**123,888**
Insurance receivables	**–**	**–**	**140**	**–**	**58,060**	**58,200**
Other receivables	**–**	**–**	**–**	**–**	**24,197**	**24,197**
Cash and cash equivalents	**2,476**	**(1,391)**	**–**	**–**	**–**	**1,085**
	22,138	**118,973**	**109,939**	**6**	**105,943**	**356,999**
31.12.2011						
Investments held-to-maturity						
Unquoted corporate debt securities	–	–	15,109	–	–	15,109
Loans and receivables						
Loans	–	–	–	–	522	522
Fixed and call deposits	18,203	119,418	2,006	–	–	139,627
Reinsurance assets – claims liabilities	7,140	23,440	38,395	34	42,251	111,260
Insurance receivables	6	–	286	–	44,894	45,186
Other receivables	–	–	–	–	14,916	14,916
Cash and cash equivalents	347	50	–	–	–	397
	25,696	142,908	55,796	34	102,583	327,017

31 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
31.12.2012				
Insurance receivables	**36,237**	**11,683**	**10,280**	**58,200**
31.12.2011				
Insurance receivables	31,513	3,669	10,004	45,186

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 2012, based on collective assessment of receivables, there are impaired insurance receivables of RM5,758,102 (2011: RM6,613,156). 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:

Insurance receivables

	31.12.2012 RM'000	31.12.2011 RM'000
At 1 January	**6,613**	5,383
Charge for the financial year	**1,819**	2,809
Write back	**(2,674)**	(1,579)
At 31 December	**5,758**	6,613

31 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 2012, there are impaired financial assets available for sale of RM8,603,239 (2011: RM8,608,506). A reconciliation of the allowance for impairment losses for investment in debt securities is as follows:

Available-for-sale investments

	31.12.2012 RM'000	31.12.2011 RM'000
At 1 January	**8,608**	9,236
Charge for the financial year	**–**	–
Recovery of fully impaired investment	**(5)**	(628)
At 31 December	**8,603**	8,608

(b) Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments and obligations when they fall due.

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.

31 FINANCIAL RISKS (CONTINUED)

(b) Liquidity risk

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
31.12.2012						
Investments held-to-maturity						
Unquoted corporate debt securities	**15,107**	**1,163**	**2,325**	**2,325**	**43,575**	**49,388**
Loans and receivables						
Loans	**284**	**119**	**160**	**5**	**–**	**284**
Fixed and call deposits	**134,238**	**135,955**	**–**	**–**	**–**	**135,955**
Reinsurance assets – claims liabilities	**123,888**	**60,841**	**31,135**	**17,774**	**14,138**	**123,888**
Insurance receivables	**58,200**	**58,200**	**–**	**–**	**–**	**58,200**
Other receivables	**24,197**	**24,197**	**–**	**–**	**–**	**24,197**
Cash equivalents	**1,085**	**1,085**	**–**	**–**	**–**	**1,085**
Total financial assets	**356,999**	**281,560**	**33,620**	**20,104**	**57,713**	**392,997**
Insurance contract liabilities – claims liabilities	**328,162**	**207,907**	**72,691**	**28,540**	**19,024**	**328,162**
Insurance payables	**35,798**	**35,798**	**–**	**–**	**–**	**35,798**
Other payables	**31,300**	**31,300**	**–**	**–**	**–**	**31,300**
Total financial liabilities	**395,260**	**275,005**	**72,691**	**28,540**	**19,024**	**395,260**
31.12.2011						
Investments held-to-maturity						
Unquoted corporate debt securities	15,109	1,162	2,325	2,325	44,663	50,475
Loans and receivables						
Loans	522	185	284	55	–	524
Fixed and call deposits	139,627	141,305	–	–	–	141,305
Reinsurance assets – claims liabilities	111,260	66,756	36,716	5,563	2,225	111,260
Insurance receivables	45,186	45,186	–	–	–	45,186
Other receivables	14,916	14,916	–	–	–	14,916
Cash equivalents	397	397	–	–	–	397
Total financial assets	327,017	269,907	39,325	7,943	46,888	364,063
Insurance contract liabilities – claims liabilities	281,748	169,049	92,977	14,087	5,635	281,748
Insurance payables	51,180	51,180	–	–	–	51,180
Other payables	30,056	30,056	–	–	–	30,056
Total financial liabilities	362,984	250,285	92,977	14,087	5,635	362,984

31 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 Insurance Act, 1996, 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 FINANCIAL RISKS (CONTINUED)

(c) Market risk (continued)

Interest rate risk (continued)

	Change in variables	31.12.2012 Impact on equity* RM'000	31.12.2011 Impact on equity* RM'000
Interest rate	+100 basis points	**(7,536)**	(5,876)
Interest rate	-100 basis points	**11,359**	6,240

* 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.

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.

		31.12.2012		31.12.2011	
	Change in variables	Impact on profit before tax RM'000	Impact on equity* RM'000	Impact on profit before tax RM'000	Impact on equity* RM'000
Bursa Malaysia	+15%	**10,675**	**8,006**	10,762	8,071
Bursa Malaysia	-15%	**(10,675)**	**(8,006)**	(10,762)	(8,071)

* 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.

31 FINANCIAL RISKS (CONTINUED)

(d) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. 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.

32 REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at 31 December 2012, as prescribed under the RBC Framework is provided below:

	Note	31.12.2012 RM'000	31.12.2011 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	16	**100,000**	100,000
Retained earnings		**165,322**	124,588
		265,322	224,588
Tier 2 Capital			
Available-for-sale reserve		**556**	364
Amount deducted from Capital		**–**	(1,188)
Total Capital Available		**265,878**	223,764

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 4 February 2013.

Statement By Directors

Pursuant to Section 169(15) of the Companies Act, 1965, we, Haji Md Ja'far Abdul Carrim 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 29 to 82 are drawn up so as to show a true and fair view of the state of affairs of the Company as at 31 December 2012 and of its results and cash flows for the financial year ended 31 December 2012 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965.

Signed on behalf of the Board in accordance with a resolution of the Board of Directors dated 4 February 2013.

TUAN HAJI MD JA'FAR ABDUL CARRIM
CHAIRMAN

KONG SHU YIN
MANAGING DIRECTOR

Kuala Lumpur
28 February 2013

Statutory Declaration

Pursuant to Section 169(16) of the Companies Act, 1965, I, Gan Mei Mei, 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 29 to 82 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 28 February 2013)
)
Before me,) **GAN MEI MEI**

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 2012, 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 29 to 82.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

1. As stated in Note 2 to the financial statements, the Company adopted Malaysian Financial Reporting Standards on 1 January 2012 with a transition date of 1 January 2011. These standards were applied retrospectively by the Directors to the comparative information in these financial statements, including the statements of financial position as at 31 December 2011 and 1 January 2011, and the statements of comprehensive income, changes in equity and cash flows for the financial year ended 31 December 2011 and related disclosures. We were not engaged to report on the restated comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Company for the financial year ended 31 December 2012 have, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2012 do not contain misstatements that materially affect the financial position as of 31 December 2012 and financial performance and cash flows for the financial year then ended.

2. 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

JAYARAJAN A/L U. RATHINASAMY
(No. 2059/06/14 (J))
Chartered Accountant

Kuala Lumpur
28 February 2013

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